Stakeholder Engagement and ESG in China

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Keywords: stakeholder engagement, sustainability, ESG, corporate governance

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1. Introduction

Stakeholder engagement is widely regarded as a core mechanism through which Environmental, Social and Governance (ESG) considerations are integrated into corporate governance.[1] At its most basic level, it refers to the institutional or procedural arrangements that allow stakeholders to participate in governance processes and have their interests reflected in corporate decision-making.[2] This understanding is grounded in stakeholder theory, which emerged in Western scholarship in the 1960s and gained prominence by the 1980s,[3] reshaping corporate governance debates in jurisdictions such as the United States (US),[4] the United Kingdom (UK),[5] and the European Union (EU).[6] The theory challenges shareholder primacy by insisting that long-term corporate performance depends on the coordinated contributions of a broader set of actors, i.e. employees, creditors, suppliers, and others whose interests are structurally connected to the firm.[7]

Despite its influence, "stakeholder" remains analytically indeterminate, often used expansively to encompass society. Freeman's power-based taxonomy provides the necessary discipline. By conceptualising power as the capacity to mobilise resources toward desired outcomes across voting, economic, and political dimensions, it yields three broad categories: (1) equity-holding insiders, (2) economically connected transactional parties, and (3) political or social actors asserting public claims.[8] Freeman himself cautions that these categories overlap in practice and that their relative salience is contingent on jurisdiction-specific institutions.[9]

That contingency is nowhere more pronounced than in China, where four stakeholder groups are of central relevance: *(1) shareholders as ownership stakeholders, (2) employees as labour stakeholders, (3) consumers and creditors as economically dependent stakeholders, and (4) government authorities and regulators as political stakeholders.* Existing scholarship has focused heavily on shareholder activism and the role of institutional investors and controlling shareholders with state equity

[1] Attanasio et al. (2022); Nora et al. (2023). In this article, ESG and sustainability are used interchangeably, unless otherwise specified.
[2] Abord-Hugon Nonet et al. (2022); Eccles et al. (2020).
[3] Philiptamplc (2013); Freeman, Harrison and Zyglidopoulos (2018) p 2.
[4] Berle (1931); Dodd (1932); Stout (2012) pp 1-10; Business Roundtable (2019).
[5] Ireland (1999); Williams and Conley (2005); Keay (2007).
[6] Sjåfjell and Richardson (2015) pp 1-34; Principale S (2023) pp 19-35.
[7] Fairfax (2022); Mayer (2021); Donaldson and Preston (1995).
[8] Freeman (2010), p 62.
[9] Ibid, 63-64.

backgrounds.[10] The engagement of employees, consumers, creditors, and regulators acting outside direct command mechanisms has attracted far less systematic analysis.

This is a gap that is analytically significant given the scale of China's stakeholder base. Individual investors opened 27.33 million new A-share accounts in 2025, institutional accounts surged 35%,[11] and total A-share market capitalisation reached approximately RMB 168 trillion, making China the world's second-largest equity market.[12] Beyond capital markets, China's 860 million working-age individuals constitute the world's largest labour force,[13] and its consumer market is of comparable magnitude.[14] How participation by these actors is institutionally channelled, and why it matters, remains under-theorised.

Non-shareholder stakeholders, lacking formal voting or proposal rights, are conventionally treated as peripheral to corporate governance.[15] Regulatory authorities, meanwhile, are typically analysed through the lens of state capitalism, whose defining feature is command-and-control rather than interactive engagement.[16] On this view, even emerging forms of shareholder activism in China are fundamentally state-driven and qualitatively distinct from market-oriented models in the US and UK.[17]

The prevailing narrative leaves significant aspects of China's evolving ESG governance unexplained, and understates the analytical significance of recent developments. The 2023 *Company Law* has reinforced engagement opportunities for non-shareholder stakeholders.[18] Digital communication technologies have made bottom-up participation increasingly substantive. The state itself has also shifted discernibly from blunt command-and-control toward disclosure mandates, market-compatible incentives, and delegation to quasi-public entities.[19] These shifts make institutional design and legal infrastructure central to understanding China's ESG trajectory,[20] and make China's experience increasingly relevant to global regulatory discourse.

