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

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Abstract

In 2015, as part of a program to reform China's state-owned enterprises (SOEs), Guiding Opinions were issued requiring SOEs to amend their corporate charters to formalize and elevate the leadership role of the Chinese Communist Party in their corporate governance. We empirically examine the patterns of "party-building" (*dangjian*) charter amendments in the four-year period from 2015-18 to better understand the contours of political conformity in Chinese corporate governance. Consistent with prior theoretical predictions (Milhaupt and Zheng 2015), not all SOEs abided by the *dangjian* policy, and although privately owned enterprises (POEs) were not subject to the Guiding Opinions, a significant number of POEs, particularly large, politically connected ones, also amended their charters to add party-building provisions.

The model provisions on the party's role in corporate governance circulated pursuant to the Guiding Opinions can be divided into three groups: symbolic, decision-oriented and personnel-oriented. We find wide variation in the pattern of adoptions. SOEs did not uniformly adopt the entire panoply of recommended provisions. In particular, SOEs that cross-list on the Hong Kong Stock Exchange adopted less politically intrusive corporate governance provisions than others. And POEs that amended their charters to include party-building provisions were far more likely to adopt symbolic provisions than decision-oriented and personnel-oriented provisions, suggesting that the amendments were undertaken to signal fealty to the Chinese

Communist Party without changing substantive corporate governance practices.

We conclude by exploring a number of potentially far-reaching implications for Chinese corporate governance raised by our findings.

Keywords: state-owned enterprise, corporate governance, Chinese Communist Party, corporate charter

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INTRODUCTION

A growing literature has documented the distinctive characteristics of Chinese corporations and corporate governance. Lin and Milhaupt (2013) examine the ownership structures of central state-owned enterprises (SOEs) and their linkages to other organs of the Chinese party-state. Milhaupt and Zheng (2015) argue that in the contemporary Chinese political economy, the state exercises less control over SOEs than is commonly assumed due to agency problems,[1] while 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 all large firms in China, 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, 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, in 2015 a "party building" (*dangjian*) policy was introduced. As Lin, Guo, and Chen (2019) note, this was an "event not seen in the Western world: a dominating political party writes itself into corporate charters to step into corporate management." Various high-level party and state organs issued guidelines equating a strengthened role for the party in SOEs with enhanced corporate governance. 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 of the provisions from a corporate governance perspective effectively give the party decision-making rights in the firm senior to those of the board of directors.

[1] Lin, Guo & Chen (2019) assert that agency problems plague most Chinese firms, including those in which the party-state acts as controlling shareholder.

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.[2] Conversely, the Milhaupt and Zheng hypothesis, based on limited party-state power to dictate policy to SOEs, predicts a diverse range of adoptions and non-adoptions among SOEs depending on the degree of actual 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 and 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 as well as POEs.[4] 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 7 percent of listed POEs have amended their charters to include some type of party building provisions. We examine the characteristics of adopting firms, with our results for SOEs indicating that the percentage of state ownership does not affect the prevalence of adoptions, although SOE adoptions are substantively moderated by the presence of large non-state

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[2] Guanyu Zhashi Tuidong Guoyou Qiye Dangjian Gongzuo Yaoqiu Xieru Gongsi Zhangcheng De Tongzhi (关于扎实推动国有企业党建工作要求写入公司章程的通知) [Notice Regarding the Promotion of the Requirements of Incorporation of Party Building Work into the Articles of Associations of State-owned Enterprises] (Promulgated by Org. Dep't CCP & Party Comm. SASAC, March 15, 2017). Document not published, *but see* Ke-jun Guo & Dong-yang Hu, *State-owned Enterprise Party-building into Articles of Association: Analysis of Path and Mechanism*, ZHONGLUN.COM, (Aug. 11, 2017), http://www.zhonglun.com/Content/2017/08-01/1843041618.html (last visited Sep 27, 2019).

[4] Liu and Zhang (2019) examine *dangjian* charter adoptions only among SOEs.

shareholders and dual listings in Hong Kong. Our results for POEs indicate that adoptions are most prevalent among large firms with politically connected directors and CEOs. Revealingly, among adopting firms regardless of ownership, we find wide substantive variation in the provisions adopted, with provisions requiring party personnel appointments within the firm accounting for the largest degree of variation. POEs have largely limited their adoptions to symbolic provisions, suggesting 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 simply signaling fealty to the CCP.

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 25 years, Chinese economic strategists have relied heavily on "corporatization without privatization" to restructure the SOE sector without relinquishing control over the enterprises (Howson 2017). Thus, as Milhaupt (2017) observes, Chinese state capitalism is a distinctive species of *corporate* capitalism. 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 non-state 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 and whether the move to formalize the role of the CCP in corporate governance will complicate China's efforts to present its economy as "market oriented" for the WTO.

Part I 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. Part II sets out research questions and hypotheses. Part III outlines our methodology. Part IV presents our empirical findings. Part V concludes by examining the main implications of our findings and highlighting some of the key questions they raise.

I. SOE OWNERSHIP STRUCTURE AND REFORM

A. *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 (non-state) investors and a measure of market discipline and transparency are 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 hived 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 comprised 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). SASAC was established directly under the Chinese State Council (cabinet) in 2003 in an attempt to consolidate control over all central SOEs. SASAC's 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 SASAC owns a controlling stake in one or more publicly listed operating companies with largely dispersed public (non-state) 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.

SOE business groups also exist at the 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 (non-state) shareholders, with various sub-units 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 SASAC was likely influenced by the Singapore 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), the Singapore strategy is to maximize profits of its SOEs and devote the government's returns to funding its social policies (Milhaupt and Pargendler 2017). SASAC's institutional design is far different. There are no structural firewalls separating SASAC from political institutions; in fact, the opposite strategy of infusing SASAC and the entire state sector with party influence is evident.[5] 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 organizations. Moreover, unlike the Singapore government's arm's-length approach to the management of its SOEs, Chinese SOEs are called upon at times to implement industrial and social policy, diluting their commercial objectives. The principal objective of SASAC and the CCP in this ownership and governance structure appears to be maximizing at the level of the state sector *as a whole* in order to fulfill party-state goals, rather than at the firm level.

B. *SOE Reforms*

Since coming to power in 2013, 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 "party building" (*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

[5] Milhaupt (2017) argues that "party centrality" is a defining characteristic of the Chinese state sector. 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 CCP, and many simultaneously held dual positions within 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.

at a rhetorical level the *dangjian* measures equate increased *party* involvement in SOE governance with improved *corporate* governance. As noted in the Introduction, 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. The Guiding Opinions also endorse the "party cadre management principle" regarding key executives of SOEs. This refers to the standard *nomenklatura* process followed throughout China, whereby the CCP is responsible for making leadership personnel decisions in an organization, a process already followed for senior SOE managers. Thus, although SOEs already have internal party committees and although senior SOE corporate officials already often simultaneously hold important positions in the CCP (Lin and Milhaupt 2013), the Guiding Opinions seek 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 President 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 has 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, SASAC issued a notice announcing a set of model party-building provisions to be used in the SOE charter amendments. The Ministry of Finance later issued guidance with a similar set of model provisions for SOEs in the financial industry. The template consists of ten model provisions, which can be divided into three separate groups: (1) provisions of symbolic import, such as referencing the CCP Constitution in the corporate charter ("symbolic provisions"); (2) provisions concerning the party's decision-making power within the SOE ("decision-making provisions"), and (3) provisions requiring overlapping party and corporate appointments, and party supervision of corporate personnel ("personnel provisions").

