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Party Building or Noisy Signaling? The Contours of Political Conformity in Chinese Corporate Governance

Yu-Hsin Lin, *City University of Hong Kong*
Curtis J. Milhaupt

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Lauren Yu-Hsin Lin and Curtis J. Milhaupt

ABSTRACT

We examine responses by Chinese firms to a party-building policy launched by the Chinese Communist Party (CCP) in 2015 to reform China's state-owned enterprises (SOEs). The policy requires SOEs to follow a model template of charter amendments to formalize and elevate the role of the CCP in their corporate governance. During the period 2015–18, about 10 percent of publicly traded SOEs failed to follow the mandatory policy, while nearly 6 percent of privately owned enterprises (POEs) complied even though they were not subject to the policy. We find wide variation in the provisions adopted within and across ownership types, with SOE adoptions apparently affected by their ownership structures and exposure to capital market forces and POE adoptions associated with political connections. Our findings highlight the complex contours of political conformity in Chinese firms and raise questions about the trajectory of Chinese corporate governance reform and foreign investment activity.

1. INTRODUCTION

A growing literature has documented the distinctive characteristics of Chinese corporations and corporate governance. Lin and Milhaupt (2013)

LAUREN YU-HSIN LIN is an Associate Professor at City University of Hong Kong School of Law. CURTIS J. MILHAUPT is the William F. Baxter–Visa International Professor of Law at Stanford Law School. We received helpful comments from Donald Clarke, Colleen Honigsberg, Vik Khanna, Michael Klausner, John Zhuang Liu, Holger Spamann, Cheng Han Tan, Andrew Walder, Alex Wang, R. Bin Wong, and participants at the Fifth International Conference on Empirical Studies of Judicial Systems and conferences at the Shorenstein Asia-Pacific Research Center, Stanford University, the Center for the Foundations of Law and Finance, Goethe University, Academia Sinica, and the University of California, Los Angeles, Center for Chinese Studies and the School of Law. We are grateful for the statistical consultation provided by Boya Lai and excellent research assistance provided by Conrad Milhaupt, Yu Xiang, and Shanyun Xiao. We also thank a referee and the editors for their insightful comments and suggestions.

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examine the ownership structures of central state-owned enterprises (SOEs) and their linkages to other organs of the Chinese party-state. In the contemporary Chinese political economy, the state exercises less control over SOEs than is commonly assumed because of agency problems and span-of-control limitations (see Milhaupt and Zheng 2015). At the same time, China's weak institutional setting gives the party-state fairly extensive informal control rights over privately owned enterprises (POEs), even in the absence of state ownership. Because many Chinese firms, regardless of ownership, succeed by fostering connections to the Chinese Communist Party (CCP) and obtaining state-generated rents, "large firms in China exhibit substantial similarities in their relationship with the state that distinctions based on corporate ownership simply do not pick up" (Milhaupt and Zheng 2015, p. 669).

Beginning in 2013, the Chinese leadership embarked on a program of SOE reform. The reforms are based on a mixed-ownership strategy of increasing private-capital investment in SOEs to improve market discipline and corporate governance. To counterbalance the introduction of additional private capital and maintain party-state influence over SOEs, a party-building (*dangjian*) policy was introduced in 2015. This was a "situation never seen in the Western world: a dominant political party inserting itself into corporate charters to influence corporate management" (Chen, Guo, and Lin 2021, p. 7). Various high-level party and state organs issued guidelines equating a strengthened role for the party in SOEs with enhanced corporate governance. All SOEs are now expected to expressly give the party's leadership and party committees formal legal status inside the company. To implement the party-building program, a template of model corporate charter amendments was publicly circulated. The template contains a series of provisions ranging from purely symbolic to highly substantive. Where adopted, the most consequential provisions from a corporate governance perspective effectively give the party decision-making rights in the firm that are senior to those of the board of directors.

The party-building movement provides a unique setting in which to observe the contours of political conformity and party-state influence in Chinese corporate governance across firms of different ownership types. If the party-state has the power to dictate policy to SOEs via its equity ownership or otherwise, we would expect to find widespread adoption of all the recommended amendments, at least in the SOEs where the state has majority control. Conversely, the Milhaupt-Zheng hypothesis (Milhaupt and Zheng 2015), based on limited party-state power to dictate policy to SOEs, predicts a diverse range of adoptions and nonadoptions among SOEs depending on the degree of party influence and the importance of political conformity in a given firm. In the case of POEs, if private Chinese firms are insulated from the type of political influence exerted on the state sector, we would expect to find few or no adoptions in these firms. Conversely, the Milhaupt-Zheng hypothesis predicts the adoption of party-building charter amendments by politically connected or dependent POEs, despite the fact that the *dangjian* policy is not directed at them.

To explore the contours of political influence in Chinese companies, we examine the pattern of adoptions of party-building amendments in Chinese listed firms of all ownership structures—central and local SOEs and POEs.[1] We examine the percentages of adoptions among firms by ownership category and analyze the types of provisions (again, ranging from symbolic to substantive) adopted by firms in the various ownership categories. While the party-building amendments are mandatory for SOEs, the policy is not even directed at, let alone required for, POEs. Yet we find that less than 90 percent of listed SOEs and almost 6 percent of listed POEs amended their charters to include some type of party-building provisions in the 4-year period from 2015 through 2018. To be sure, an SOE (POE) adoption rate of 90 (6) percent does not differ greatly from the assumed 100 (0) percent adoption rate. We do not claim that ownership type is irrelevant but that the SOE/POE dichotomy is blurred in the Chinese context. Delving more deeply into variations in the types of party-building charter provisions adopted within and across ownership types reveals a complex landscape of political influence and market constraints on such influence. We examine the characteristics of adopting firms, with our results indicating that SOE adoptions are less prevalent in the presence of large external shareholders and hierarchical ownership structures that create distance between the state and the firm. Our results for POEs indicate that adoptions are most prevalent among firms with politically connected directors and chief executive officers (CEOs). Among adopting firms regardless of ownership, we find wide substantive variation in the provisions adopted, with provisions requiring party personnel appointments in the firm accounting for the largest degree of variation. The POEs have largely limited their adoptions to symbolic pro-

1. Liu and Zhang (2019) examine *dangjian* charter adoptions only among state-owned enterprises (SOEs).

visions, which suggests that POEs have engaged with the party-building program principally as a means of signaling fealty to the CCP without acceding to institutionalized party involvement in corporate governance. Even SOEs demonstrate wide variation in the extent to which they have formalized party involvement in their corporate governance practices as opposed to either simply signaling fealty to the CCP or following the party's guidance completely.

