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

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Keywords: Corporate Governance, State Capitalism, State-owned Enterprises

JEL Classifications: G3, P1

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1 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] and span-of-control limitations. 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, 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. As Lin, Guo, and Chen (2019) note, this was a "situation never seen in the Western world: a dominant political party inserting itself into corporate charters to intervene in 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 provisions from a corporate governance perspective effectively give the party decision-making rights in the firm senior to those

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

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.[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.[3] 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 have amended their charters to include some type of party building provisions in the four-year period from 2015 through 2018. To be sure, an SOE/POE adoption rate of 90/6 percent does

[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 and 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).

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

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, as well as market constraints on such influence. We examine the characteristics of adopting firms, with our results for SOEs indicating that while the percentage of state ownership does not affect the prevalence of adoptions, 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 CEOs. 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 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). 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 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. Section 5 presents our empirical findings. Section 6 concludes.

2 SOE 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 (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.[4] 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.

2.2 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

[4] 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.

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 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").

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 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.[5] 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

[5] In late December 2019, the Central Committee of the CCP and the State Council for the first time issued an opinion calling upon 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.

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, 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. 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 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, have large external shareholders, or have cross-listed their shares on Hong Kong or foreign stock exchanges 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 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 3: Politically connected POEs are more likely to adopt party-building

provisions than non-politically connected POEs, and more likely to adopt intrusive substantive provisions than other adopting POEs.

While all SOEs are politically connected, some SOEs are exposed to countervailing capital market forces that might limit their ability to significantly alter standard corporate governance practices in response to the *dangjian* policy.

Hypothesis 4: SOEs subject to heightened market pressure (SOEs cross-listed on Hong Kong or foreign stock exchanges) are less likely to adopt the most intrusive corporate governance provisions than other SOEs.

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 non-financial 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 (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 amendment and the charter provisions adopted. During the four-year period, 1,046 non-financial A-share listed firms formally wrote party organizations into their articles.

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

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 SASAC on January 7, 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 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 began by analyzing the model provisions and distinguishing ten 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 ten model provisions are listed in Appendix A. As is readily apparent, 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 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 supervise corporate personnel. The *symbolic* group consists of three provisions that formalize the pre-existing internal party committee and express allegiance to the CCP. The *decision-making* group consists

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

of two provisions that provide channels for CCP involvement in material business decisions: prior consultation by the board of directors or management, respectively, 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 Appendix A, 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 coded as one if a firm adopted party-building provisions and zero otherwise. 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. As previously noted, we could not even find a suggestion by the government or CCP that POEs should follow the party-building policy during the period relevant to our analysis. We also include other factors that might be expected to influence a firm's concession to party influence in the regressions. To test Hypothesis 2 and 3, we estimate the following logit regression specifications:

$$Adoption_{SOE} = \alpha + \beta_1 State\ Share + \beta_2 Top2{\sim}10 + \beta_3 Separation + \beta_4 RegInd + \beta_5 Cross\ Listing + X_{it} + \varepsilon_i \quad (1)$$

$$Adoption_{POE} = \alpha + \beta_1 Political\ Connection + \beta_2 State\ Share + \beta_3 RegInd + \beta_4 Cross\ Listing + \beta_4 Size + X_{it} + \varepsilon_i \quad (2)$$

where Adoption is a dummy variable which equals one if a firm amended its corporate charter to include party-building provisions and zero otherwise. X_{it} indicates common controls on firm age and financial characteristics, such as total assets, leverage ratio, return on assets, book-to-market ratio, etc. 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 control variables X_{it} used in the regression is provided in Table 1. Following 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 Chinese Company Law requires a two-thirds supermajority vote at the shareholders meeting in order to pass a charter amendment.[8] Thus, firms with higher levels of state ownership could be expected to adopt an amendment sooner than other firms because they have less concern about objections from non-state shareholders. *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 party instructions. The *Regulated Industry* variable takes a value of one if a firm belongs to a heavily regulated industry (natural resources, public utilities, mining, transportation and real estate), and zero otherwise (Fan, Wong, and Zhang 2007, 340).

Our second hypothesis postulates that SOEs that are more independent from the party-state due to ownership structure are less likely to adopt party-building provisions. We use *Separation* to represent the ownership hierarchy of SOEs. *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. *Shareholding of Top 2-10 sh* represents the sum of shareholding percentages of the

[8] 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).

second largest shareholder to the tenth largest shareholder. A firm is less likely to adopt party-building provisions if there are large shareholders who serve as a counterbalance to state ownership. Thus, *Shareholding of Top 2-10 sh* is expected to be negatively correlated with adoption. *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 due to expected opposition from foreign shareholders.

Our third hypothesis is 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 coded 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, *Political Connection,* that is equal to one if a firm has at least one politically-connected director or CEO, and zero otherwise.