II. 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 fully into their corporate governance structures. Yet if, as Milhaupt and Zheng (2015) argue, state ownership does not necessarily equate with state control, 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 even find a public statement by the government suggesting that POEs should follow the *dangjian* policy. But as Milhaupt and Zheng (2015) argue, the line between SOEs and POEs is blurred in China due to a weak rule of law and other political economy factors. Thus, equity ownership alone does not reveal the extent to which a given firm is subject to influence by the party-state. Rather, they argue that 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. All Chinese firms, regardless of "state" or "private" ownership, must remain in the good graces of the party in order to grow and prosper.

Hypothesis 1: Not all SOEs will follow the party-building policy while some POEs will adopt party-building charter provisions. SOEs and POEs will exhibit wide variation in the party-building provisions they adopt.

In particular, SOEs more distant in the ownership chain from their state controllers and SOEs that are cross-listed on a non-mainland stock exchange may be less amenable to amending their charters. SOEs insulated from the government by layers of corporate ownership may enjoy greater *de facto* independence from the party-state (Fan, Wong, and Zhang 2013). 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 corporate governance by cross-listing their shares in a foreign jurisdiction (Coffee 1998). Cross-listing 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 2: SOEs that are lower in the ownership chain and SOEs that have cross-listed their shares in Hong Kong are less likely to adopt party-building provisions than other SOEs.

Political connections are important to 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 have documented the link between political connection and the likelihood of listing shares on Chinese stock exchanges through 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 3: Large, politically connected POEs are more likely to adopt party-building provisions than other POEs.

Hypothesis 4: SOEs subject to heightened market pressure (SOEs cross-listed in Hong Kong) and POEs are less likely to adopt the more substantive and intrusive corporate governance provisions.

III. METHODOLOGY

A. *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 3,537 A-share listed Chinese companies. [6] We obtained disclosure documents from CNINFO (http://www.cninfo.com.cn), a search engine and database designated by the China Securities Regulatory Commission (CSRC) as the official information disclosure website 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 adoption. During the four-year period, 1,046 non-financial A-share listed firms formally wrote party organizations into their articles.

B. *Hand-coding Charter Provisions*

We manually collected and hand-coded corporate charter provisions relating to party-building according to the model provisions published by SASAC on January 7, 2017. The SASAC model provisions serve as a guiding example for all central SOEs and local SOEs. Each supervising SASAC 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 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 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 start by analyzing the model provisions and distinguish ten major provisions as the basis for coding. We then read the corporate charter of each adopting firm and coded each

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

provision as one if the firm adopted it and zero otherwise.

C. *Principle Component Analysis*

One approach to evaluating variation in adoptions among firms would entail creating an index by adding up the number of provisions adopted by each firm. However, the index approach would fail to capture the degree of intrusion of the party into a firm's corporate governance because the provisions are not substantively equivalent: some are purely symbolic while others involve various forms of actual involvement of the party in the management and decisionmaking organs of a firm. To more effectively gauge variations in adoption and further explore whether there are clusters of provisions where firms responded differently, we use principle component analysis (PCA) to group the provisions by content and determine which groups account most heavily for the variation.

D. *Regression Models*

First, we attempt to understand the characteristics of adopting SOEs and POEs. To do so, we run a logit regression on the adoption dummy, which we coded as one if a firm adopted party-building provisions and zero otherwise. Second, beyond the basic adoption decision, we are interested in knowing the degree of concession to the CCP among adopting firms and the determinants of variation in party involvement in corporate governance among adopting firms. To this end, we run an OLS regression on the first principle component, which captures the most variation in provision adoption.

Instead of pooling all firms together, 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. POEs are not the subject of the party-building initiative and have no legal obligation to make any changes to their articles of association. We also include other factors that might be expected to influence a firm's concession to party influence in both the logit and OLS regressions. We estimate the following four regression models:

$$Adoption_{SOE} = \alpha + \beta_1 State\ Share + \beta_2 Top2{\sim}10 + \beta_3 Separation + \beta_4 H\ Share + \beta_5 Size + \beta_6 RegInd + \beta_7 Leverage + \beta_8 ROA + fixed\ effects + \varepsilon \quad (1)$$

$$Adoption_{POE} = \alpha + \beta_1 State\ Share + \beta_2 Political\ Connection + \beta_3 H\ Share + \beta_4 Size + \beta_5 Leverage + \beta_6 ROA + fixed\ effects + \varepsilon \quad (2)$$

$$Principal\ Component_{SOE} = \alpha + \beta_1 State\ Share + \beta_2 Top2{\sim}10 + \beta_3 Separation + \beta_4 H\ Share + \beta_5 Size + \beta_6 RegInd + \beta_7 Leverage + \beta_8 ROA + fixed\ effects + \varepsilon \quad (3)$$

$$Principal\ Component_{POE} = \alpha + \beta_1 State\ Share + \beta_2 Political\ Connection + \beta_3 H\ Share + \beta_4 Size + \beta_5 Leverage + \beta_6 ROA + fixed\ effects + \varepsilon \quad (4)$$

State shareholding is expected to have an effect on adoption because a charter amendment requires a two-thirds supermajority vote at the shareholders general meeting.[7] **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*). While the state share percentage is important, a firm is less likely to adopt party-building provisions if there is a group of substantial external shareholders who serve as a counterbalance to the state or controlling shareholder. **Shareholding of Top 2-10 sh** represents the sum of shareholding percentages of the second largest shareholder to the tenth largest shareholder.

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

Following our second hypothesis, we use **Separation** to represent the ownership hierarchy of SOEs and **H Share** to proxy for foreign ownership. **Separation** denotes the difference between cash-flow rights and control rights of the ultimate controlling shareholder. The larger the **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. **H Share** is coded as one if a firm cross-lists its shares on the Hong Kong Stock Exchange and zero otherwise. We expect that H-share listed firms are less likely to adopt party-building provisions under the bonding theory and due to expected opposition from foreign shareholders.

Our third hypothesis is that some POEs, particularly large, politically connected ones, will adopt party-building provisions even though the *dangjian* policy is not directed at the private sector. We use **Firm Size** to measure the size of the firm. **Firm Size** is the log of total assets of a firm at the end of 2016. 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 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 a dummy variable **PC** that is equal to 1 if a firm has at least one politically connected director or CEO, and 0 otherwise. In addition to the dummy variable, we construct a continuous variable **PC%** which denotes the percentage of directors with political connections on the board, excluding independent directors. We also include other financial control variables, such as leverage, return on assets, as well as province and industry fixed effects in the regressions. Table 1 describes the variables and sources of data.

[insert Table 1 here]

IV. Empirical Findings

A. *Summary Statistics*

A total of 1,046 non-financial A-share listed firms (30.35% of the total) amended their corporate charters in response to the party-building reform between January 1, 2015 and December 31, 2018. Table 2 shows that of the adopting firms, 300 are central SOEs, 603 are local SOEs and 143 are POEs.