Beyond what our study reveals about the contours of political conformity in China's corporate sector, close observation of the party-building campaign provides insights into the complex terrain the party-state must navigate to achieve its policy objectives via corporations it ostensibly controls. For the past 30 years, Chinese economic strategists have relied heavily on "corporatization without privatization" to restructure the SOE sector without relinquishing control over the enterprises (Howson 2017, p. 965). Thus, Chinese state capitalism is a distinctive species of corporate capitalism (see Milhaupt 2017). But the corporate form embeds a system of organizational governance norms in considerable tension with control by a political party. Particularly because many of China's most important SOEs are publicly listed companies with substantial nonstate shareholdings, the party-state's demand for political conformity is constrained not only by agency problems but also by market discipline and the dictates of the corporate law. The *dangjian* policy raises a number of important legal and policy questions for China's domestic economy and its external economic relations, such as how political involvement will affect firm performance (Chen, Guo, and Lin 2021) and whether the move to formalize the role of the CCP in corporate governance will exacerbate global suspicions of Chinese foreign-investment motives.

Section 2 describes the distinctive ownership and governance structures of Chinese SOEs and the twin reform program of mixed ownership and party building undertaken in recent years. Section 3 sets out research questions and hypotheses. Section 4 outlines our methodology, and Section 5 presents our empirical findings. Section 6 concludes.

2. STATE-OWNED-ENTERPRISE OWNERSHIP STRUCTURE AND REFORM

2.1. Structure

Corporatization of SOEs emerged in China as a favored alternative to complete privatization as a means of addressing their governance deficiencies and improving their performance. "Corporatization" refers to the process of transforming an SOE from a unit of government into a joint stock corporation with a board of directors and shares issued to the government, ostensibly separating the government's dual roles as investor and regulator. Crucially, corporatization permitted the shares of SOEs to be listed on stock exchanges, where some of the risk of the enterprise is transferred to public (nonstate) investors and a measure of market discipline and transparency is provided by the capital market. Thus, while this type of partially privatized corporation is still widely known as an SOE, China's listed SOEs are more accurately thought of as mixed-ownership enterprises.

China has vigorously pursued the just-described strategy of corporatization without privatization (Howson 2017). China's stock markets were established in 1990 principally to provide a means of funding SOE restructuring. State-run businesses were spun off of government bureaus, cloaked in corporate form with the standard set of attributes provided by a newly adopted company law, and the best assets were packaged for listing on the stock exchanges (Walter and Howie 2012). Chinese SOEs at the national level are organized into business groups composed of numerous corporations arranged in hierarchical order. The parent holding company of a Chinese SOE business group is legally organized as a special type of limited-liability company with only one shareholder—the State-Owned Assets Supervision and Administration Commission (SASAC). The commission was established directly under the Chinese State Council (cabinet) in 2003 in an attempt to consolidate control over all central SOEs. Its formal role, set out in legislation, is to serve as the investor in the SOEs under its supervision on behalf of the State Council and theoretically the Chinese people.

In the typical ownership structure, the holding company below the SASAC owns a controlling stake in one or more publicly listed operating companies with largely dispersed public (nonstate) shareholders. These publicly listed companies, in turn, have numerous unlisted (and sometimes listed) subsidiaries. The number of business groups under SASAC supervision has been declining over time through mergers and consolidations. Currently, there are 96 corporate groups under SASAC supervision.

State-owned enterprise business groups also exist at local levels of government. They are supervised by local SASACs and have basic ownership and governance structures similar to those of the central SOEs. As with the central SOEs, major subsidiaries in the local SOE business groups are listed on one of the national stock exchanges and have dispersed public (nonstate) shareholders, with various subunits of government holding sufficient equity interests in the firms to retain control. However, the local SOEs tend to be much smaller and of less strategic importance than central SOEs. They also tend to be relatively more independent of their erstwhile government controllers.

Given our focus on political involvement in the corporate governance of Chinese SOEs, a brief contrast with Singapore's approach to SOE governance may be instructive. An outwardly similar model of SOE ownership structure can be found in Singapore, where a state holding company, Temasek, maintains significant equity interests in a large percentage of that country's listed firms. Although never formally acknowledged, the establishment and basic design of the SASAC was likely influenced by Singapore's experience. But outward similarities between the two holding companies for state assets mask significant differences. Temasek has two closely related defining features (Puchniak and Lan 2017): first, an unambiguously commercial orientation articulated in public documents and verified by its long-term performance; second, a high degree of independence from direct political influence vis-à-vis the companies in its portfolio, secured through a variety of structural safeguards including provisions in the national constitution. While the ruling political party in Singapore (similar to the CCP) derives legitimacy in large measure from its economic performance (Tan 2017), Singapore's strategy is to maximize profits of its SOEs and devote the government's returns to funding its social policies (Milhaupt and Pargendler 2017). The State-Owned Assets Supervision and Administration Commission's institutional design is far different. There are no structural firewalls separating the SASAC from political institutions; in fact, the opposite strategy of infusing the SASAC and the entire state sector with party influence is evident.[2] The SASAC has an internal party committee, and it performs one of its central roles of appointing, rotating, and remunerating the most senior SOE leaders of the business groups under its supervision in consultation with party orga-

2. "Party centrality" is a defining characteristic of the Chinese state sector (Milhaupt 2017). For example, even prior to the adoption of party-building reforms, SOE business group firms maintained an internal party committee responsible for managerial appointments, promotions, and party discipline; senior executives were uniformly members of the Chinese Communist Party (CCP), and many simultaneously held dual positions in the corporation and the party. The *dangjian* initiative is thus a policy of formalizing and enhancing the party's role in SOEs rather than introducing party influence in their governance from scratch.

nizations. Moreover, unlike the Singaporean government's arm's-length approach to the management of its SOEs, Chinese SOEs are called on at times to implement industrial and social policies, which dilutes their commercial objectives. The principal objective of the SASAC and the CCP in this ownership and governance structure appears to be maximizing at the level of the state sector as a whole, rather than at the firm level, to fulfill party-state goals.

2.2. State-Owned-Enterprise Reforms

Since coming to power in 2012, President Xi Jinping has emphasized the need for SOE reform. One set of reforms pursues a mixed-ownership strategy of injecting additional private capital into the SOE sector and a corporatization strategy of establishing or improving corporate governance organs such as the board of directors in SOEs. As is apparent from the discussion above, these strategies are essentially a continuation of long-pursued programs to strengthen the corporate governance of SOEs and increase their market orientation. The other major line of reform emphasizes *dangjian*—that is, strengthening and formalizing the leadership role of the CCP in SOEs. The policy requires that "the party's power and role be enshrined into every firm's articles of association" (Yam 2015). One motivation for this initiative is plainly to counterbalance the potential loss of party control over the state sector accompanying an increase in private-capital investment. In addition, however, at least on a rhetorical level the *dangjian* measures equate increased party involvement in SOE governance with improved corporate governance. As noted in Section 1, to our knowledge this initiative to formalize the role of a political party in business enterprises is unprecedented in the annals of corporate governance.