Beyond the basic adoption decision, we are also interested in knowing the degree of concession to the CCP's *dangjian* policy among adopting SOEs and POEs, respectively, and the determinants of variation in party involvement in their corporate governance. The proxy for degree of party involvement is the aggregate indices of party-building provisions. To test Hypothesis 3 and 4, we run ordinary least squares regressions and estimate the following regression specification:

$$Index_{SOE} = \alpha + \beta_1 State\ Share + \beta_2 Top2{\sim}10 + \beta_3 Separation + \beta_4 RegInd + \beta_5 Cross\ Listing + X_{it} + \varepsilon_i \quad (3)$$

$$Index_{POE} = \alpha + \beta_1 Political\ Connection + \beta_2 State\ Share + \beta_3 RegInd +$$

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

$$\beta_4 Cross\ Listing + \beta_4 Size + X_{it} + \varepsilon_i$$

(4)

where Index is the aggregate index of party-building provisions adopted by each firm. X_{it} indicates common controls on firm age and financial characteristics. Aside from the hand-coded data, we obtain data on other variables from two main databases: the China Stock Market and Accounting Research Database (CSMAR) maintained by GTA Education Tech Ltd and the Wind Financial Database (WIND) 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 end of 2016 data in principle.[10] Table 1 describes the variables and data sources.

[insert Table 1 here]

5 EMPIRICAL FINDINGS

5.1 SOE and POE Adoptions of Party-Building Provisions

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]

Consistent with our first hypothesis, some SOEs did not comply with a mandatory

[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.

policy to amend their corporate charters, while some POEs voluntarily added party-building provisions to their charters. 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. The variation in adoptions within and across firm ownership types support our conjecture that the party-state exercises less control over SOEs and more influence over POEs than is typically assumed. Table 3 Panel A and B compare key variables between adopting and non-adopting firms among SOEs and POEs respectively. The last column shows the difference in mean, t test results for continuous variables, and Pearson Chi2 results for binary variables. 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 and ownership structure are important determinants of SOE adoption. In addition, adopting SOEs are larger, more leveraged, and receive higher market valuations than non-adopting SOEs. Adopting POEs have closer political connections and more direct state shareholding than non-adopting POEs.

Panel C 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, where firm 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%), resident service (0%), information technology (16.48%), scientific research (22.92%) and manufacturing (24.57%).

[insert Table 3 here]

5.2 Variation in Adopted Provisions

Table 4 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% to 96.30% for all adopting firms. By contrast, the average adoption rates of decision-making provisions and personnel provisions for SOEs are much lower – 57.88% and 52.34%, respectively. Among decision-making provisions, SOEs are more amenable to the board's prior consultation with the party committee (74.36%) than to management's prior consultation with the party committee (41.40%), signifying 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. Regarding personnel provisions, SOEs show resistance to the chairman simultaneously serving as party secretary (34.30%) and having a full-time deputy party secretary (27.41%). They are relatively more amenable to party cadre management (65.93%), having a discipline inspection committee (75.80%) and dual appointment of top executives and representatives in the party committee (58.27%). 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).

Compared to SOE adoptions, POE adoptions are largely symbolic. 91.95% of adopting POEs have included symbolic provisions in their charter, while only 25.17% have adopted decision-making provisions and only 15.72% have adopted personnel provisions. Yet 36.55% 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 (13.79%), dual role of chairman and party secretary (4.83%)

and full-time deputy party secretary (3.45%). Consistent with the SOE adoption pattern, 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 firm activities on a daily basis by an in-house party representative. In sum, we observe wide variation in provision adoption even among SOEs.

[insert Table 4 here]

To better understand the adoption pattern among different firm types, we also present graphical images of the adoption rate in Appendix B. The dots represent the average adoption rate of each provision. Figure B1, B2 and B3 present adoption rate by firm type, firm size and first shareholder ownership, respectively. In Figure B1, the adoption pattern of central and local SOEs appears to be very similar, while POEs show a clear gravitation towards symbolic provisions. Figure B2 shows that 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. Lastly, Figure B3 shows that 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.

5.3 Characteristics of Adopting Firms

We have observed the basic characteristics of adopting and non-adopting firms from the descriptive statistics in Table 3. To test Hypotheses 2 and 3, we run logit regressions on the adoption dummy for SOEs and POEs respectively. Table 5 reports logit regression results on SOE adoptions of party-building charter amendments and Table 6 reports results for POE adoptions.