[insert Table 2 here]

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% of central SOEs and 9.19% of local SOEs still had not adopted party-building provisions three years after the policy was launched. At the same time, almost 6% of POEs voluntarily amended their charters in response to an SOE reform program not even directed at them. Table 3 Panel A provides summary statistics of key variables used in the paper and Panel B reports the industry distribution of adopting and non-adopting firms. The top five adopting industries are hotel and restaurant (77.78%), public utilities (73.54%),), mining (64%), and transportation and postal service (62%). As might be expected, most of these are heavily regulated industries.

[insert Table 3 here]

Figure 1 compares key continuous variables between adopting and non-adopting firms among SOEs and POEs respectively. From the box plot, it is apparent that adopting SOEs have more direct state shareholding, less powerful external shareholders, and are located higher in the ownership pyramid than non-adopting SOEs. This suggests that organizational hierarchy is an important determinant of SOE adoption. Adopting POEs appear to be larger and more politically connected than non-adopting POEs.

[insert Figure 1 here]

Table 4 reports the correlation matrix of selected variables that we use in the subsequent regression analysis.

[insert Table 4 here]

B. *Principal Component Analysis*

To analyze the ten party-building provisions, we perform principal component analysis with Varimax rotation to understand variations in adoption and reduce the dimensionality of relevant provisions. Principal component analysis yielded three principal components with eigenvalue greater than 1 that explained 55% (28%, 14% and 13% respectively) of the total variance. The result of the Kaiser-Meyer-Olkin (KMO) test and Cronbach's alphas suggest that the data are reliable and suitable for factor analysis.[8] Table 5 shows the result.

[insert Table 5 here]

The first principal component is *personnel*, which consists of five higher-loading provisions that allow the CCP to appoint or manage corporate personnel. These five provisions include dual role of chairman and party secretary, party cadre management principle, party discipline inspection committee, dual appointment of top executives in

[8] The overall result of the KMO test is 0.79, suggesting that the sampling is adequate and the data are suitable for factor analysis. Cronbach's alphas, which is a measure of data reliability and internal consistency, for the ten party-building provisions is 0.73, which satisfactorily ranges between 0.65 and 0.8.

corporate and party roles, and full-time deputy party secretary. The second principal component is *symbolic*, which consists of three higher-load provisions: follow the CCP constitution, establish a party committee and provide financial support for party activities. The third is *decision-making*, where the two main provisions are prior consultation with the party committee by the board and prior consultation with the party committee by management. Following the principal component analysis, we organize the model provisions into three groups: personnel, symbolic, and decision-making (Table 6).

[insert Table 6 here]

Table 6 reports the adoption rate of each provision and group by firm type. As expected, the adoption rate of symbolic provisions are the highest, ranging from 0.92 to 0.96 for all adopting firms. The average adoption rates of decision-making provisions and personnel provisions for SOEs are only 0.58 and 0.52, respectively. Among decision-making provisions, SOEs are more amenable to the board's prior consultation procedure (0.74) than to management's prior consultation with the party committee (0.41), signifying reluctance even among SOEs to allow the party to intervene in corporate management. The result underscores the limits to the assumed power of the party-state over SOEs, but it is understandable given that party members may lack the firm-specific knowledge and expertise to make day-to-day management decisions. Regarding personnel provisions, SOEs show resistance to having the chairman simultaneously serve as party secretary (0.34) and having a full-time deputy party secretary (0.27). They are relatively more amenable to party cadre management (0.66), having a discipline committee (0.76) and dual appointment of top executives and representatives in the party committee (0.58). This might be explained by the fact that the latter three provisions reflect longstanding practices adopted by SOEs in the modernization program (Ma, Wang, and Shen 2012, Lin and Milhaupt 2013, Pistor 2012).

Compared to SOE adoptions, POE adoptions are largely symbolic. 92% of adopting POEs have included symbolic provisions in their charter, while only 25% have adopted decision-making provisions and only 16% have adopted personnel provisions. Yet 37% of adopting POEs have 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 POE board independence 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 prior consultation with the party committee (0.14), dual role of chairman and party secretary (0.05) and full-time deputy party secretary (0.03).

[insert Figure 2 here]

Figure 2 presents a graphical image of the adoption rate by firm type. The dots represent the average adoption rate of each provision. The adoption pattern of central and local SOEs appear to be very similar, while POEs show a clear gravitation towards symbolic provisions. Both central and local SOEs show a descending pattern of adoption in the following order: symbolic provisions, decision-making provisions, personnel provisions. By contrast, POEs exhibit a cluster pattern of adoptions, with a large symbolic cluster and a small decision-making/personnel cluster. As predicted, POE adoptions appear to be motivated largely by a desire to signal fealty to the party without altering basic corporate governance arrangements. Nonetheless, some POEs have been willing to grant the party extensive formal roles in their corporate governance.

[insert Figure 3 here]

Next, we examine whether large, politically connected POEs are more likely to adopt party-building provisions than other POEs. We again create graphical images of adoption pattern of large SOEs, large POEs, small SOEs and small POEs in Figure 3. We use log of total assets at 2016 year end to define large SOEs/POEs as those above the 75th percentile and small SOEs/POEs as those below the 25th percentile. Tellingly, large POEs share a similar adoption pattern with SOEs (both large and small) while small POEs cluster toward the symbolic provisions. These patterns are consistent with Milhaupt and Zheng (2015)'s theoretical prediction that large Chinese POEs share more traits in common with SOEs regarding their relationship to the party-state than equity ownership alone would suggest. In Figure 4, we provide images of adoptions among SOEs by first shareholder ownership. The level of state ownership in an SOE does not appear to affect the adoption pattern. Again, the result is consistent with Milhaupt and Zheng (2015) in suggesting that the precise level of the state's equity ownership in a given firm is not particularly informative of the degree of actual state control over the firm.

C. *Regression Analysis*

Table 7 and 8 report logit and OLS regression results, respectively, on SOE adoptions of party-building charter amendments, Tables 9 and 10 report regression results for POE adoptions.

[insert Table 7 here]

The logit regression reports that direct state shareholding is positively correlated with SOE adoption decisions, while shareholding of the top 2-10 shareholders is negatively correlated with adoptions. As expected, direct state shareholding is associated with SOE adoption, while the presence of substantial external shareholders impedes adoption. Consistent with Fan, Wong, and Zhang (2013) and our second hypothesis, separation is negatively correlated with SOE adoptions, suggesting that pyramidal ownership structures enhance the independence of SOEs lower down in the ownership chain. However, contrary to our hypothesis, H share listing firms are not less likely to adopt party-building provisions than SOEs only listed on mainland exchanges. Nevertheless, consistent with our fourth hypothesis, evidence from the OLS regression result in Table 8 suggests that cross-listing (or the presence of foreign shareholders) [9] does discourage the adoption of more intrusive charter provisions that depart from standard corporate governance practices. Table 8 shows a significant negative correlation between H share and the personnel principal component (p<0.01 or p<0.05 in all specifications).