In 2015, the Central Committee of the CCP and the State Council issued a document ("Guiding Opinions on Deepening State-Owned Enterprise Reforms") to strengthen CCP leadership over SOEs by formalizing the legal position of party cells in SOEs and their role in corporate governance.[3] The guiding opinions also endorse the party cadre management principle for key executives of SOEs. This refers to the standard *nomenklatura* process followed throughout China, whereby the CCP is

3. Zhonggong Zhongyang Guowuyuan Guanyu Shenhua Gouyou Qiye Gaige De Zhidao Yijian [Guiding Opinions of the CCP Central Committee and the State Council on Deepening the Reform of State-Owned Enterprises], promulgated by CCP Central Committee and State Council, August 24, 2015.

responsible for making leadership personnel decisions in an organization, a process already followed for senior SOE managers. Thus, although internal party committees already existed in SOEs and although senior SOE corporate officials already often simultaneously held important positions in the CCP (Lin and Milhaupt 2013), the guiding opinions sought to formally incorporate the influence of the party into the SOEs' governance structures by means of charter amendments.

The party-building movement gained momentum in 2016 after public statements by Xi endorsing the policy. Xi asserted that "party leadership and building the role of the party are the root and soul" of Chinese SOEs, adding that the policy is a "major political principle, and that principle must be insisted on" (Feng 2016). The same year, he admonished SOE executives "to bear in mind that their number one role and responsibility is to work for the party" (Cho and Kawase 2018). Xi further called SOEs "the basis for socialism with Chinese characteristics," serving as "supporting forces for the Party to govern and prop up the country" (Cho and Kawase 2018).

In 2017, the SASAC issued a notice announcing a set of model party-building provisions to be used in the SOE charter amendments (Guo and Hu 2017).[4] The Ministry of Finance later issued guidance with a similar set of model provisions for SOEs in the financial industry. The template consists of 10 provisions, which can be divided into three groups: provisions of symbolic import, such as referencing the CCP Constitution in the corporate charter; provisions concerning the party's decision-making power within the SOE; and provisions requiring overlapping party and corporate appointments and party supervision of corporate personnel.

3. RESEARCH QUESTIONS AND HYPOTHESES

We are interested in the contours of party-state influence over Chinese listed firms. The *dangjian* program provides a means of understanding the landscape of political influence and conformity in the corporate sector. It might be assumed that, as state-owned firms, SOEs would promptly abide by the guiding opinions and amend their charters to write the party

4. Guanyu zhashi tuidong guoyou qiye dangjian gongzuo yaoqiu xieru gongsi zhangcheng de tongzhi [Notice regarding the promotion of the requirements of incorporation of party-building work into the articles of associations of state-owned enterprises], promulgated by CCP Organization Department and Party Commission, State-Owned Assets Supervision and Administration Commission (SASAC), March 15, 2017.

fully into their corporate governance structures. Yet if state ownership does not necessarily equate with state control (see Milhaupt and Zheng 2015), we would expect some SOEs to resist or ignore the party-building campaign if it is not in the perceived interest of their boards of directors or senior managers to conform. As previously noted, private firms are not the target of the party-building campaign and are not required by the guiding opinions to amend their charters. Indeed, we could not find a public statement by the government suggesting that POEs should follow the *dangjian* policy during the period relevant to our analysis.[5] But the line between SOEs and POEs is blurred in China because of a weak rule of law and other political economy factors (see Milhaupt and Zheng 2015). Thus, equity ownership alone does not reveal the extent to which a given firm is subject to influence by the party-state. Rather, while the state exercises less control over SOEs than is commonly assumed, it exercises more control over private firms than ownership status alone would suggest (see Milhaupt and Zheng 2015). All Chinese firms, regardless of state or private ownership, must remain in the good graces of the party to grow and prosper.

While all SOEs are connected to the party, some SOEs have ownership structures or are exposed to global capital market forces that may constrain their willingness or ability to alter standard corporate governance practices in response to the *dangjian* policy. In particular, SOEs more distant in the ownership chain from their state controllers, SOEs with large external shareholders, and SOEs that are cross listed on Hong Kong or foreign stock exchanges may be less amenable to amending their charters, or if they do amend their charters, they may be less amenable to adopting the provisions facilitating the most significant political intrusions in their governance. Research suggests that SOEs insulated from the government by layers of corporate ownership enjoy greater de facto independence from the party-state (Fan, Wong, and Zhang 2013). Since corporate charter amendments require approval by two-thirds of outstanding shares under Chinese company law, SOEs with large external shareholders may face resistance in adding party-building provisions to their charters. Cross-listed firms may be resistant to altering widely accepted best practices in corporate governance. The bonding theory postulates that firms voluntarily bond themselves to a higher standard of cor-

5. In late December 2019, the Central Committee of the CCP and the State Council for the first time issued an opinion calling on privately owned enterprises (POEs) to establish internal party committees and to carry out party-building efforts. This is a full year after the end date of our data set.

porate governance by cross listing their shares in a foreign jurisdiction (Coffee 1999). Cross-listed firms may thus be better governed and enjoy reputational benefits in accessing long-term external finance (Doidge 2004; Siegel 2005). On a practical level, a cross-listed Chinese firm may fear that foreign institutional investors will vote against a party-building charter amendment.

Hypothesis 1. State-owned enterprises that are lower in the ownership chain, have large external shareholders, or cross list their shares on Hong Kong or foreign stock exchanges are less likely to adopt party-building provisions than other SOEs and are less likely to adopt substantively intrusive corporate governance provisions than other adopting SOEs.

Political connections are important to private-firm growth in China and serve as a form of protection for large Chinese firms in a weak rule-of-law environment (Milhaupt and Zheng 2015). Prior studies document the link between political connections and the likelihood of listing shares on Chinese stock exchanges in initial public offerings (Lee, Qu, and Shen 2019), being favored by domestic courts in commercial lawsuits (Lu, Pan, and Zhang 2015), and gaining access to external finance (Firth et al. 2009; Li et al. 2008; Berkowitz, Lin, and Ma 2015).

Hypothesis 2. Politically connected POEs are more likely to adopt party-building provisions than nonpolitically connected POEs and are more likely to adopt substantively intrusive corporate governance provisions than other adopting POEs.

4. METHODOLOGY

4.1. Identifying Adopting Firms

To identify firms that amended their articles of association in response to the *dangjian* policy, we searched the disclosure documents of all 3,446 nonfinancial A-share listed Chinese companies.[6] Following previous literature, we exclude financial firms, given their highly regulated status and distinctive characteristics. We obtained disclosure documents from CNINFO, a search engine and database designated by the China Securities Regulatory Commission as the official information-disclosure website

6. A-share companies are Chinese companies with shares denominated in renminbi and listed on either the Shanghai or Shenzhen Stock Exchange.

for listed Chinese firms, and used machine learning via a web crawler to search for party-building provisions and relevant amendment announcements between January 1, 2015, and December 31, 2018. After we obtained a potential list of adopting firms, we manually checked each firm's articles of association, board meeting minutes, and shareholders' meeting minutes to confirm the amendment and the charter provisions adopted. During the 4-year period, 1,046 nonfinancial A-share listed firms formally wrote party organizations into their articles.