Model (1) of Table 5 reports the result for major explanatory variables. Model (2) adds control variables and Model (3) uses industry fixed effects to replace the *Regulated Industry* variable. All three models show that direct state shareholding has a positive impact on SOE adoption decisions (significant at the 1% and 5% level), while shareholding of the top 2-10 shareholders has a negative impact on adoptions (significant at the 1% and 5% level). As expected, direct state shareholding is associated with SOE adoption. Consistent with our second hypothesis the presence of substantial external shareholders impedes adoption even in SOEs. Similarly, consistent with our second hypothesis, separation is negatively correlated with SOE adoptions (significant at the 5% and 10% level in two models), suggesting that pyramidal ownership structures creating organizational distance between the firm and the state enhance the independence of SOEs lower down in the ownership chain. However, contrary to our hypothesis, cross-listed firms are no less likely to adopt party-building provisions than SOEs only listed 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 state backing for their global strategies. Therefore, the presence of foreign shareholders resistant to political interference in their corporate governance is heavily outweighed by the need for political conformity.

[insert Table 5 here]

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 third 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 three models, *Political Connection* has a positive impact on the adoption decision among POEs (significant at the 1% level in all three models). In an unreported regression, we use percentage of the board of directors that have political connections as an alternative to our dummy variable and the result still holds (significant at 5% and 10%). Unsurprisingly, direct state shareholding is also positively associated with POE adoption (significant at the 1% level in all three models).

[insert Table 6 here]

5.4 Determinants of Variations in Adopted Provisions

Previous analysis in Table 4 and Appendix B have shown that there is wide variation in the provisions adopted within and across firm types. To test our fourth hypothesis 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 ten provisions while the personnel, symbolic and decision-making indices consist of five, three and two provisions, respectively, as grouped in Table 4. We then run ordinary least squares regressions with controls on all four indices.[11]

Consistent with our fourth hypothesis, cross-listing (or the presence of foreign shareholders)[12] does discourage the adoption of 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 1% in Model (1) and (2)). Central SOEs, however, are more likely to adopt personnel-related provisions (significant at 5% and 1% in Model (1) and (2)), probably because they have always been subject to tight personnel control by the party, so these provisions simply formalize pre-existing practice. For the decision-making index in Model (4), major external shareholders appear to curb the adoption of provisions that would concede decision-making to the party.

[insert Table 7 here]

[11] We also ran ordered logit regressions on Tables 7 and 8, which yielded similar results.
[12] Complete data on foreign ownership is not available. The cross-listing variable may be a proxy for foreign ownership.

Table 8 reports results for POEs. It appears that politically connected POEs are slightly more likely to adopt decision-making provisions but not others (significant at 10% in Model (4)). We again use percentage of the board of directors that have political connections as an alternative in an unreported regression. The positive correlation then disappeared. It is thus probable that while political connections affect POEs' decision to embrace the party-building reform, such connections do not constrain their autonomy in selecting particular provisions for adoption. By contrast, state shareholding still has a strong positive impact on the provisions adopted (significant at 1% and 5 % in three models). 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% level in Models (1) and (2)).

[insert Table 8 here]

6 CONCLUSION

Analysis of recent party-building reforms for SOEs highlights the complexity of political conformity in China's corporate sector. Consistent with our first hypothesis, we found 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 second hypothesis, we found that corporate ownership structure affects the degree of political independence of an SOE, although contrary to our conjecture, cross-listing does not affect an SOE's likelihood of compliance with the policy. Consistent with our third hypothesis, politically connected POEs are more likely than other POEs to adopt charter amendments, although we find that adopting POEs overwhelmingly adopted symbolic rather than substantively meaningful provisions. Consistent with our fourth hypothesis, the substantive content of SOE charter amendments is affected by cross-listing on Hong Kong and foreign stock exchanges, suggesting that political influence is tempered by foreign shareholders or global capital market pressure to follow standard corporate governance practices.

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 only be answered 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 have documented suggests that the state sector took the party-building campaign seriously[13] – 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?[14] 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.[15] Some SOEs undertook multiple rounds of charter amendments in response to negotiations with their SASAC regulator. These actions suggest 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

[13] Discussions with investors in the Chinese A Share market likewise indicated that they are taking the charter amendments seriously.

[14] We examined the charters and other publicly available information for all non-adopting 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 (3/113 followed prior board or management consultation with the party committee and 14/113 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 non-adoption by the SOEs.

[15] See *supra* note 8.

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 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 would appear to grow considerably more complex as political considerations 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 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.[16]

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, 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.

[16] 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).

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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
Political Connection	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
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, mining, transportation services or real estate industry.	CSMAR
Cross Listing	1 if the firm also cross-lists on Hong Kong or foreign stock exchanges; 0 otherwise	WIND
Firm Size	Log of total assets	CSMAR
Firm Age	Number of 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 log return of the latest 250 trading dates	CSMAR
Intangibility	Intangible assets / 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 and B provide summary statistics of the variables used in the paper. The sources of data and definitions of variables are provided in Table 1. Panel C reports the industry distribution of adopting firms and non-adopting firms ranked by percentages of adopting firms. The industry classification follows China Securities Regulatory Commission ("CSRC") industry classification code.