[insert Table 8 here]

Tables 9 and 10 report results for POEs. Consistent with Hypothesis 3, Table 9 shows that politically connected POEs are more likely to adopt party-building provisions, and these firms also tend to be larger than non-adopting POEs, although the result on size is significant only in one specification. Unsurprisingly, direct state shareholding is also associated with POE adoption. As to the variation in provisions adopted by POEs, only direct state shareholding is positively correlated with adoption of more intrusive provisions. The result suggests that while political connections may influence a private firm's decision to signal fealty to the CCP, the level of actual party influence over firm management depends on its shareholding.

[insert Table 9 here]

[insert Table 10 here]

V. Conclusions and Implications

Analysis of recent party-building reforms for SOEs reveals new information about the contours of political conformity in China's corporate sector. Our results paint a picture of considerable variation in the relationship between the party-state and

[9] Complete data on foreign ownership is not available. The H share variable may be a proxy for foreign ownership.

Chinese listed firms, both across and within ownership types. We found that about 90 percent of listed SOEs and nearly 6 percent of listed POEs adopted party-building charter amendments, a mandatory policy for SOEs not intended for application in the private sector. The lack of universal compliance by the state sector and voluntary compliance by a portion of the private sector lend support to the claim that the party-state exercises less control over SOEs and more influence over POEs than a stark SOE/POE dichotomy would suggest. Adoptions by SOEs were less prevalent where the state's ownership in the firm was indirect and where the firm was farther down the ownership chain, suggesting greater political independence at lower levels of Chinese corporate structures. Although SOEs cross-listed in Hong Kong were no less likely to amend their charters than mainland-only listed SOEs, they were less likely to adopt provisions allowing the party to actually intrude into corporate governance, suggesting the impact of capital market discipline. Politically connected POEs were more likely than other POEs to adopt charter amendments, but overall, POE adoptions were predominantly of the symbolic type. Thus, most POE adoptions appear to represent attempts at signaling fealty to the party without actually involving the party in their corporate governance.

Our study highlights the novel intertwining of corporate and political norms in Chinese corporate governance. As Wu (2016) argues, this form of economic actor was simply not contemplated by the global trade regime. For those firms that have adopted the full panoply of recommended amendments, compliance with the corporate charter would appear to require placing political and governmental interests above the interests of shareholders (or other ordinary corporate stakeholders). 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 represents the apotheosis of what Milhaupt and Pargendler (2017) call "policy channeling" – the state's use of business enterprise to accomplish broad social or industrial policy objectives. These SOEs exemplify 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 means by which the party has sought to elevate its role in corporate governance is revealing: it acted 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. 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.[10] This episode is revealing of the extent to which the party is conscious of limits on its influence over listed SOEs. The charter amendment campaign thus highlights the complex terrain the party-state must navigate to achieve policy objectives via corporations it ostensibly controls. At the same time, however, wide variation in the number and type of provisions adopted by SOEs suggests that the state sector took the party-building campaign seriously – otherwise, why not simply mollify senior party-state officials by adopting the entire panoply of amendments circulated by the government?[11]

It remains to be seen whether and how the party will enforce compliance with its party-building program. For example, will it seek to discipline the executives of the ten percent of SOEs that have failed to adopt any charter amendments, or those executives who failed to adopt more substantively important provisions? Will central party authorities replace SOE managers or boards of directors who fail to adequately "consult" with their internal party committees before taking major decisions? Is it even practicable for SASAC or central party authorities to monitor compliance with party interests in the vast SOE sector under its supervision? As these questions suggest, perhaps the most interesting implication of the party-building campaign is the extent to which, 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 significantly constrained in operating within the universal governance norms inherent in the corporate form.

[10] See supra note 7.

[11] Discussions with investors likewise indicated that they are taking the charter amendments seriously.

What are the legal implications of the CCP placing its role in Chinese corporate governance on a more formal foundation? It can hardly be anticipated that the party will allow itself to be held legally accountable to investors for its interventions in corporate governance and decision making. More plausibly, the party will use its standard *nomenklatura* system and internal party discipline procedures to respond to corporate failures. How investors in the public capital markets will react to extra-corporate monitoring and discipline of management remains to be seen. But the governance of public companies would appear to grow considerably more complex when political organs and interests are formally introduced into corporate decisionmaking 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 cross-listed companies to disclose considerably more information about the role of the CCP in internal governance than is currently the norm.[12]

The *dangijian* 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, e.g., Gordon and Milhaupt 2019). Elevating and formalizing the role of the party in Chinese companies should only serve to heighten the concerns of host countries in accepting Chinese investment. Moreover, in U.S. federal court litigation, Chinese SOEs have alternatively asserted their complete commercial orientation and independence from the government or claimed entitlement to foreign sovereign immunity as organs of the Chinese government, depending on which stance is most advantageous in a given dispute. The *dangjian* charter amendments would appear to complicate the argument that adopting firms are entirely commercial enterprises. Similarly, the *dangjian* policy would appear to weaken China's claim to "market economy" status under the WTO.

Apart from the legal considerations, what are the economic implications of the

[12] Greater transparency in this area may be helpful to foreign investors. A recent survey showed 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 (see Asian Corporate Governance Association 2018, 30).

party's attempt to exert more direct influence over Chinese corporate governance? Will the novel corporate governance principles introduced by these charter amendments affect the performance of adopting firms, and by extension, the Chinese economy? Or will party-state elites discover that their demand for political conformity is constrained, not only by agency problems, but also by the demands of the market and the conventional governance principles codified in the Company Law? The answer to these questions will only become apparent over time. What is certain is that China's *dangjian* campaign represents an unprecedented experiment in the alteration of globally accepted corporate governance norms.

Table 1: Variable Descriptions

Variable Name	Description	Source
SOEs	1 if a firm reports state or government agency as its substantial controller (*shiji konzhiren*); 0 otherwise.	WIND
Central SOEs	1 if a firm reports central government as its substantial controller; 0 otherwise.	WIND
Local SOEs	1 if a firm reports provincial level government as its substantial controller; 0 otherwise.	WIND
POEs	1 if a firm is not a SOE; 0 otherwise.	WIND
Adoption Dummy	1 if a firm adopted party-building provisions; 0 otherwise	Coded from shareholders meeting minutes
Personnel Principal Component	The first principal component	Principal Component Analysis
PC	1 if the firm has at least one politically connected director or a politically connected chief executive; 0 otherwise. An individual is politically connected if (s)he had previously attained a certain rank in the government or the party.	Coded from CSMAR
PC%	Number of politically connected directors / Total number of directors. Following prior literature, independent directors are excluded.	Coded from CSMAR
Direct State Shareholding	(State Shares + State-owned Legal Person Shares) / Total Shares	CSMAR
Shareholding of Top 2-10 sh	Sum of shareholding percentage of the second largest to the tenth largest shareholder	CSMAR
Separation	Difference between cash-flow right and control right of ultimate controlling shareholder	CSMAR
Regulated Industry	1 if a firm belongs to the following industry according to CSRC industry classification: natural resources, public utilities, financial industry or real estate industry.	CSMAR
H Share	1 if the firm is also an H-share company; 0 otherwise	WIND
Leverage	Total Liability / Total Assets	CSMAR
ROA	Net Profit / Total Assets	CSMAR
Firm Size	Log of Total Assets	CSMAR

Note: CSMAR stands for the China Stock Market and Accounting Research Database maintained by GTA Education Tech Ltd. WIND stands for the Wind Financial Database maintained by Wind Information.

