CCP Influence over China’s Corporate Governance

The Chinese Communist Party (CCP) launched its “party-building” (dangjian) policy in 2015, designed to strengthen and formalize the role of the CCP in state-owned enterprise (SOE) governance. Researchers found significant variation not only in SOE adoption of the policy, but also among privately-owned enterprises (POEs), which were not subject to the dangjian requirements at the time. In this era of increasing CCP control over China’s economy, what are the patterns of party-state influence over China’s firms?

The data. The researchers sought to identify the percentage of firms that amended their articles of association from January 1, 2015, to December 31, 2018, in response to the dangjian policy. To do so, they obtained disclosure documents of all 3,446 A-share listed nonfinancial Chinese companies from CNINFO, the official database of the China Securities Regulatory Commission. The researchers collected charter provisions adopted by the compliant firms and grouped them into three categories: more symbolic provisions, such as simply referencing the CCP constitution in the firm’s corporate charter; provisions that allow the CCP to appoint, manage, or supervise corporate personnel; and provisions concerning the party’s decision-making powers within the firms.

The researchers next assessed the percentage of firms that amended their charters by ownership category. Researchers relied on the China Stock Market and Accounting Research Database and the Wind Financial Database to further analyze each firm’s level of direct state ownership; whether it had large external shareholders; whether it belonged to a heavily-regulated industry; and whether the firm’s shares were cross-listed on the Hong Kong or foreign stock exchanges.

For SOEs, the researchers evaluated each firm’s degree of separation from government control by examining its organizational distance from the state in the ownership chain; and the percentage of shares held by external shareholders. For POEs, the researchers measured a given firm’s political connectedness by analyzing whether any director or the chief executive officer had served in high-level government or party positions.

Adoption of party-building provisions by firm type

<table>
<thead>
<tr>
<th></th>
<th>Central state-owned enterprises</th>
<th>Local state-owned enterprises</th>
<th>Privately-owned enterprises</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Nonadopting firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>44 (12.8%)</td>
<td>61 (9.2%)</td>
<td>2,295 (94.1%)</td>
<td>2,400 (69.7%)</td>
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<tr>
<td>Adopting firms</td>
<td>300 (87.2%)</td>
<td>603 (90.8%)</td>
<td>143 (5.9%)</td>
<td>1,046 (30.4%)</td>
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<tr>
<td>Total</td>
<td>344</td>
<td>664</td>
<td>2,438</td>
<td>3,446</td>
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How do firms respond to the CCP’s party-building policy? A total of 1,046 nonfinancial A-share listed firms (30.4% of the total) amended their corporate charters between January 1, 2015, and December 31, 2018. The party-building amendments are mandatory for SOEs, yet 12.8% of central SOEs and 9.2% of local SOEs still had not adopted the required provisions four years after the policy was launched. Furthermore, even though the dangjian policy did not apply to POEs at the time, almost 6% of POEs voluntarily amended their charters.
**Wide-ranging SOE responses.** In analyzing the content of party-building provisions that firms ultimately adopted, the researchers found significant variation, even among SOEs, in how much they acceded to enhanced party involvement in their governance.

SOEs adopted symbolic provisions at the highest rate (96.3%); and personnel provisions and decision-making provisions at much lower rates (52.3% and 57.9%, respectively). Even among decision-making provisions, SOEs were more likely to adopt provisions that required the board’s prior consultation with the party committee (74.4%) over management’s prior consultation with the party committee (41.4%), potentially signifying the reluctance of SOEs to allow party intervention in their day-to-day corporate management.

As for personnel provisions, SOEs were also more likely to adopt provisions that formalized long-standing practices (e.g., establishing internal party discipline inspection committees [75.8%]; CCP’s power to nominate directors and managers [65.9%]; and dual appointment of top executives in the firm and representatives in the party committee [58.3%]).

**POEs signal fealty.** A large majority of POEs that voluntarily amended their charters only adopted symbolic or less material provisions (92%). Among acceding POEs, only 15.7% adopted personnel provisions, and 25.2% adopted decision-making provisions. The provisions adopted with the lowest frequency were management’s prior consultation with the party committee (13.8%), the dual appointment of the chairman as also the party secretary (4.8%), and the installment of a full-time deputy party secretary (3.5%). As with SOEs, these three provisions proved to be the least popular among POEs because, the researchers suggest, they allow the CCP to monitor and intervene in the daily management of firms.

**Driving factors behind charter amendments.** The study suggests that organizational hierarchy and ownership structures are key determinants of SOE adoption of dangjian provisions. Compliant SOEs have more direct state shareholding, smaller shares held by external shareholders, and exhibit less organizational distance from the state in the ownership chain than nonadopting SOEs. In addition, the presence of large external shareholders tended to moderate the level of CCP intrusion into an SOE’s corporate governance.

For POEs, the adoptions were most prevalent among firms with politically-connected directors or CEOs. Yet, such connections exerted weak influence over the content of adopted provisions, suggesting that, in many cases, POEs voluntarily acceded to the party-building program primarily to signal loyalty to the CCP rather than to concede institutionalized party involvement in their corporate governance.

**Complex contours of political conformity.** As the study’s authors note, China’s 2015 dangjian policy, which confers a formal role for a political party in business enterprises, is unprecedented in the annals of corporate governance. At a time when politics loom large in China’s economy, these findings further highlight the growing influence of the CCP in China’s firms and confirms the increasingly blurry distinction between China’s SOEs and POEs. Yet, variation in the level of compliance with the party-building policy also suggests that, in China, the state exercises less control over SOEs than may be expected and more influence over POEs than is commonly assumed.