Panel A: Summary Statistics of SOEs

Variables	**Non-adopting SOEs**					**Adopting SOEs**						
	N	Mean	S.D.	Min	Max	N	Mean	S.D.	Min	Max	Diff. in Mean	Pearson Chi-Squared
Direct State Shareholding	105	6.16	15.01	0.00	80.00	901	11.29	20.68	0.00	90.00	-5.127**	
Shareholding of Top 2-10 sh	105	21.87	12.37	2.15	58.98	901	19.34	12.01	1.46	58.74	2.533**	
Separation of Equity and Control	105	5.38	8.58	0.00	38.31	901	4.07	7.38	0.00	36.18	1.310*	
Regulated Industry	105	0.21	0.41	0.00	1.00	901	0.28	0.45	0.00	1.00		2.336
Cross Listing	105	0.07	0.25	0.00	1.00	901	0.06	0.24	0.00	1.00		0.075
Central SOE	105	0.42	0.50	0.00	1.00	901	0.33	0.47	0.00	1.00		3.097*
Firm Size	105	22.58	1.41	19.08	26.05	901	22.87	1.43	18.39	28.51	-0.298**	
Firm Age	105	21.11	5.39	7.00	33.00	901	21.28	5.01	7.00	51.00	-0.170	
Leverage	105	0.46	0.22	0.04	1.01	901	0.50	0.21	0.03	1.16	-0.043**	
ROA	105	0.03	0.06	-0.22	0.18	901	0.04	0.25	-0.68	7.45	-0.003	
Book-to-Market Ratio	105	0.79	0.67	0.03	3.77	901	1.17	1.16	0.02	10.59	-0.373***	
Volatility	104	0.47	0.10	0.23	0.81	893	0.47	0.11	0.15	0.91	0.007	
Intangibility	105	0.04	0.04	0.00	0.20	901	0.06	0.08	0.00	0.84	-0.0163**	

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Panel B: Summary Statistics of POEs

Variables	**Non-adopting POEs**					**Adopting POEs**						
	N	Mean	S.D.	Min	Max	N	Mean	S.D.	Min	Max	Diff. in Mean	Pearson Chi-Squared
Political Connection	1925	0.47	0.50	0.00	1.00	118	0.64	0.48	0.00	1.00		11.888 ***
Direct State Shareholding	2295	0.64	3.06	0.00	44.72	145	2.42	9.71	0.00	59.80	-1.781***	
Regulated Industry	2295	0.07	0.26	0.00	1.00	145	0.06	0.24	0.00	1.00		0.251
Cross Listing	2295	0.01	0.09	0.00	1.00	145	0.01	0.12	0.00	1.00		0.486
Firm Size	2295	21.70	1.15	17.78	27.45	145	21.86	1.09	19.55	25.31	-0.153	
Firm Age	2295	18.15	5.43	3.00	43.00	145	18.59	5.03	7.00	32.00	-0.440	
Leverage	2295	0.36	0.19	0.02	1.35	145	0.36	0.19	0.07	1.00	-0.001	
ROA	2295	0.05	0.06	-1.07	0.38	145	0.05	0.05	-0.13	0.29	-0.0003	
Book-to-Market Ratio	2294	0.46	0.51	0.01	6.92	145	0.46	0.30	0.08	1.97	0.0003	
Volatility	2222	0.52	0.11	0.20	0.94	143	0.49	0.11	0.24	0.77	0.032***	
Intangibility	2295	0.04	0.05	0.00	0.68	145	0.05	0.05	0.00	0.44	-0.009**	

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Panel C: 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

Table 4: Adoption Rate of Party-Building Provisions by Firm Type

Party-Building Provisions	All Firms (%)	SOEs (%)	POEs (%)
Symbolic Provisions	**95.70**	**96.30**	**91.95**
S1: Follow Constitution of CCP	98.66	98.89	97.24
S2: Establish internal party committee	99.52	99.67	98.62
S3: Provide financial support for party activities	88.91	90.34	80.00
Decision-making Provisions	**53.35**	**57.88**	**25.17**
D1: Prior consultation with party committee by the board	69.12	74.36	36.55
D2: Prior consultation with party committee by the management	37.57	41.40	13.79
Personnel Provisions	**47.27**	**52.34**	**15.72**
P1: CCP has the power to nominate directors and managers (Party cadre management)	59.94	65.93	22.76
P2: Establish internal party discipline inspection committee	68.36	75.80	22.07
P3: Dual appointment of top executives in the firm and representatives in the party committee	53.73	58.27	25.52
P4: Dual role of chairman and party secretary	30.21	34.30	4.83
P5: Full-time deputy party secretary	24.09	27.41	3.45
Number of observations	1046	901	145