Table 2: Number of Adopting Firms by Type

	Type of Firms			
	Central SOEs	Local SOEs	POEs	Total
Non-adopting 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

Table 3: Summary Statistics

Panel A provides summary statistics used in the paper. The sources of data are provided in Table 1. All variables are defined in Table 1. Panel B reports the industry distribution of adopting firms and non-adopting firms by percentages of adopting firms. The industry classification follows China Securities Regulatory Commission ("CSRC") industry classification code.

Panel A: Summary Statistics

	N	Mean	Standard Deviation	Min	Max
Adoption Dummy	3446	0.30	0.46	0.00	1.00
Adopting Dummy for SOEs	1006	0.90	0.31	0.00	1.00
Adopting Dummy for POE	2440	0.06	0.24	0.00	1.00
PC	3031	0.52	0.50	0.00	1.00
PC%	3031	0.08	0.14	0.00	1.00
Direct State Shareholding	3030	3.48	11.52	0.00	87.46
Shareholding of Top 2-10 sh	3031	25.04	12.92	1.46	70.40
Separation	2918	5.55	8.07	0.00	53.46
H Share	3446	0.02	0.15	0.00	1.00
Firm Size	3031	22.16	1.34	17.78	28.51
Regulated Industry	3367	0.12	0.33	0.00	1.00
Leverage	3031	0.41	0.21	0.02	1.35
ROA	3031	0.04	0.15	-1.07	7.45

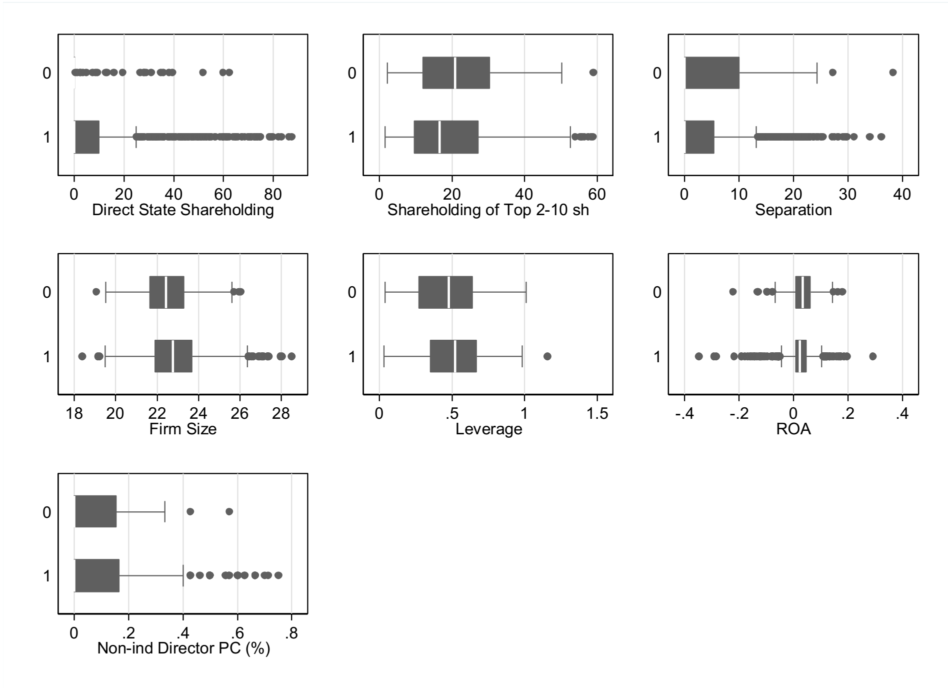
Panel B: Ranking Industry Distribution of Adopting and Non-adopting Firms

	Non-adopting Firms	(%)	Adopting Firms	(%)	Total
Hotel and restaurant	2	(22.22)	7	(77.78)	9
Public utilities	29	(26.36)	81	(73.54)	110
Mining	27	(36.00)	48	(64.00)	75
Transportation and postal service	38	(38.00)	62	(62.00)	100
Diversified	11	(50.00)	11	(50.00)	22
Wholesale and retail	89	(54.27)	75	(45.73)	164
Real estate	72	(57.14)	54	(42.9)	126
Entertainment	33	(57.89)	24	(42.11)	57
Natural resources	24	(60.00)	16	(40.00)	40
Construction	59	(61.46)	37	(38.54)	96
Public facilities	31	(65.96)	16	(34.04)	47
Education	2	(66.67)	1	(33.33)	3
Leasing	38	(74.51)	13	(25.49)	51
Manufacturing	1679	(75.43)	547	(24.57)	2226
Scientific research	37	(77.08)	11	(22.92)	48
Information technology	218	(83.52)	43	(16.48)	261
Resident service	1	(100.00)	0	(0.00)	1
Health and social work	10	(100.00)	0	(0.00)	10
Total	2400	(69.65)	1046	(30.35)	3446

Figure 1: Key Continuous Variables of Adopting Firms and Non-Adopting Firms

This figure reports the box plot of key continuous variables of adopting firms and non-adopting firms. Panel A compares SOE adopting firms with SOE non-adopting firms; while Panel B compares POE adopting firms with POE non-adopting firms. 1 represents adopting firms and 0 represents non-adopting firms. Variable definitions are provided in Table 1.

