

# Corporate Governance of China's State-Owned Enterprises: A Review of Past Experiences

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**Abstract.** This study aimed to evaluate the strengths and weaknesses of corporate governance practices in China's state-owned enterprises (SOEs) based on their current state. The researchers selected 20 SOEs and surveyed 40 respondents to assess five key areas: institutional framework, information disclosure, board and supervisory board responsibility and supervision, legal guarantees for stakeholder interests, and strategic management.

The findings revealed that while the interviewees generally agreed with the current state of SOE corporate governance, there were areas for improvement in all five assessed areas. Environmental, Social, and Governance (ESG) and sustainability issues were the most concerning for the respondents, whereas shareholder relations were of least concern. Regarding the impact on productivity and profitability, the sample companies exhibited average performance, suggesting room for improvement.

The study recommended several optimizations to the corporate governance system, including strengthening the board of directors' authority, establishing information disclosure and stakeholder protection mechanisms, reforming the SOE supervision system, and implementing a mixed ownership structure for SOEs.

**Keywords:** SOE reform, corporate governance, arty organization, board of directors, management, institutional framework, information disclosure, stakeholders

## 1. Introduction

State-owned enterprises (SOEs) have played a critical role in the development of the Chinese economy. However, their corporate governance practices have long been criticized for lacking transparency and accountability (e.g., Asian Development Bank, 2014). This dissertation examines past experiences of SOE reform in China, with a focus on the role of the government, the boards of

directors, and the Communist Party. It also explores the challenges encountered in implementing effective corporate governance within SOEs.

SOEs are a unique feature of the Chinese economic landscape. Following the Communist revolution, the state assumed control of many industrial and commercial enterprises. These SOEs played a crucial role in China's early economic development, particularly in heavy industries (Lin & Ye, 2003). However, as the economy matured and shifted towards a more market-oriented system, concerns arose regarding the efficiency and effectiveness of SOE governance (Wong, 2008).

A review of the literature reveals several key shortcomings in SOE corporate governance. One major concern is the continued dominance of the government and the Communist Party in SOE decision-making. This can lead to a lack of transparency and accountability, as SOE managers may prioritize political objectives over economic performance (Hu, 2000). Additionally, the boards of directors in SOEs are often not truly independent and may be beholden to government or party officials. This can hinder their ability to effectively oversee management and protect shareholder interests (Li, 2006).

Understanding past experiences of SOE reform is essential for identifying effective strategies to improve corporate governance in these enterprises. By examining the successes and failures of previous reform efforts, policymakers can develop more targeted and sustainable solutions. This dissertation contributes to this understanding by providing a comprehensive review of past SOE reform initiatives in China. It is important to note that the cover page itself does not provide any specific details on the methods used in the research or the results and conclusions reached by the dissertation.

## 2. Methodology

The research utilized a quantitative descriptive methodology to elucidate the methodology writing process simply (Faryadi, 2018), employing descriptive analysis to outline basic features of thesis writing (García & Fombona, 2015), and offering useful summaries of thesis chapters (Al-Raqqad et al., 2017). This approach was fitting for assessing the status of corporate governance in Chinese SOEs, identifying issues, and proposing enhancements. Data collection involved both quantitative and qualitative methods, investigating SOEs' governance

experiences and practices quantitatively, while qualitatively identifying weaknesses through checklist-style questions.

### *2.1. Sampling Procedure*

Respondents were selected using purposive sampling, a nonrandom technique aimed at choosing participants based on specific qualities they possess (Ilker Etikan et al., 2016). This method doesn't require underlying theories or a predetermined number of participants; rather, the researcher identifies what information is needed and seeks individuals with the requisite knowledge or experience. The criteria for selection included: 1. Inclusion of central and local SOEs; 2. Representation of four enterprise types; 3. Geographical dispersion across China; and 4. Involvement of individuals serving or having served in various roles within the enterprise, such as party committee members, directors, supervisors, management team members, and board office staff.

### *2.2. Respondents*

Respondents were selected from a pool of 460,000 State-Owned Enterprises (SOEs) in China, with over two-thirds experiencing strong administrative interference from local governments. To ensure comprehensive representation, the selection process categorized SOEs into wholly state-owned, diversified equity state-owned, mixed-ownership non-listed, and mixed-ownership listed companies. Each category included five companies, with consideration for geographical diversity and coverage of both central and local enterprises. The aim of the study is to offer insights for enhancing SOE corporate governance through experience review and current situation analysis.

#### 2.2.1 Research Site

The study was conducted in Beijing, China's capital, for several reasons. Firstly, Beijing houses the central government and its departments, including the State-owned Assets Supervision and Administration Commission of the State Council, the regulatory agency for SOEs. Additionally, Beijing is where China's reform policies for SOEs originated. Secondly, most central enterprise headquarters are in Beijing, facilitating communication with surveyed enterprises. Lastly, Beijing's central location and robust transportation infrastructure make it convenient and cost-effective for research, allowing easy access to provinces across the country.

### 3. Results and Discussion

The study's findings reveal insights into the current state of corporate governance in Chinese State-Owned Enterprises (SOEs) across various dimensions, including institutional framework, information disclosure, board and supervisory board responsibilities, legal protection for stakeholders, and strategic management.

1. Institutional Framework: Respondents generally agree with the regulatory framework for SOEs, highlighting strict regulation of management behavior and clear division of powers among governance entities. However, there is room for improvement in ensuring operational autonomy for managers.

2. Information Disclosure: Overall, respondents acknowledge the importance of information disclosure, particularly in terms of adherence to standards similar to listed companies. However, there are opportunities to enhance disclosure practices further.

3. Board and Supervisory Board Responsibility and Supervision: While there is general agreement regarding the effectiveness of board and supervisory board roles, there are areas where improvements are needed, particularly in strengthening supervision responsibilities.

4. Legal Protection for Stakeholder Interests: Respondents recognize legal protections for stakeholder interests, though there's a call to bolster mechanisms safeguarding small and medium-sized shareholders' rights within SOEs.

5. Strategic Management: Respondents agree on the importance of strategic management, especially in terms of ownership strategies. However, there's room for enhancing strategic planning processes within SOEs.

Weaknesses identified in the study primarily revolve around environmental, social, and governance (ESG) issues, indicating a need for greater attention in these areas.

Furthermore, the study highlights the effects of corporate governance on productivity and profitability, emphasizing the importance of robust governance practices in enhancing these metrics.

Overall, while there is optimism regarding the progress of corporate governance in Chinese SOEs, there's recognition of the need for ongoing improvement efforts to address existing challenges and ensure sustained effectiveness.

#### 4. Conclusions

1. Respondents generally concur with the current state of corporate governance in Chinese State-Owned Enterprises (SOEs), indicating a level of satisfaction with existing practices.

2. Despite overall agreement, there are several areas within corporate governance that warrant improvement, including the institutional framework, information disclosure, board responsibilities and supervision, stakeholder protection, and strategic management. Addressing these aspects can enhance governance effectiveness and transparency.

3. Environmental, Social, and Governance (ESG) issues emerge as significant concerns among respondents, underscoring the need for increased focus and action in these areas. Conversely, shareholder relations are perceived as less critical, suggesting potential areas for reevaluation.

4. The productivity and profitability of SOEs remain areas of concern, indicating a continued need for efforts to enhance efficiency and financial performance within these enterprises.

These conclusions highlight the ongoing need for refinement and enhancement of corporate governance practices in Chinese SOEs to ensure sustainable and prosperous operations in the future.

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