Table 5: Logit Regression on Characteristics of Adopting SOEs

	(1)	(2)	(3)
	Dependent Variable: Adoption Dummy for SOEs		
Direct State Shareholding	0.020**	0.022***	0.021***
	(0.008)	(0.008)	(0.008)
Shareholding of Top 2-10 sh	-0.024***	-0.025***	-0.022**
	(0.009)	(0.009)	(0.010)
Separation	-0.023	-0.029**	-0.028*
	(0.014)	(0.015)	(0.015)
Regulated Industry	0.334	-0.001	
	(0.265)	(0.290)	
Cross Listing	0.473	-0.168	-0.290
	(0.480)	(0.546)	(0.553)
Central SOE	-0.394	-0.251	-0.153
	(0.259)	(0.269)	(0.283)
Firm Size		-0.037	-0.077
		(0.144)	(0.150)
Firm Age		0.017	0.019
		(0.029)	(0.029)
Leverage		-0.313	-0.117
		(0.706)	(0.733)
ROA		0.404	1.510
		(2.364)	(2.385)
Book-to-Market Ratio		0.729***	0.742***
		(0.238)	(0.238)
Volatility		-0.181	-0.305
		(1.112)	(1.206)
Intangibility		5.497**	4.548**
		(2.214)	(2.100)
Constant	2.267***	2.217	3.072
	(0.346)	(3.591)	(3.792)
Industry FE	N	N	Y
Province FE	Y	Y	Y
Observations	912	905	859
Pseudo R^2	0.082	0.123	0.126

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 6: Logit Regression on Characteristics of Adopting POEs

	(1)	(2)	(3)
	Dependent Variable: Adoption Dummy for POEs		
Political Connection	0.707***	0.663***	0.682***
	(0.203)	(0.208)	(0.213)
Direct State Shareholding	0.077***	0.076***	0.073***
	(0.012)	(0.013)	(0.013)
Regulated Industry	0.035	0.109	
	(0.388)	(0.405)	
Cross Listing	1.446*	1.009	0.778
	(0.859)	(0.870)	(0.959)
Firm Size		0.172	0.189
		(0.119)	(0.121)
Firm Age		0.018	0.021
		(0.019)	(0.019)
Leverage		0.293	0.253
		(0.629)	(0.640)
ROA		-0.557	-0.381
		(1.688)	(1.785)
Book-to-Market Ratio		-0.506**	-0.451
		(0.232)	(0.283)
Volatility		-2.248**	-1.968**
		(0.977)	(0.969)
Intangibility		2.904**	1.711
		(1.427)	(1.658)
Constant	-4.858***	-7.669***	-9.022***
	(0.834)	(2.771)	(3.026)
Industry FE	N	N	Y
Province FE	Y	Y	Y
Observations	1852	1850	1768
Pseudo R^2	0.133	0.149	0.157

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 7: OLS Regression on Determinants of Variations among Adopting SOEs

	(1)	(2)	(3)	(4)
	Total Index	Personnel Index	Symbolic Index	Decision-making Index
Direct State Shareholding	-0.003	-0.003	-0.000	-0.000
	(0.003)	(0.003)	(0.001)	(0.001)
Shareholding of Top 2-10 sh	-0.000	0.005	0.001	-0.007***
	(0.006)	(0.005)	(0.001)	(0.002)
Separation of Equity and Control	0.000	-0.001	0.001	-0.000
	(0.009)	(0.008)	(0.001)	(0.003)
Regulated Industry	0.109	0.110	-0.000	-0.000
	(0.150)	(0.127)	(0.026)	(0.056)
Cross Listing	-1.191***	-0.917***	-0.122**	-0.153
	(0.385)	(0.309)	(0.057)	(0.120)
Central SOE	0.348**	0.526***	0.038	-0.217***
	(0.164)	(0.143)	(0.028)	(0.054)
Firm Size	0.123	0.057	0.032**	0.033
	(0.079)	(0.067)	(0.015)	(0.028)
Firm Age	0.005	0.006	0.002	-0.002
	(0.014)	(0.012)	(0.002)	(0.005)
Leverage	-0.360	-0.252	-0.012	-0.096
	(0.417)	(0.351)	(0.070)	(0.149)
ROA	0.091	0.105	0.004	-0.018
	(0.100)	(0.091)	(0.012)	(0.031)
Book-to-Market Ratio	0.122	0.159**	-0.021	-0.016
	(0.086)	(0.070)	(0.016)	(0.036)
Volatility	0.426	0.459	0.115	-0.148
	(0.710)	(0.601)	(0.123)	(0.261)
Intangibility	-0.087	-0.366	0.167	0.111
	(0.903)	(0.606)	(0.153)	(0.356)
Constant	3.292*	0.583	2.025***	0.684
	(1.940)	(1.627)	(0.384)	(0.706)
Industry FE	N	N	N	N
Province FE	Y	Y	Y	Y
Observations	893	893	893	893
R^2	0.124	0.121	0.057	0.131