Panel A: SOEs



Panel B: POEs

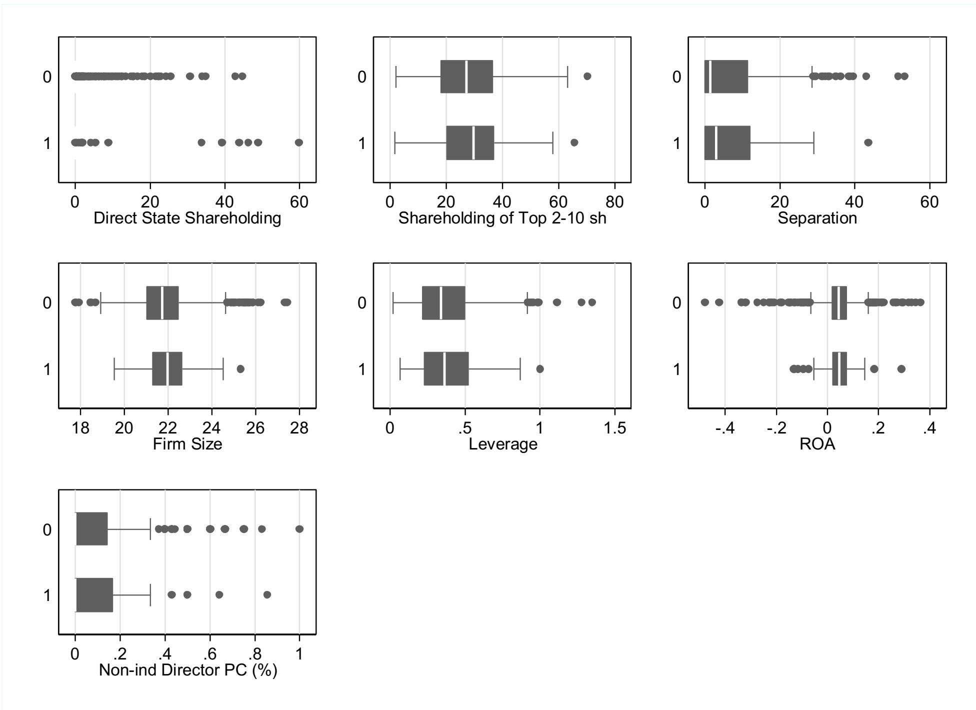


Table 4: Pearson Correlations

		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Adoption Dummy	1												
2	Adopting Dummy for SOEs	1*	1											
3	Adopting Dummy for POEs	1*	.	1										
4	PC	0.09*	0.01	0.08*	1									
5	PC%	0.03	0.03	0.04	0.59*	1								
6	Direct State Shareholding	0.33*	0.08	0.09*	0.02	0.01	1							
7	Shareholding of Top 2-10 sh	-0.26*	-0.08	0.01	0.00	0.01	-0.02	1						
8	Separation	-0.09*	-0.07	0.02	0.01	0.00	-0.06	-0.08*	1					
9	H Share	0.14*	0.01	0.03	0.07*	0.06	-0.01	0.12*	-0.03	1				
10	Firm Size	0.34*	0.07	0.05	0.14*	0.10*	0.14*	-0.13*	0.08*	0.31*	1			
11	Regulated Industry	0.24*	0.04	0.01	0.06	0.05	0.14*	-0.10*	0.01	0.13*	0.32*	1		
12	Leverage	0.28*	0.07	0.02	0.05	0.02	0.08*	-0.20*	0.04	0.12*	0.51*	0.22*	1	
13	ROA	-0.03	0.00	0.01	0.00	0.02	-0.01	0.09*	0.04	-0.03	-0.07*	-0.04	-0.14*	1

* All variables are defined in Table 1. * $p < 0.001$

Table 5: Principal Component Analysis and Matrix of Rotated Correlations

	Component 1 (Personnel)	Component 2 (Symbolic)	Component 3 (Decision-making)
1. Follow Constitution of CCP	0.00	**0.77**	-0.02
2. Establish internal party committee	0.05	**0.48**	0.03
3. Prior consultation with party committee by the board	0.24	0.23	**0.64**
4. Provide financial support for party activities	0.10	**0.74**	0.12
5. Dual role of chairman and party secretary	**0.77**	0.04	-0.07
6. Dual appointment of top executives in the firm and representatives in the party committee	**0.78**	0.05	0.03
7. Prior consultation with party committee by the management	-0.03	-0.02	**0.87**
8. CCP has the power to nominate directors and managers (Party cadre management)	**0.75**	0.00	0.23
9. Establish internal party discipline inspection committee	**0.61**	0.17	0.31
10. Full-time deputy party secretary	**0.75**	0.05	-0.07
% of explained variance	0.28	0.14	0.13

*Varimax rotation and Eigenvalue > 1.

Table 6: Adoption Rate of Party-Building Provisions by Firm Type

Party-Building Provisions	**All Firms**	**SOEs**	**POEs**
Symbolic Provisions	**0.96**	**0.96**	**0.92**
S1: Follow Constitution of CCP	0.99	0.99	0.97
S2: Establish internal party committee	1.00	1.00	0.99
S3: Provide financial support for party activities	0.89	0.90	0.80
Decision-making Provisions	**0.53**	**0.58**	**0.25**
D1: Prior consultation with party committee by the board	0.69	0.74	0.37
D2: Prior consultation with party committee by the management	0.38	0.41	0.14
Personnel Provisions	**0.47**	**0.52**	**0.16**
P1: CCP has the power to nominate directors and managers (Party cadre management)	0.60	0.66	0.23
P2: Establish internal party discipline inspection committee	0.68	0.76	0.22
P3: Dual appointment of top executives in the firm and representatives in the party committee	0.54	0.58	0.26
P4: Dual role of chairman and party secretary	0.30	0.34	0.05
P5: Full-time deputy party secretary	0.24	0.27	0.03
Number of observations	1046	901	145

Figure 2: Provision Adoption by Firm Type (All Firms)

This figure presents a graphical image of variations in provision adoption of all firms by ownership type. The dot represents the mean of each provision. The definition of each provision and firm type are provided in Table 5.