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[10] Chen P (2022); Zhang et al. (2014).
[11] Sun (2026).
[12] Pinglian and Wang (2026).
[13] Zou (2025).
[14] CCTV Finance (2025).
[15] Lin and Yu (2016), pp 314–315.
[16] Lin and Milhaupt (2013); Hung (2024).
[17] Szamosszegi and Kyle (2011).
[18] Company Law of the People's Republic of China (People's Republic of China) National People's Congress, 29 December 2023.
[19] Lin and Puchniak (2022).
[20] Wang (2022).

Against this background, this article addresses three questions. *First, what forms of stakeholder engagement currently predominate in Chinese corporate practice. Second, what motivations and structural characteristics underpin them. Third, what institutional conditions determine whether these mechanisms generate substantive governance effects, and in what directions the legal infrastructure should evolve to strengthen them?*

This article argues that China has developed a distinctive model *of state-led stakeholder empowerment*. It is neither a purely normative project nor an extension of hierarchical control. Engagement has grown increasingly pluralistic, yet it remains dominated by regulatory action and shareholder activism mediated through state-sanctioned channels. Unlike the primarily economic logic of the US model or the compliance-and-sustainability orientation of the UK and EU models, the Chinese landscape is fundamentally policy-driven. The model recalibrates power within concentrated ownership structures through several mechanisms: the hardening of legal norms, fiduciary duties imposed on controlling shareholders, mandatory employee directors, and institutionalised collective action via quasi-public bodies such as the China Securities Investor Service Center (CSISC) and the China Climate Engagement Initiative. At the same time, digitally enabled, bottom-up public pressure has emerged as a low-cost supplement to formal enforcement.

Two strands of existing scholarship inform this argument without exhausting it. Zhou, Zhang and Puchniak (2024) have documented the overlooked reality of shareholder activism in China;[21] Lin and Puchniak (2022) have theorised the "policy channelling" function of institutional investors.[22] This article extends their line of inquiry in two respects. First, it broadens the analytical frame beyond shareholders to encompass the full stakeholder spectrum, including employees, consumers, creditors, trade unions, and regulatory actors. Second, it constructs a four-driver framework organised around economic, policy, compliance, and sustainability motivations. This framework accounts for variation in effectiveness across both channels and jurisdictions.

In order to theorise the institutional logic of China's evolving stakeholder governance, the article draws on three sources: First, a dataset of 28 documented shareholder activism cases in China's A-share market (2008-2025), identified through systematic review of regulatory filings, exchange announcements, and contemporaneous media reports (see Appendix 2). Second, semi-structured interviews conducted in 2025 and 2026 with professionals across China's corporate governance ecosystem, cited

[21] Zhou, Zhang, and Puchniak (2024).
[22] Lin and Puchniak (2022).

anonymously and on file with the authors.[23] Third, systematic comparative analysis of stakeholder engagement frameworks in the US, UK, and EU. These three models are chosen as the canonical market-driven, stewardship-led, and regulatory-constitutionalised models respectively (summarised in Appendix 1).

The remainder of this article is structured as follows. Section II explores the principal forms of stakeholder engagement currently observed in China. Section III assesses their driving factors and institutional characteristics. Section IV discusses the strengths and limitations of current engagement strategies and proposes pathways for their future refinement. Section V concludes.

2. Major Stakeholder Engagements in China

The rise of ESG principles in China has catalysed new forms of stakeholder engagement, and some empirical research confirms the relationship between long-term corporate value and these engagements.[24] Although strategies differ across groups, several mechanisms recur. These include share ownership coupled with voting and proposal rights, board representation, labour and trade union channels, public pressure, and regulatory intervention. These channels are not mutually exclusive. A single mechanism may serve multiple groups, and one group may deploy several simultaneously.