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 POEs

	(1) Total Index	(2) Personnel Index	(3) Symbolic Index	(4) Decision-making Index
Political Connection	0.507	0.173	0.102	0.233*
	(0.328)	(0.217)	(0.107)	(0.130)
Direct State Shareholding	0.056***	0.041***	0.006**	0.009
	(0.014)	(0.008)	(0.002)	(0.006)
Regulated Industry	0.128	0.010	-0.022	0.140
	(0.509)	(0.368)	(0.172)	(0.229)
Cross Listing	-0.063	-0.388	-0.195	0.520
	(1.594)	(0.495)	(0.487)	(0.808)
Firm Size	0.219	0.246	-0.116*	0.089
	(0.248)	(0.160)	(0.065)	(0.099)
Firm Age	0.024	0.043**	-0.022**	0.003
	(0.030)	(0.017)	(0.011)	(0.013)
Leverage	0.691	0.802	-0.107	-0.004
	(1.029)	(0.737)	(0.349)	(0.462)
ROA	4.761*	3.019*	0.467	1.275
	(2.563)	(1.736)	(0.748)	(1.118)
Book-to-Market Ratio	0.140	-0.491	0.508**	0.123
	(0.778)	(0.610)	(0.214)	(0.332)
Volatility	2.992**	1.671**	0.088	1.233**
	(1.377)	(0.827)	(0.539)	(0.583)
Intangibility	4.288*	6.065***	-0.106	-1.671*
	(2.488)	(1.842)	(0.871)	(1.007)
Constant	-3.830	-6.935**	5.393***	-2.289
	(5.439)	(3.485)	(1.422)	(2.184)
Industry FE	N	N	N	N
Province FE	N	N	N	N
Observations	118	118	118	118
R^2	0.225	0.284	0.084	0.134

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.

Appendix A: Principal Component Analysis and Matrix of Rotated Correlations

To confirm the basic intuition that the ten different party-building amendments can be clustered into three principal substantive groups (relating to personnel matters, symbolic provisions, and decision-making protocols, respectively), we performed principal component analysis (PCA), following standard methodology. PCA transforms the variables in a data set into principal components, which retain most of the variation present in all of the original variables (Jolliffe 2002, 1). PCA analysis with Varimax rotation yielded three principal components with eigenvalue greater than 1 that explained 55% (28%, 14% and 13% respectively) of the total variance in rates of adoption. Additional reliability and suitability tests showed that our dataset is suitable for PCA analysis.

	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.

Appendix B: Provision Adoption, in Figures

Figure B1: Provision Adoption by Firm Type

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 is provided in Table 4.