4.2. Hand Coding Charter Provisions

We manually collected and hand coded corporate charter provisions relating to party building according to the model provisions published by the SASAC on January 3, 2017. The SASAC model provisions serve as a guiding example for all central SOEs and local SOEs. The relevant supervising SASAC (central or local) has the power to advise SOEs on the final form of amendment submitted for shareholder approval. Typically, the board of an SOE will first propose a customized set of party-building provisions for its supervising SASAC's review and comment. After approval by the SASAC, the SOE then submits the proposed amendment to the general meeting of shareholders for discussion and approval. Therefore, even though there is a set of model provisions, firms still have the freedom, to the extent approved by the SASAC, to customize their own internal party governance mechanisms.

The room for variation allows us to empirically record and investigate the differences among adopting firms. To properly capture the variation, we began by analyzing the model provisions and distinguishing 10 major provisions as the basis for coding. We then read the corporate charter of each adopting firm and coded each provision as one if the firm adopted it and zero otherwise.[7] The 10 model provisions are listed in Table 1. As is readily apparent, the provisions are not substantively equivalent: some are purely symbolic, while others involve various forms of involvement of the party in the management and decision-making organs of a firm. We conjecture that firms generally should be more willing to adopt symbolic provisions than intrusive provisions, and thus we should observe greater variation in intrusive than symbolic provisions.

We categorize the provisions into three groups according to their function: personnel, symbolic, and decision-making. The personnel group consists of five provisions that allow the CCP to appoint, manage, or su-

7. The coding exercise was generally straightforward because most firms followed the language of the model provisions.

Table 1. Adoption Rate of Party-Building Provisions by Firm Type

Provision	All ($N = 1{,}046$)	SOEs ($N = 901$)	POEs ($N = 145$)
Symbolic:	95.70	96.30	91.95
Follow constitution of CCP	98.66	98.89	97.24
Establish internal party committee	99.52	99.67	98.62
Provide financial support for party activities	88.91	90.34	80.00
Decision-making:	53.35	57.88	25.17
Prior consultation with party committee by the board	69.12	74.36	36.55
Prior consultation with party committee by the management	37.57	41.40	13.79
Personnel:	47.27	52.34	15.72
CCP has the power to nominate directors and managers (party cadre management)	59.94	65.93	22.76
Establish internal party discipline inspection committee	68.36	75.80	22.07
Dual appointment of top executives in the firm and representatives in the party committee	53.73	58.27	25.52
Dual role of chairman and party secretary	30.21	34.30	4.83
Full-time deputy party secretary	24.09	27.41	3.45

Note. Values are percentages. CCP = Chinese Communist Party; POEs = privately owned enterprises; SOEs = state-owned enterprises.

pervise corporate personnel. The symbolic group consists of three provisions that formalize the preexisting internal party committee and express allegiance to the CCP. The decision-making group consists of provisions that provide channels for CCP involvement in material business decisions through prior consultation by the board of directors or management with the party committee. To confirm the validity of our intuitive grouping of the model provisions by function and to gauge variations in adoption by function, we performed principal component analysis, following standard methodology. The results, reported in Table OA1 in the Online Appendix, confirm the validity of these groupings and indicate that the personnel group accounts for the largest variation in provision adoption.

4.3. Regression Models

To understand the firm characteristics of adopting SOEs and POEs, we run logit regressions on the adoption dummy, which we code as one if a firm adopted party-building provisions and zero otherwise. Instead of pooling all firms, we run separate regressions for SOEs and POEs because we believe that these two groups may have distinct incentives in deciding whether to adopt party-building provisions. Presumably, SOEs, which are supervised by the party-state, should follow the government's instruction to incorporate party-building provisions into their charters. In contrast, POEs are not the subject of the party-building initiative and have no legal obligation to make any changes to their articles of association. As previously noted, we could not find even a suggestion by the government or the CCP that POEs should follow the party-building policy during the period relevant to our analysis. We also include in the regressions other factors that might be expected to influence a firm's concession to party influence. To test hypotheses 1 and 2 in relation to the likelihood of adoption of any party-building charter amendments, we estimate the following logit regression specifications:

$$\begin{aligned}\text{Adoption}_{\text{SOE}} = \alpha &+ \beta_1\text{Direct State Shareholding} + \beta_2\text{Top 2–10} \\ &+ \beta_3\text{Separation} + \beta_4\text{Regulated Industry} \\ &+ \beta_5\text{Cross Listing} + \boldsymbol{X}_{it} + \varepsilon_i\end{aligned} \tag{1}$$

and

$$\begin{aligned}\text{Adoption}_{\text{POE}} = \alpha &+ \beta_1\text{Political Connection} \\ &+ \beta_2\text{Direct State Shareholding} \\ &+ \beta_3\text{Regulated Industry} + \beta_4\text{Cross Listing} \\ &+ \boldsymbol{X}_{it} + \varepsilon_i,\end{aligned} \tag{2}$$

where X_{it} indicates common controls on firm age and financial characteristics, including total assets, leverage ratio, return on assets, book-to-market ratio, share volatility, and intangible assets. We also control for central or local SOEs in regressions relating to SOEs and include industry and province fixed effects where appropriate. A detailed description of the set of control variables X_{it} used in the regression is provided in Table 2. What follows are the major explanatory variables for the logit regressions. First, state shareholding may be expected to have an effect on adoption because the more equity the party-state holds in a firm, the more likely that it will follow CCP policy (Liu and Zhang 2019). Furthermore, as noted above, Chinese company law requires a two-thirds supermajority vote at the shareholders' meeting to pass a charter amendment.[8] Thus, firms with higher levels of state ownership could be expected to adopt an amendment more readily than other firms because they have less concern about objections from nonstate shareholders. The variable Direct State Shareholding represents the percentage of shares held directly by the state in the form of state shares (*guojiagu*) or state-owned legal person shares (*guoyou farengu*). Second, firms in a regulated industry may be more likely to adopt party-building provisions because they depend more heavily on government approvals and thus may be more likely to heed the party's instructions. The variable Regulated Industry equals one if a firm belongs to a heavily regulated industry (natural resources, public utilities, mining, transportation, or real estate) and zero otherwise (Fan, Wong, and Zhang 2007, p. 340).