2.1 Shareholder Activism

2.1.1 Controlling shareholders and institutional investor activism

Controlling shareholders are the decisive factor in shaping corporate ESG performance in China. Their dominant equity positions give them direct influence over governance structures and strategic direction.[25] Empirical research on private listed companies in the Shanghai and Shenzhen A-share markets from 2009 to 2022 confirms a positive relationship between ownership concentration and ESG performance. This effect is strongest below an optimal threshold of approximately 34.2%. Below that level,

[23] The interview sample comprises thirty individuals across eight professional categories: corporate and securities lawyers at major PRC law firms (eight, including partners and associates advising listed companies and SOEs); independent directors of PRC and Taiwanese listed companies who hold concurrent academic appointments at leading Chinese law and business schools (seven); senior management of overseas subsidiaries of major Chinese state-owned enterprises operating in Singapore, spanning construction, telecommunications, energy, and metallurgy (seven); private equity and venture capital legal and investment professionals (two); a researcher at a SASAC-related think tank (one); commercial banking executives based in Singapore (two); a compliance officer at a major Chinese investment bank's Hong Kong subsidiary (one); an accounting partner at a Big Four firm (one); and an academic economist (one). This composition allows the analysis to triangulate perspectives from legal practice, board-level governance, policy implementation, and the overseas operations of Chinese SOEs.

[24] Zumente and Bistrova (2021); Zhou and Bu (2025); Fang and Guo (2025).

[25] Lim (2024).

concentration facilitates long-term investment and reduces managerial opportunism.[26]

Illustrative cases confirm the dynamic. Under Zijin Mining Group's sustained influence, Zijin International Gold has incorporated carbon neutrality targets into core strategy and achieved 100% renewable electricity at its overseas mining projects.[27] Pingmei Shenma Group has steered Shenma Co. Ltd. to earn the "Climate Change Leadership Award" through a range of initiatives from exhaust gas capture to photovoltaic construction.[28]

Institutional investors constitute a comparatively less powerful but far from negligible force. China's market remains retail-dominated with modest institutional ownership, yet institutional shareholding is positively associated with firm value and performance.[29] One study reports that 87.5% of public funds exercise voting rights versus approximately 50% of private funds, though these figures are indicative given the absence of a standardised data sources or statistical methodology.[30] Institutions have directly challenged management. For example, public funds defeated management's waiver proposal at Shuanghui Development in 2010,[31] and Huali Family's second-largest shareholder blocked all 21 proposals at the 2023 shareholders' meeting.[32]

This formalisation of institutional investor responsibility has been further solidified by the China Asset Management Association's (AMAC) June 2026 *Guidelines for the Application of Sustainable Investment Strategies for Publicly Offered Securities Investment Funds (Trial)*.[33] The *Guidelines* mandate that fund managers applying sustainable strategies must designate specific personnel or research teams to construct ESG indicator systems (Article 4), thereby transitioning institutional green investment from a voluntary marketing tool into a structured compliance operation.

2.1.2 Employee stock ownership as shareholder-based participation

Employee stock ownership (ESOPs) transforms employees into ownership stakeholders, incorporating labour interests through the shareholder channel rather than through direct labour representation. Following the CSRC's 2014 *Guiding Opinions on Piloting ESOPs in Listed Companies*,[34] the framework was extended by SASAC (2016) to

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[26] Li (2024).

[27] JCN News Wire (2025).

[28] Shenma Industrial (2025).

[29] Tong (2018).

[30] Hao and Jia (2022).

[31] Li and Xu (2010).

[32] Li (2023).

[33] Guidelines for the Application of Sustainable Investment Strategies for Publicly Offered Securities Investment Funds (Trial) (People's Republic of China) China Asset Management Association, 12 June 2026.

[34] Guiding Opinions on Piloting ESOPs in Listed Companies (People's Republic of China) China Securities

mixed-ownership SOEs and by the CSRC (2018) for innovative enterprises. By 2023, 911 A-share companies had adopted ESOPs involving over 413,000 participants, with private firms accounting for approximately 85% of cases.[35] Structural forms of ESOPs include: (1) direct individual ownership, which grants voting rights but risks fragmentation;[36] (2) partnership and corporate vehicles, which centralise control while preserving participation; and (3) asset management plans, which remain the most widely used.[37]