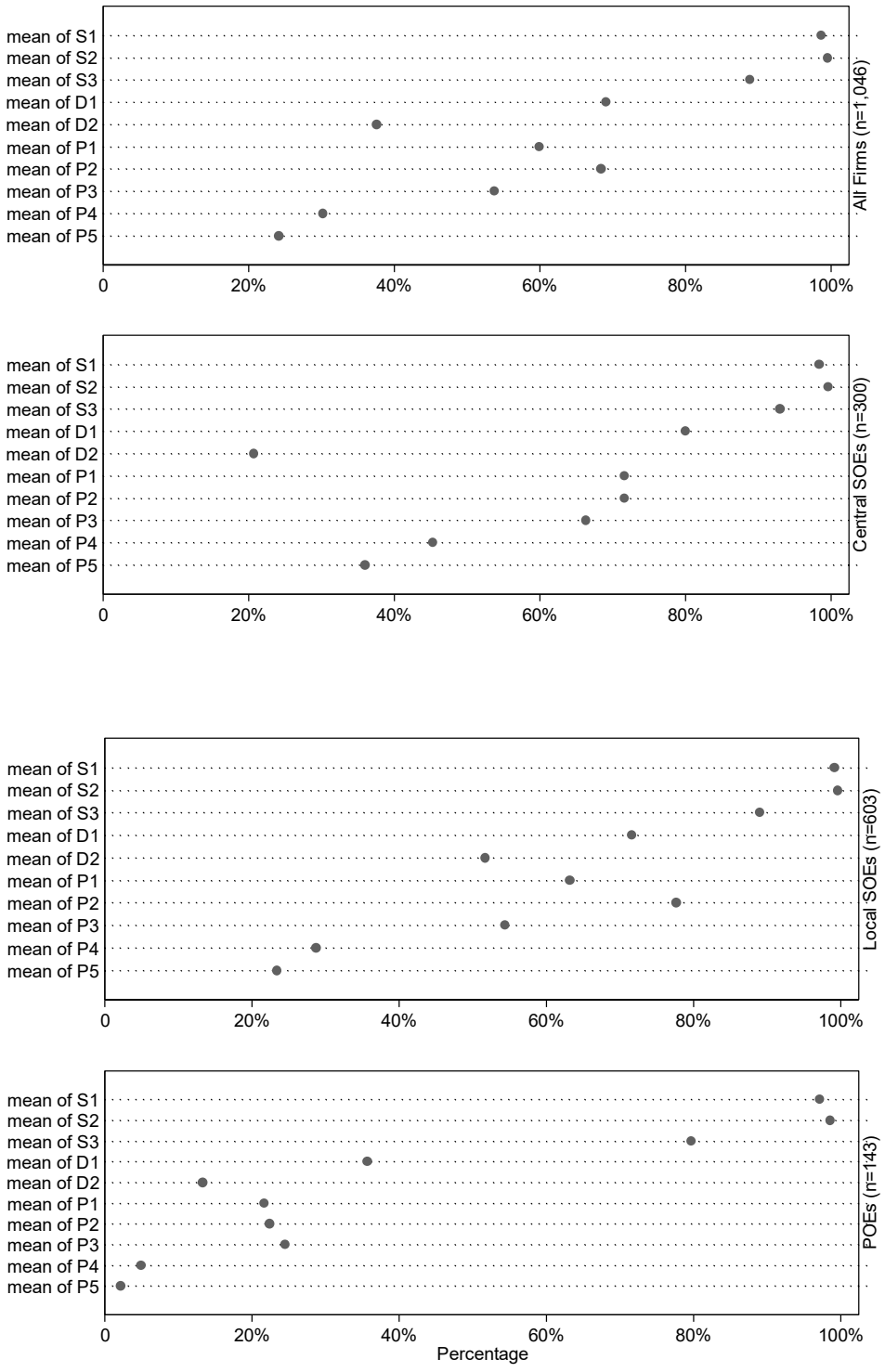


Figure B2: Provision Adoption by Firm Size

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 4. 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.