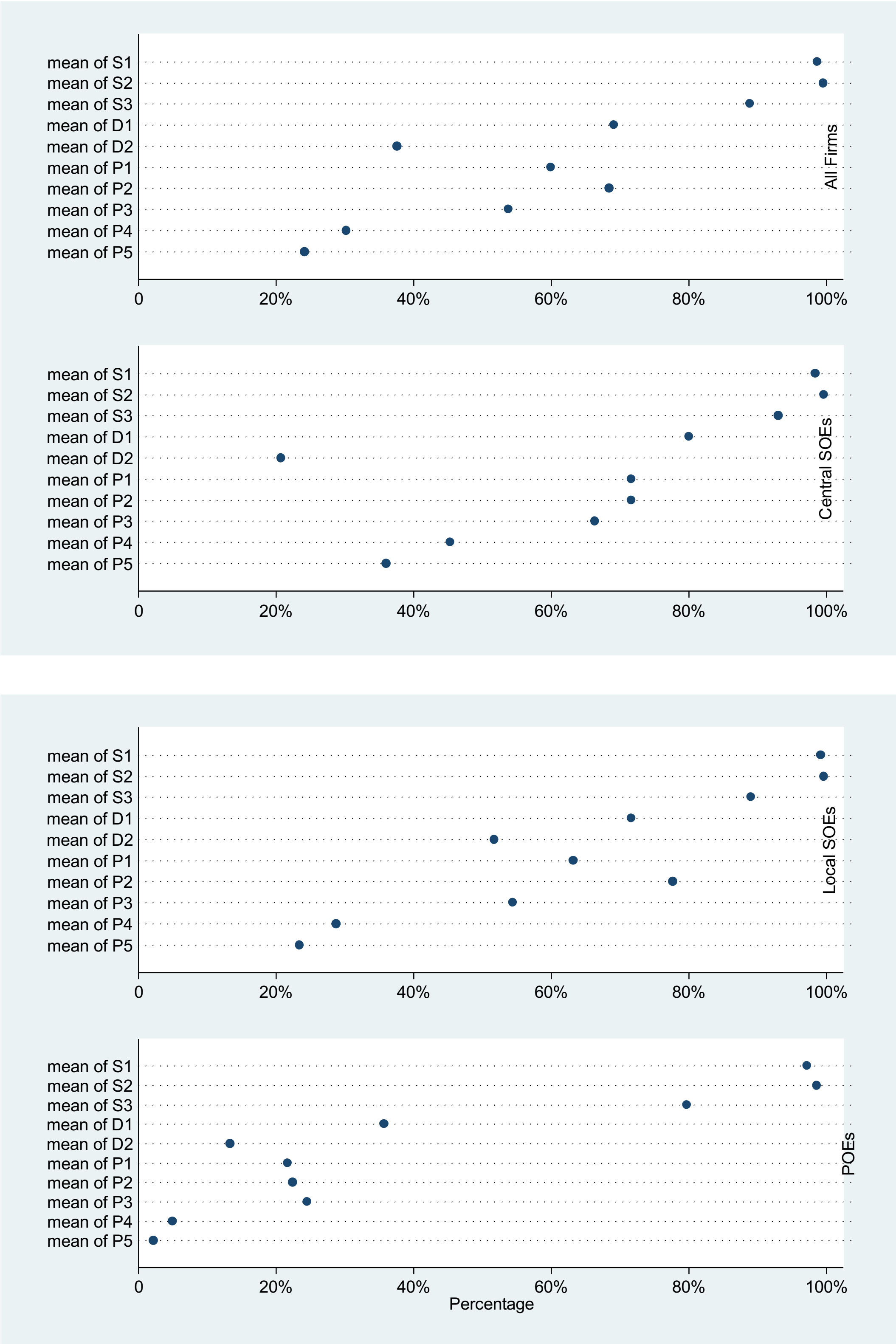
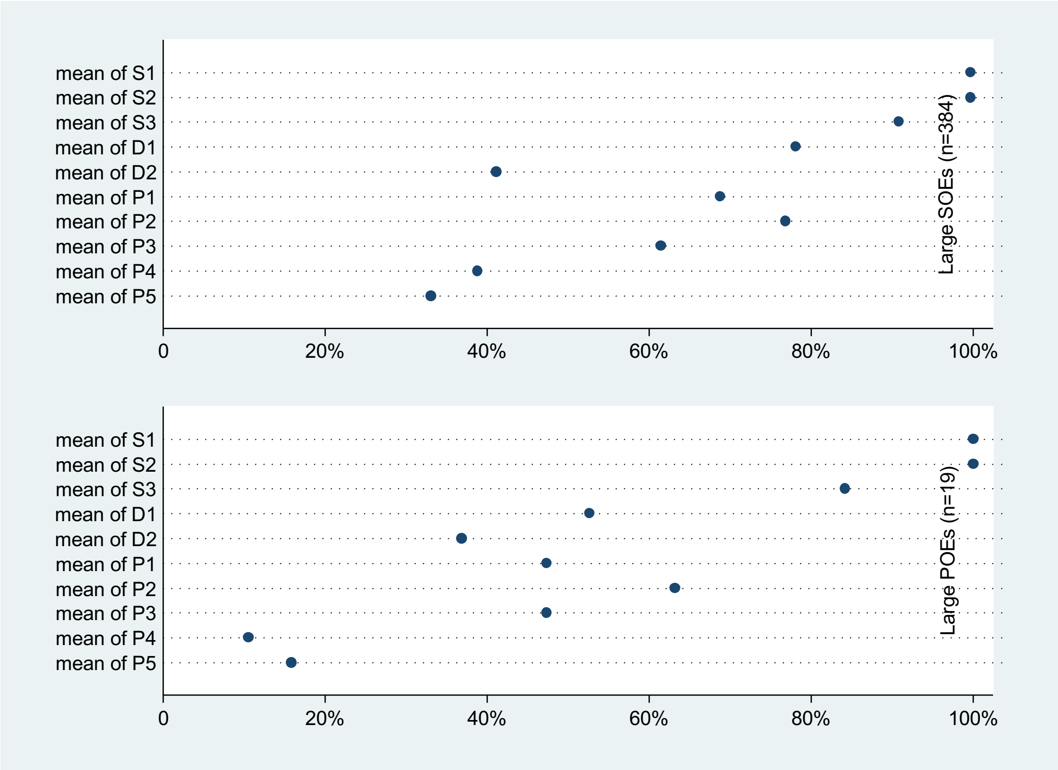


Figure 3: Provision Adoption by Firm Size (All Firms)

This figure presents a graphical image of variations in provision adoption of all firms by firm size. The dot represents the mean of each provision. The definition of each provision is provided in Table 5. Large firms denotes firms that are above the 75th percentile of log of total assets at the end of 2016; small firms denotes firms that are below the 25th percentile of log of total assets at the end of 2016.



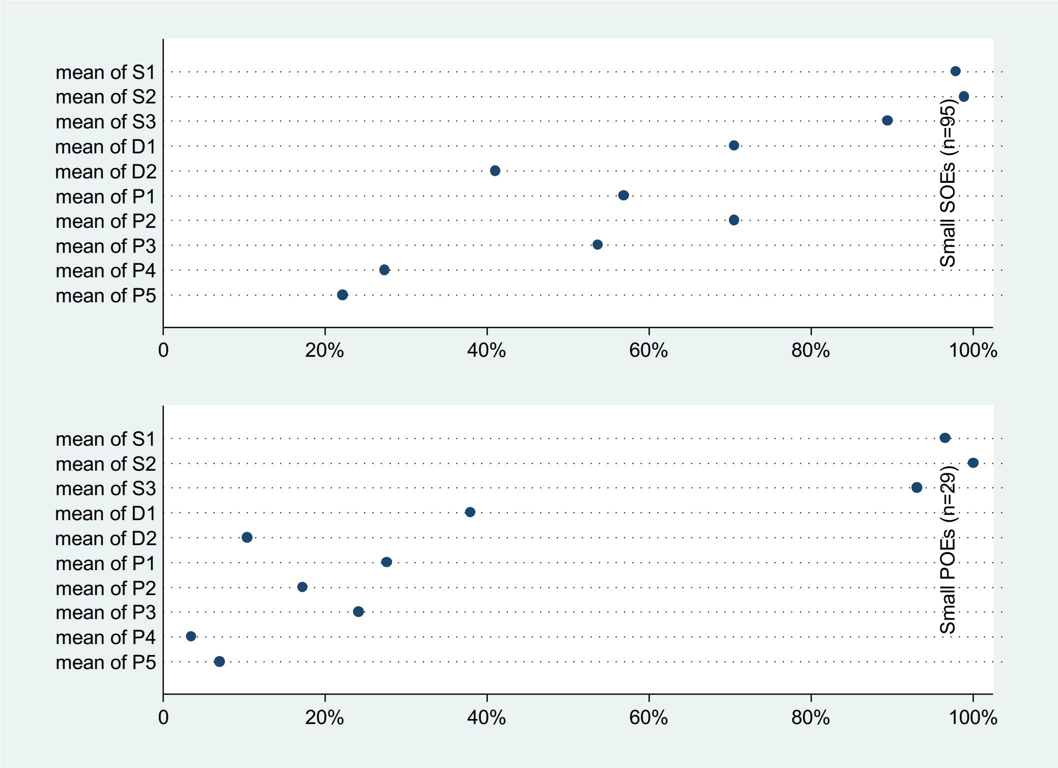


Figure 4: Provision Adoption by First Shareholder Ownership (SOEs)

This figure presents a graphical image of variations in provision adoption among SOEs by first shareholder ownership. The dot represents the mean of each provision. The definition of each provision is provided in Table 5. First Shareholder Ownership is the share percentage of the largest shareholder at the end of 2016 from CSMAR.