Our first hypothesis postulates that SOEs that are more independent from the party-state because of ownership structure are less likely to adopt party-building provisions. We use the variable Separation to represent the ownership hierarchy of SOEs; it denotes the difference between cash-flow rights and control rights of the ultimate controlling shareholder. The larger the value of Separation, the lower the firm is in the ownership pyramid and the more independent the firm should be from the state (Fan, Wong, and Zhang 2013). Hence, Separation is expected to be negatively correlated with adoption. The variable Top 2–10 represents the sum of shareholding percentages of the second largest shareholder to

8. In the early stage of the reform, Tianjin Real Estate Development submitted a proposal to amend its charter but failed to garner two-thirds approval in the general meeting on January 6, 2017. Subsequently, the SASAC temporarily suspended amendments in SOEs where the state owned less than two-thirds of the shares. In May 2017, Tianjin Real Estate Development put up the amendment proposal again, and it passed with a nearly unanimous vote (Asian Corporate Governance Association 2018, p. 47).

Table 2. Definitions of the Variables

Variable	Description	Source
SOE	Equals one if a firm reports a state or government agency as its actual controller (*shiji kongzhiren*) and zero otherwise	WIND
Central SOE	Equals one if a firm reports the central government as its actual controller and zero otherwise	WIND
Local SOE	Equals one if a firm reports a provincial level government as its actual controller and zero otherwise	WIND
POE	Equals one if a firm is not a state-owned enterprise and zero otherwise	WIND
Adoption	Equals one if a firm adopted party-building provisions and zero otherwise	Shareholders' meeting minutes
Political Connection	Equals one if the firm has at least one politically connected director or politically connected chief executive and zero otherwise; an individual is politically connected if he or she previously attained a certain rank in the government or the party	CSMAR
Direct State Shareholding	(State shares + state-owned legal person shares)/total shares	CSMAR
Top 2–10	Sum of shareholding percentage of the second largest to the 10th largest shareholder	CSMAR
Separation	Difference between cash-flow rights and control rights of the ultimate controlling shareholder	CSMAR
Regulated Industry	Equals one if a firm belongs to one of the following industries according to the China Securities Regulatory Commission industry classification: natural resources, public utilities, mining, transportation services, or real estate	CSMAR
Cross Listing	Equals one if the firm also cross lists on Hong Kong or foreign stock exchanges and zero otherwise	WIND
Firm Size	Log of total assets	CSMAR
Firm Age	Years since the year of registration	CSMAR
Leverage	Total liability/total assets	CSMAR
ROA	Net profit/total assets	CSMAR
Book-to-Market Ratio	Total assets/market value [(total shares − B-share) × closing price of A-share + B-share × closing price of B-share + total liabilities at the end of current period]	CSMAR
Volatility	Volatility estimated according to the log return of the latest 250 trading dates	CSMAR
Intangibility	Intangible assets/total assets	CSMAR

Note. CSMAR = China Stock Market and Accounting Research Database; WIND = Wind Financial Database.

the 10th largest shareholder. A firm is less likely to adopt party-building provisions if there are large shareholders that serve as a counterbalance to state ownership. Thus, Top 2–10 is expected to be negatively correlated with adoption. The variable Cross Listing is coded as one if a firm cross lists its shares on Hong Kong or foreign stock exchanges[9] and zero otherwise. We expect that cross-listed firms are less likely to adopt party-building provisions under the bonding theory and because of expected opposition from foreign shareholders.

Our second hypothesis posits that politically connected POEs will adopt party-building provisions even though the *dangjian* policy is not directed at the private sector. To assess whether a given firm is politically connected, we obtain data on the government or party-related positions held by each director and executive from the China Stock Market and Accounting Research Database (CSMAR). There are six main levels in the Chinese bureaucracy: ministry (*bu*), department (*ju*), division (*chu*), section (*ke*), staff member (*keyuan*), and clerk (*banshiyuan*). Following Lee, Qu, and Shen (2019), we code a director or CEO as politically connected if he or she has served in certain government or party positions at or above the rank of the division level. Then we construct the dummy variable Political Connection, which is equal to one if a firm has at least one politically connected director or CEO and zero otherwise.

Beyond the basic yes/no adoption decision, we are interested in the degree of concession to the CCP's *dangjian* policy among adopting SOEs and POEs. To proxy for the degree of party involvement in a firm's corporate governance introduced in response to the *dangjian* policy and to gauge how the content of adopted provisions varies among firms, we construct aggregate indices of party-building provisions by summing the number of provisions adopted by a firm in total and in each of the three categories of provision (personnel, symbolic, and decision-making). The intuition behind the index approach is that not all adoptions represent equal concessions to political intervention in corporate governance. For example, the decision-making index consists of two provisions: one that requires the board of directors to consult with the party committee prior to making major decisions and another that requires corporate management to consult with the party committee prior to making major decisions. Firms that adopted only one of these provisions acceded to less political intervention in standard corporate governance practices than firms

9. The stock exchanges include the Hong Kong Stock Exchange, the New York Stock Exchange, NASDAQ, the Singapore Stock Exchange, and the London Stock Exchange.

adopting both provisions. We run ordinary least squares regressions on the total index and each subindex to understand how firms responded to specific aspects of the party-building reform.

Aside from the hand-coded data, we obtained data on other variables from two main databases: CSMAR, maintained by GTA Education Tech Ltd., and the Wind Financial Database, maintained by Wind Information. For financial variables, such as total assets, leverage ratio, return on assets, book-to-market ratio, share volatility, and intangible assets, we use data from the end of 2016 in principle.[10] Table 2 describes the variables and data sources.

5. EMPIRICAL FINDINGS

5.1. Adoptions of Party-Building Provisions by State-Owned and Privately Owned Enterprises

A total of 1,046 nonfinancial A-share listed firms (30.35 percent of the total) amended their corporate charters in response to the party-building reform between January 1, 2015, and December 31, 2018. Table 3 shows that, of the adopting firms, 300 are central SOEs, 603 are local SOEs, and 143 are POEs.

While all SOEs might be expected to comply with party instructions if the state exercises effective control by virtue of its equity ownership or otherwise, 12.79 percent of central SOEs and 9.19 percent of local SOEs still had not adopted party-building provisions more than 3 years after the policy was launched. At the same time, almost 6 percent of POEs voluntarily amended their charters in response to an SOE reform program not directed at them. The variation in adoptions within and across firm ownership types is consistent with our hypotheses and supports the conjecture that the party-state exercises less control over SOEs and more influence over POEs than is typically assumed.

Table 4 compares key variables between adopting and nonadopting firms among SOEs and POEs. It is apparent that adopting SOEs have more direct state shareholding, have less powerful external shareholders, and are located higher in the ownership pyramid than nonadopting SOEs. This suggests that organizational hierarchy and ownership structure are important determinants of SOE adoption. In addition, adopting SOEs

10. For firms that listed shares in 2017 and 2018, we use the latest available financial data. Regression results generally hold if we use 2016 data for all firms.