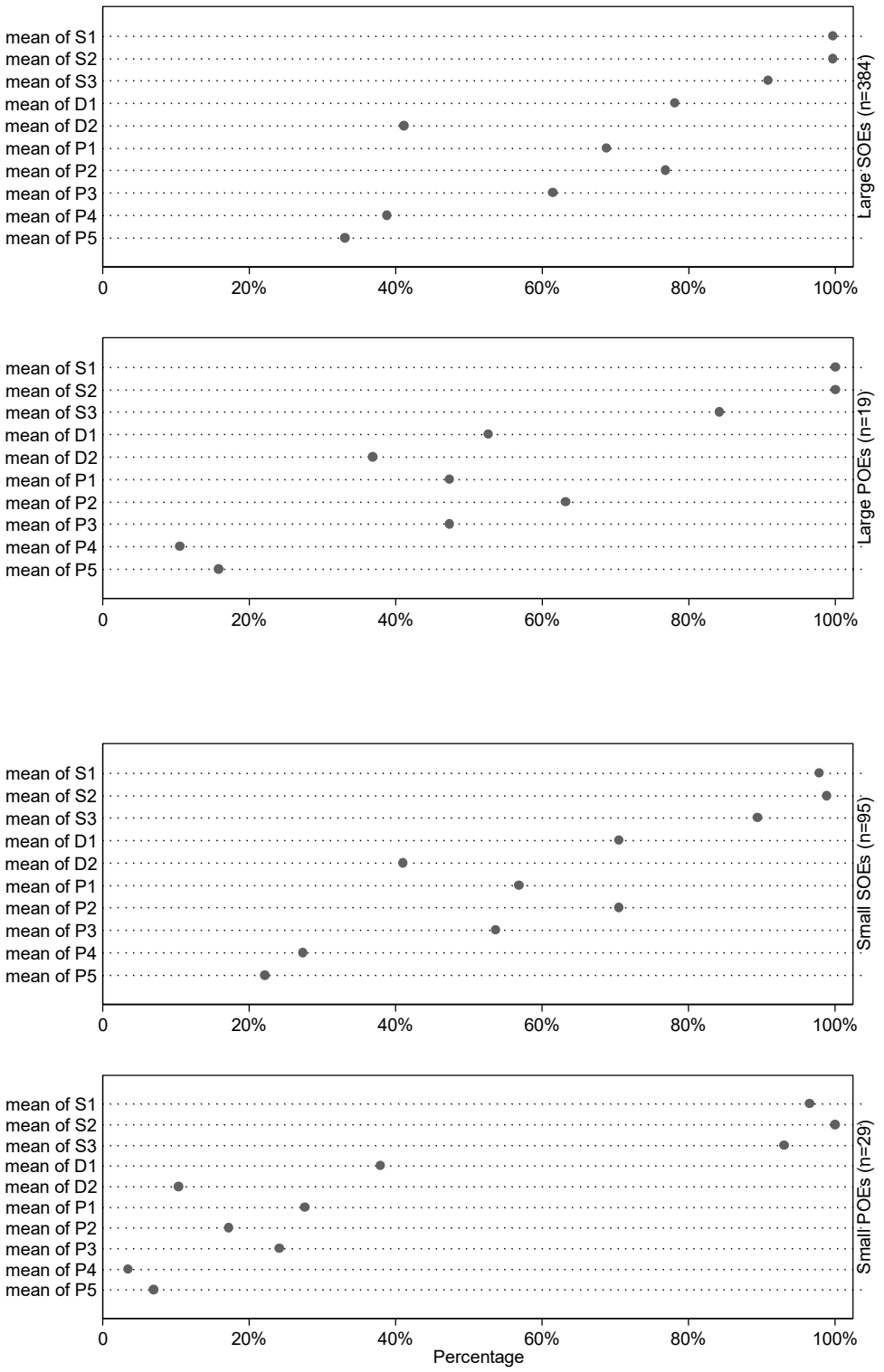
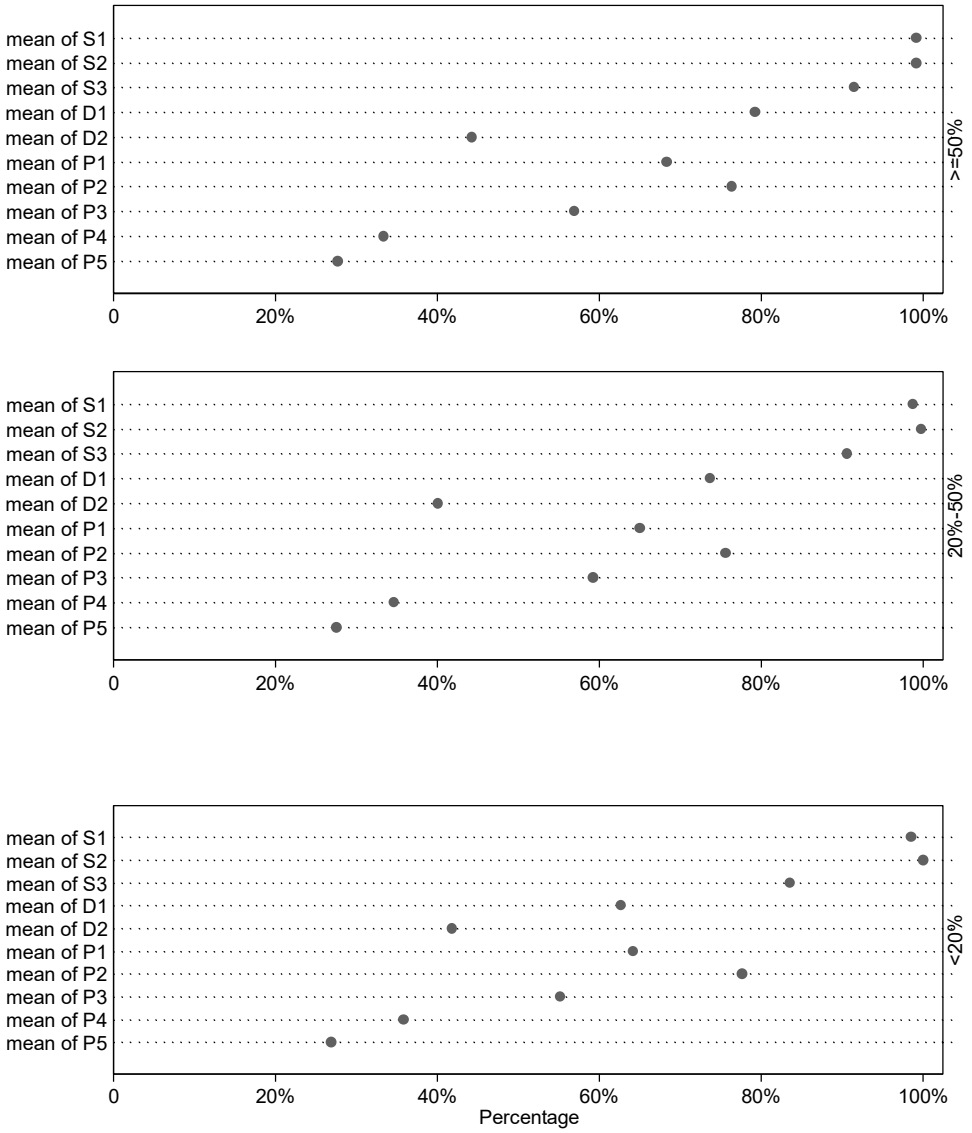


Figure B3: Provision Adoption by First Shareholder Ownership (SOEs)

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 4. First Shareholder Ownership is the share percentage of the largest shareholder at the end of 2016, from the CSMAR database.



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