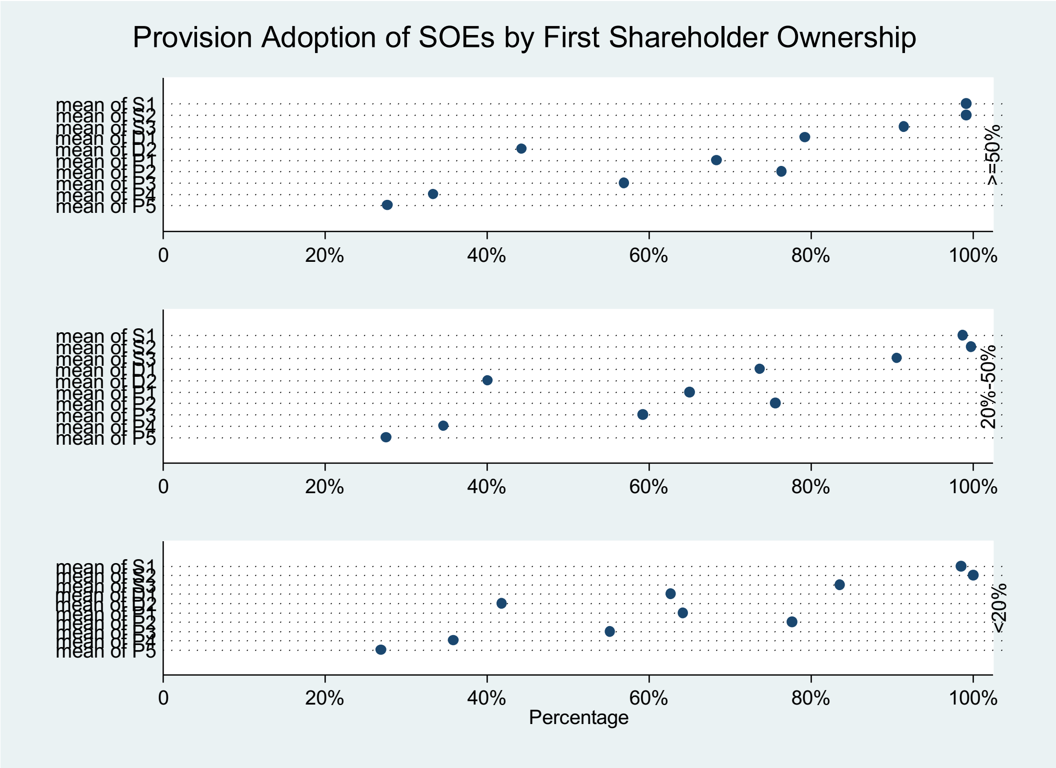


Table 7: Logit Regression on Characteristics of Adopting SOEs

	(1)	(2)	(3)
	Dependent Variable: Adoption Dummy for SOEs		
Direct State Shareholding	**0.027*****	**0.028*****	**0.022****
	(0.009)	(0.010)	(0.009)
Shareholding of Top 2-10 sh	**-0.030*****	**-0.030*****	**-0.024****
	(0.009)	(0.009)	(0.009)
Separation	**-0.031****	**-0.032****	**-0.027***
	(0.014)	(0.014)	(0.014)
Regulated Industry	0.328	0.127	
	(0.277)	(0.298)	
H Share	0.825	0.386	0.018
	(0.532)	(0.582)	(0.563)
Firm Size		0.188	0.169
		(0.121)	(0.118)
Leverage		0.630	0.888
		(0.730)	(0.726)
ROA		-0.886	0.419
		(3.105)	(2.884)
Constant	2.395***	-2.118	-2.225
	(0.376)	(2.578)	(2.566)
Province FE	Yes	Yes	Yes
Industry FE	No	No	Yes
Observations	776	776	824
Pseudo R^2	0.077	0.090	0.096

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Standard errors in parentheses. In all regressions, p-values are based on robust standard errors clustered at the firm-level. All variables are as defined in Table 1.

Table 8: OLS Regression on Determinants of Variations among Adopting SOEs

	(1)	(2)	(3)
	Dependent Variable: Personnel Principal Component		
Direct State Shareholding	-0.002	-0.003	-0.002
	(0.002)	(0.002)	(0.002)
Shareholding of Top 2-10 sh	0.003	0.003	0.002
	(0.003)	(0.003)	(0.003)
Separation	0.002	0.001	0.002
	(0.005)	(0.005)	(0.005)
Regulated Industry	0.052	0.007	
	(0.077)	(0.080)	
H Share	**-0.392****	**-0.511*****	**-0.502*****
	(0.170)	(0.183)	(0.177)
Firm Size		0.055	0.062*
		(0.034)	(0.033)
Leverage		0.051	-0.039
		(0.198)	(0.204)
ROA		0.047	0.029
		(0.049)	(0.046)
Constant	0.062	-1.228*	-1.408*
	(0.117)	(0.726)	(0.721)
Province FE	Yes	Yes	Yes
Industry FE	No	No	Yes
R^2	0.087	0.092	0.122
Adjusted R^2	0.047	0.049	0.067

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Varimax rotation and standard errors in parentheses. In all regressions, p-values are based on robust standard errors clustered at the firm-level. All variables are as defined in Table 1.

Table 9: Logit Regression on Characteristics of Adopting POEs

	(1)	(2)	(3)	(4)
	Dependent Variable: Adoption Dummy for POEs			
PC	**0.668*****	**0.694*****		
	(0.197)	(0.211)		
PC%			**1.175****	**1.099***
			(0.580)	(0.635)
Direct State Shareholding		**0.073*****		**0.069*****
		(0.013)		(0.012)
H Share		1.007		1.053
		(0.946)		(0.933)
Firm Size		0.143		**0.164***
		(0.097)		(0.097)
Leverage		-0.039		-0.092
		(0.631)		(0.631)
ROA		0.474		0.138
		(1.929)		(1.889)
Constant	-3.162***	-8.731***	-2.892***	-8.805***
	(0.156)	(2.441)	(0.110)	(2.424)
Province FE	No	Yes	No	Yes
Industry FE	No	Yes	No	Yes
Observations	2043	1769	2054	1778
Pseudo R^2	0.013	0.149	0.004	0.139

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Standard errors in parentheses. In all regressions, p-values are based on robust standard errors clustered at the firm-level. All variables are as defined in Table 1.

Table 10: OLS Regression on Determinants of Variations among Adopting POEs

	(1)	(2)	(3)	(4)
	Dependent Variable: Personnel Principal Component			
PC	0.122	0.066		
	(0.126)	(0.122)		
PC%			-0.411	**-0.735***
			(0.291)	(0.401)
Direct State Shareholding		**0.014***		**0.014****
		(0.008)		(0.006)
H Share		-0.180		-0.026
		(0.243)		(0.244)
Firm Size		-0.039		-0.004
		(0.075)		(0.070)
Leverage		0.466		0.353
		(0.486)		(0.473)
ROA		1.603		1.429
		(1.150)		(1.213)
Constant	-0.851***	-0.657	-0.736***	-1.402
	(0.095)	(1.508)	(0.074)	(1.410)
Province FE	No	Yes	No	Yes
Industry FE	No	Yes	No	Yes
Observations	118	118	119	119
R^2	0.007	0.583	0.008	0.601
Adjusted R^2	-0.001	0.405	-0.001	0.433

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.Varimax rotation and standard errors in parentheses. In all regressions, p-values are based on robust standard errors clustered at the firm-level. All variables are as defined in Table 1.

Reference

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