Table 3. Adoption of Provisions by Type of Firm

	Central SOEs	Local SOEs	POEs	Total
Nonadopting Firms	44	61	2,295	2,400
	(12.79)	(9.19)	(94.13)	(69.65)
Adopting Firms	300	603	143	1,046
	(87.21)	(90.81)	(5.87)	(30.35)
Total	344	664	2,438	3,446

Note. Percentages are in parentheses. POEs = privately owned enterprises; SOEs = state-owned enterprises.

are larger, are more leveraged, and receive higher market valuations than nonadopting SOEs. Adopting POEs have closer political connections than nonadopting POEs and more direct state shareholding. Table OA2 in the Online Appendix reports the industry distribution of adopting and nonadopting firms.[11]

5.2. Variation in Adopted Provisions

Table 1 reports the adoption rate of each provision and substantive group of provisions by firm type. As expected, the adoption rate of symbolic provisions is the highest, ranging from 91.95 percent to 96.30 percent for all adopting firms. By contrast, the average adoption rates of decision-making provisions and personnel provisions for SOEs are much lower—57.88 percent and 52.34 percent, respectively. Among decision-making provisions, SOEs are more amenable to the board's prior consultation with the party committee (74.36 percent) than to management's prior consultation with the party committee (41.40 percent), which signifies reluctance even among SOEs to allow the party to intervene in corporate management. The result underscores the limits to the power of the party-state over SOEs, but it is understandable given that party members may lack the firm-specific knowledge and expertise necessary to make day-to-day management decisions. With regard to personnel provisions, SOEs show resistance to the chairman simultaneously serving as party

11. The top five adopting industries are hotel and restaurant (77.78 percent), public utilities (73.54 percent), mining (64 percent), and transportation and postal service (62 percent). As might be expected, most of these are heavily regulated industries, where ownership type may be less significant than remaining in good standing with the government. The industries with the lowest rates of adoption are health and social work (0 percent), resident services (0 percent), information technology (16.48 percent), scientific research (22.92 percent), and manufacturing (24.57 percent).

secretary (34.30 percent) and having a full-time deputy party secretary (27.41 percent). They are relatively more amenable to party cadre management (65.93 percent), having a discipline inspection committee (75.80 percent), and dual appointment of top executives and representatives in the party committee (58.27 percent). This might be explained by the fact that the latter three provisions reflect long-standing practices adopted by SOEs in the modernization program (Ma, Wang, and Shen 2012; Lin and Milhaupt 2013).

Compared with SOE adoptions, POE adoptions are largely symbolic. A total of 91.95 percent of adopting POEs included symbolic provisions in their charter, while only 25.17 percent adopted decision-making provisions, and only 15.72 percent adopted personnel provisions. Yet 36.55 percent of adopting POEs established a procedure under which the board consults with the party committee before making important decisions. Although the term used is "consultation," such provisions warrant concern over the independence of POE boards because they authorize representatives of the party to formally comment on and potentially influence the decision-making of private firms. The provisions adopted with least frequency by POEs are management's prior consultation with the party committee (13.79 percent), the dual role of chairman and party secretary (4.83 percent), and a full-time deputy party secretary (3.45 percent). Consistent with the adoption pattern of SOEs, these three provisions appear to be the least favorable among firms because they allow the CCP to intervene in the daily management of the firm and to monitor its activities on a daily basis by an in-house party representative. In sum, we observe wide variation in provision adoption even among SOEs. To better understand the adoption pattern among different firm types, we present the adoption rates in Figures OA1, OA2, and OA3 in the Online Appendix.[12]

12. Figures OA1, OA2, and OA3 present adoption rates by firm type, size, and shareholder ownership, respectively. In Figure OA1, the adoption patterns of central and local SOEs appear to be very similar, while POEs show a clear gravitation toward symbolic provisions. Figure OA2 shows that large POEs have an adoption pattern similar to those of SOEs (both large and small), while small POEs cluster toward the symbolic provisions. These patterns are consistent with the theoretical prediction that large Chinese POEs share more traits with SOEs regarding their relationship to the party-state than equity ownership alone would suggest (Milhaupt and Zheng 2015). Figure OA3 shows that the level of state ownership in an SOE does not appear to affect the adoption pattern. Again, the result is consistent with other work suggesting that the precise level of the state's equity ownership in a given firm is not particularly informative of the degree of state control over the firm (see Milhaupt and Zheng 2015).

Table 4. Summary Statistics

Variable	Adopting		Nonadopting		Difference in Means	Pearson χ^2
	Mean	SD	Mean	SD		
State-owned enterprises:						
Direct State Shareholding	11.29	20.68	6.16	15.01	5.127*	
Top 2–10	19.34	12.01	21.87	12.37	−2.533*	
Separation	4.07	7.38	5.38	8.58	−1.310^{+}	
Regulated Industry	.28	.45	.21	.41		2.336
Cross Listing	.06	.24	.07	.25		.075
Central SOE	.33	.47	.42	.50		3.097^{+}
Firm Size	22.87	1.43	22.58	1.41	.298*	
Firm Age	21.28	5.01	21.11	5.39	.170	
Leverage	.50	.21	.46	.22	.043*	
ROA	.04	.25	.03	.06	.003	
Book-to-Market Ratio	1.17	1.16	.79	.67	.373**	
Volatility	.47	.11	.47	.10	−.007	
Intangibility	.06	.08	.04	.04	.0163*	
N	901		105			

Privately owned enterprises:						
Political Connection	.64	.48	.47	.50		11.888**
Direct State Shareholding	2.42	9.71	.64	3.06	1.781**	
Regulated Industry	.06	.24	.07	.26		.251
Cross Listing	.01	.12	.01	.09		.486
Firm Size	21.86	1.09	21.70	1.15	.153	
Firm Age	18.59	5.03	18.15	5.43	.440	
Leverage	.36	.19	.36	.19	.001	
ROA	.05	.05	.05	.06	.0003	
Book-to-Market Ratio	.46	.30	.46	.51	−.0003	
Volatility	.49	.11	.52	.11	−.032**	
Intangibility	.05	.05	.04	.05	.009*	
N	145		2,295			

Note. The number of observations is slightly smaller for Volatility and Political Connection.
$^{+}p < .10$.
$^{*}p < .05$.
$^{**}p < .01$.

5.3. Characteristics of Adopting Firms

We have observed the basic characteristics of adopting and nonadopting firms from the descriptive statistics in Table 4. To test our hypotheses of the likelihood of SOEs and POEs adopting any charter provisions, we run logit regressions on the adoption dummy for SOEs and POEs. Table 5 reports logit regression results for SOE adoptions of party-building charter amendments, and Table 6 reports results for POE adoptions. Marginal effects are calculated with the means of the independent variables.

Model 1 in Table 5 reports the result for major explanatory variables. Model 2 adds control variables, and model 3 uses industry fixed effects to replace the variable Regulated Industry. All models show that direct state shareholding has a positive impact on an SOE's adoption decisions (significant at the 1 percent or 5 percent level), while shareholding of the top 2–10 shareholders has a negative impact on adoptions (significant at the 1 percent or 5 percent level). As expected, direct state shareholding is associated with adoption. Each 1 percent increase in direct state shareholding increases an SOE's probability of adopting party-building provisions by approximately .2 percent. Consistent with our first hypothesis, the presence of substantial external shareholders impedes adoption in SOEs. An increase of 1 percent in the shareholding of the top 2–10 shareholders decreases the probability of adoption by approximately .2 percent. Similarly, consistent with our first hypothesis, separation is negatively correlated with an SOE's adoptions (significant at the 5 percent or 10 percent level in all models), which suggests that pyramidal ownership structures creating organizational distance between the firm and the state enhance the independence of SOEs lower down in the ownership chain. The magnitude of the marginal effects of the wedge between cash-flow rights and control rights is similar to that of the shareholding of substantial external shareholders. However, cross-listed firms are no less likely to amend their charters than SOEs listed only on mainland exchanges. A plausible explanation for this result is that SOEs able to cross list on non-mainland exchanges are predominantly large, central SOEs with strong state backing for their global strategies. Such firms may have little choice but to pay obeisance to the party by amending their charters in response to the *dangjian* policy. As shown below, however, and consistent with our hypothesis as it relates to the content of the amendments, cross listing does moderate the degree of political intrusion in corporate governance reflected in the specific provisions adopted.

Table 5. Logit Regression on Characteristics of State-Owned Enterprises That Adopted *Dangjian* Provisions

	Model 1 ($N = 912$)		Model 2 ($N = 905$)		Model 3 ($N = 859$)	
	Coefficient	Marginal Effects	Coefficient	Marginal Effects	Coefficient	Marginal Effects
Direct State Shareholding	.020*	.002**	.022**	.002**	.021**	.002**
	(.008)	(.001)	(.008)	(.001)	(.008)	(.001)
Top 2–10	−.024**	−.002**	−.025**	−.002**	−.022*	−.002*
	(.009)	(.001)	(.009)	(.001)	(.010)	(.001)
Separation	−.025+	−.002+	−.029*	−.002*	−.028+	−.002*
	(.014)	(.001)	(.015)	(.001)	(.015)	(.001)
Regulated Industry	.363	.029	−.001	−.000		
	(.262)	(.020)	(.290)	(.021)		
Cross Listing	.422	.031	−.168	−.013	−.290	−.024
	(.475)	(.029)	(.546)	(.044)	(.553)	(.051)
Constant	2.129**		2.217		3.072	
	(.339)		(3.591)		(3.792)	
Controls	No	No	Yes	Yes	Yes	Yes
Industry fixed effects	No	No	No	No	Yes	Yes
Pseudo-R^2	.078		.123		.126	

Note. Standard errors are in parentheses. The p-values are based on robust standard errors clustered at the firm level. Marginal effects are calculated at mean values for continuous variables and at 1 for dummy variables. All regressions include province fixed effects.

$^{+}p < .10$.
$^{*}p < .05$.
$^{**}p < .01$.

Table 6. Logit Regression on Characteristics of Privately Owned Enterprises That Adopted *Dangjian* Provisions

	Model 1 (N = 1,852)		Model 2 (N = 1,850)		Model 3 (N = 1,768)	
	Coefficient	Marginal Effects	Coefficient	Marginal Effects	Coefficient	Marginal Effects
Political Connection	.707**	.029**	.663**	.026**	.682**	.027**
	(.203)	(.009)	(.208)	(.009)	(.213)	(.009)
Direct State Shareholding	.077**	.003**	.076**	.003**	.073**	.003**
	(.012)	(.001)	(.013)	(.001)	(.013)	(.001)
Regulated Industry	.035	.001	.109	.004		
	(.388)	(.016)	(.405)	(.017)		
Cross Listing	1.446$^+$	.112	1.009	.061	.778	.043
	(.859)	(.110)	(.870)	(.078)	(.959)	(.072)
Constant	−4.858**		−7.669**		−9.022**	
	(.834)		(2.771)		(3.026)	
Controls	No	No	Yes	Yes	Yes	Yes
Industry fixed effects	No	No	No	No	Yes	Yes
Pseudo-R^2	.133		.149		.157	

Note. Standard errors are in parentheses. The p-values are based on robust standard errors clustered at the firm level. Marginal effects are calculated at mean values for continuous variables and at 1 for dummy variables. All regressions include province fixed effects.

$^+p < .10$.

$^{**}p < .01$.

Table 6 reports the results for POE adoptions. Model 1 shows the results for major explanatory variables, and models 2 and 3 add additional controls. Our second hypothesis posits that politically connected POEs are more likely than other private firms to respond to party policy. Our findings strongly support our hypothesis. In all models, political connection has a positive impact on the adoption decision among POEs (significant at the 1 percent level in all models). Having political connections increases a POE's probability of adoption by 2.6 percent to 2.9 percent. In an unreported regression, we used percentage of the board of directors that has political connections as an alternative to our dummy variable, and the result holds (significant at the 5 percent or 10 percent level). Unsurprisingly, direct state shareholding is also positively associated with a POE's adoption (significant at the 1 percent level in all models). The marginal effect of a 1 percent increase in direct state shareholding on adoption is approximately .3 percent.

5.4. Determinants of Variations in Adopted Provisions

The analysis in Table 1 and Figures OA1–OA3 shows that there is wide variation in the provisions adopted within and across firm types. To test our hypotheses as they relate to the content of provisions adopted by SOEs and POEs in response to the *dangjian* policy and to understand the determinants of variations, we construct four indices based on the functional grouping described in Section 4.2: total index, personnel index, symbolic index, and decision-making index. Total index consists of all 10 provisions, while the personnel, symbolic, and decision-making indices consist of five, three, and two provisions, respectively, as grouped in Table 1. We then run ordinary least squares regressions with controls on all four indices.[13]

Consistent with our first hypothesis, cross listing (or the presence of foreign shareholders)[14] does discourage SOEs from adopting more intrusive charter provisions that depart from standard corporate governance practices. Table 7 shows a significant negative correlation between cross listing and the total and personnel indices (significant at the 1 percent level). For the decision-making index, major external shareholders appear

13. We also ran ordered logit regressions on Tables 7 and 8, which yield similar results.

14. Complete data on foreign ownership are not available. The cross-listing variable may be a proxy for foreign ownership.

Table 7. Determinants of Variation in *Dangjian* Provisions Adopted by State-Owned Enterprises

	Total Index	Personnel Index	Symbolic Index	Decision-Making Index
Direct State Shareholding	−.003	−.003	−.000	−.000
	(.003)	(.003)	(.001)	(.001)
Top 2–10	−.000	.005	.001	−.007**
	(.006)	(.005)	(.001)	(.002)
Separation	.000	−.001	.001	−.000
	(.009)	(.008)	(.001)	(.003)
Regulated Industry	.109	.110	−.000	−.000
	(.150)	(.127)	(.026)	(.056)
Cross Listing	−1.191**	−.917**	−.122*	−.153
	(.385)	(.309)	(.057)	(.120)
Constant	3.292+	.583	2.025**	.684
	(1.940)	(1.627)	(.384)	(.706)
R^2	.124	.121	.057	.131

Note. Results are from ordinary least squares regressions with standard errors in parentheses. The p-values are based on robust standard errors clustered at the firm level. All regressions include controls and province fixed effects. $N = 893$.
$^{+}p < .10$.
$^{*}p < .05$.
$^{**}p < .01$.

to curb the adoption of provisions that would concede decision-making to the party.

Table 8 reports results for POEs. Generally consistent with our second hypothesis, politically connected POEs are somewhat more likely to adopt decision-making provisions (significant at the 10 percent level) than other adopting POEs. (When we used percentage of the board of directors that has political connections as an alternative in an unreported regression, the positive correlation disappeared.) It is thus probable that while political connections affect POEs' decisions to embrace the party-building reform, such connections have only a weak influence on the content of adopted provisions; this suggests that in many cases POE adoptions principally function as (noisy) signals of fealty to the party. By contrast, state shareholding still has a strong positive impact on the provisions adopted (significant at the 1 percent or 5 percent level in three indexes). In particular, POEs in which the state directly owns more shares adopt more provisions and are more likely to follow the party's personnel practices (significant at the 1 percent level for the total and personnel indexes).

Table 8. Determinants of Variation in *Dangjian* Provisions Adopted by Privately Owned Enterprises

	Total Index	Personnel Index	Symbolic Index	Decision-Making Index
Political Connection	.507	.173	.102	.233^{+}
	(.328)	(.217)	(.107)	(.130)
Direct State Shareholding	.056**	.041**	.006*	.009
	(.014)	(.008)	(.002)	(.006)
Regulated Industry	.128	.010	−.022	.140
	(.509)	(.368)	(.172)	(.229)
Cross Listing	−.063	−.388	−.195	.520
	(1.594)	(.495)	(.487)	(.808)
Constant	−3.830	−6.935*	5.393**	−2.289
	(5.439)	(3.485)	(1.422)	(2.184)
R^2	.225	.284	.084	.134

Note. Results are from ordinary least squares regressions with standard errors in parentheses. The p-values are based on robust standard errors clustered at the firm level. All regressions include controls. $N = 118$.
* $p < .05$.
** $p < .01$.

6. CONCLUSION

Analysis of recent party-building reforms for SOEs highlights the complexity of political conformity in China's corporate sector. Consistent with insights from prior literature on the porousness of the SOE/POE dichotomy in China and our hypotheses, we find a lack of universal compliance with the mandatory party-building policy by the state sector and voluntary compliance by a portion of the private sector even though the policy was not directed at private firms. Consistent with our first hypothesis, we find that corporate ownership structure (though not cross listing) affected the likelihood of compliance with the party-building policy, while ownership structure and cross listing constrained the adoption of more substantively intrusive governance provisions, which suggests that political influence on corporate governance is tempered by organizational distance from the state and large and/or foreign private shareholders. Consistent with our second hypothesis, politically connected POEs are more likely than other POEs to adopt charter amendments and marginally more likely to cede corporate decision-making to the party committee, although we find that POEs overwhelmingly adopted symbolic rather than substantively meaningful provisions.

The practical significance of the party-building charter amendments may be questioned. How will the party enforce compliance with its party-building program? What consequences will follow from business decisions that result in losses to shareholders as a result of political interference in board or managerial processes? It can hardly be anticipated that the party will allow itself to be held legally accountable to investors for its interventions in corporate governance.

While these questions will be answered only in time, we believe it would be a serious mistake to dismiss the party-building policy as empty rhetoric. The wide variation in the number and type of provisions adopted by SOEs we document suggests that the state sector took the party-building campaign seriously[15]—otherwise, why would these firms not simply mollify senior party-state officials by adopting the entire panoply of amendments circulated by the CCP and government?[16] When faced with a single defeat at the hands of shareholders, officials recommended suspending the vote for firms in which the state owned less than two-thirds of the equity.[17] Some SOEs undertook multiple rounds of charter amendments in response to negotiations with their SASAC regulators (Lin 2021). These actions suggest that the policy was taken seriously by its authors and subjects.

Our study highlights the novel intertwining of corporate and political norms in Chinese corporate governance. While SOEs throughout the world can be expected to occasionally sacrifice profits for the pursuit of political or policy goals, a Chinese SOE with a complete set of *dangjian* charter amendments exemplifies an extreme form of stakeholder-oriented corporate governance in which the interests promoted by the board of directors and senior management are ostensibly coterminous with those of the nation-state as a whole, at least as the national interest is interpreted by the Chinese Communist Party.

Yet the results of the party-building movement also suggest the limits of this novel corporate governance strategy. The party sought to elevate

15. Discussions with investors in the Chinese A-share market likewise indicate that they take the charter amendments seriously.

16. We examined the charters and other publicly available information for all nonadopting SOEs as of the end of 2018 and found that very few of them were already following corporate governance practices contemplated by the party-building model provisions (three of 113 followed prior board or management consultation with the party committee, and 14 of 113 had a dual role of chairman and party secretary). So de facto compliance with the party-building policy is not a plausible general explanation for nonadoption by the SOEs.

17. See note 8.

its role in corporate governance, not by fiat or by government regulation but through the standard corporate organ of the shareholder's meeting, to obtain a required supermajority approval of amendments to the corporate charter. Having chosen corporatization without privatization as a central vehicle for China's economic reforms, and having pursued decades of mixed-ownership reforms relying on the capital market for funding, discipline, and global visibility, the party-state is now at least partially constrained to operate within the universal governance norms inherent in the corporate form.

The corporate governance of Chinese public companies appears to grow considerably more complex as political considerations are formally introduced into corporate decision-making and personnel processes. The board of directors and committees of the board may be weakened as a result. Compliance with the disclosure requirements under the securities laws will presumably require at least Hong Kong and other non-mainland-exchange cross-listed companies to disclose considerably more information about the role of the CCP in internal governance than is currently the norm.[18]

The *dangjian* policy also has potential implications for the global investment activity of Chinese companies. Suspicions of Chinese investment motives and possible links between Chinese companies and the government have caused a tightening of the investment-screening regimes in a number of countries, including the United States (see, for example, Gordon and Milhaupt 2019). Elevating and formalizing the role of the party in Chinese companies should serve only to heighten the concerns of host countries in accepting Chinese investment.

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18. Greater transparency in this area may be helpful to foreign investors. A recent survey shows that 20 percent of foreign institutional investors were unaware of the existence of party committees in Chinese firms, and the remainder would like greater clarity about their role (Asian Corporate Governance Association 2018, p. 30).

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