2.1.3 State shareholding and representative investor institutions

The state engages through two distinct equity channels. The first is direct controlling ownership of SOEs and state-controlled investment vehicles. The State Council's ultimate control of entities such as the Bank of China (via Central Huijin) permits governance objectives to be pursued through appointment and removal powers without any further regulatory intervention.[38] SASAC has directed PetroChina and Sinopec to adopt comprehensive ESG frameworks. Sinopec's board-level Sustainability Committee[39] and CNPC's 21.7% increase in renewable energy investment in 2024 illustrate the model in operation.[40]

The second channel is CSISC, which operationalises minority-investor rights at scale.[41] Article 95(3) of the 2019 *Securities Law*[42] authorises CSISC to initiate representative litigation on behalf of at least fifty investors,[43] combining public enforcement through CSRC supervision with private enforcement through investor mandates. The Kangmei Pharmaceutical case, China's largest securities class action by both plaintiff count and compensation, secured RMB 24.59 billion for over 50,000 investors in 2021.[44] By

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Regulatory Commission, 20 June 2014.

35 Su (2021).

36 When employees hold shares directly as individuals, each employee becomes a separate shareholder with independent voting rights. However, because these shares are dispersed across a large number of individual employees, no single employee holds a meaningful stake. The resulting fragmentation dilutes collective influence: employees cannot coordinate their votes effectively, and the aggregate governance impact of employee shareholding remains negligible despite the formal entitlement.

37 Equity Investment Forum (2024). An asset management plan is a pooled investment vehicle in which employees contribute funds that are managed collectively by a professional asset manager on their behalf. The asset manager holds the shares in the company and exercises voting rights as a single institutional block, rather than on behalf of individual employees separately.

38 Provisions on Issues concerning the Implementation of the Administrative Measures for Securities and Futures Investment Made in China by Qualified Foreign Institutional Investors and RMB Qualified Foreign Institutional Investors (People's Republic of China) China Securities Regulatory Commission, People's Bank China, State Administration of Foreign Exchange, 25 September 2020, art. 2.

39 Sinopec Group (2024).

40 Yang et al. (2025).

41 Lin (2026).

42 Securities Law of the People's Republic of China (People's Republic of China) National People's Congress, 28 December 2019, art 95(3).

43 CSISC (2021).

44 Chen J (2022); Lin (2026).

February 2023, CSISC had invested in 5,075 listed companies and exercised shareholder rights more than 4,400 times.[45] Since April 2026, pursuant to the reformed independent director framework, CSISC has systematically solicited proxy authorisations to nominate independent directors. As of May 2026, it has secured nominations at 14 listed companies spanning all major boards and 'A+H' issuers, with candidates drawn predominantly from industry, accounting, and governance professionals.[46]

2.2 Board Representation

2.2.1 Employee Directors

Board representation offers stakeholders direct participation in corporate decision-making. The 2023 *Company Law* has made this pathway increasingly significant by strengthening the mandatory reach of employee directors.[47]

Employee directors have been embedded in Chinese company law since 1993, initially confined to wholly state-owned entities. The 2005 amendment extended the system to other limited liability companies and joint-stock companies on a permissive basis.[48] Election of employee directors is required to proceed through democratic means. Permissible procedures include a general assembly of employee representatives, a general meeting of all employees, or equivalent processes.[49]

The decisive shift came with the 2023 *Company Law*. Articles 68 and 120 mandate that limited liability and joint-stock companies with 300 or more employees must have an employee representative on their board, unless a supervisory board already includes one. The mandatory rule now applies to: (1) wholly state-owned companies; and (2) companies with more than 300 employees without a supervisory board. The provision is binding, not discretionary.[50]

The reform's reach is substantially qualified by two structural deficiencies in its doctrinal design that the economic cost-benefit framing alone cannot capture.

The first is the supervisory board substitution loophole. Articles 68 and 120 of the 2023 *Company Law* exempt companies that already maintain a supervisory board including an employee representative from the mandatory employee director requirement. This exception creates a predictable incentive for private enterprises to retain or establish a

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45 Liao (2023).
46 Sina Finance (2026).
47 Huang and Wu (2024).
48 Company Law of the People's Republic of China (People's Republic of China) National People's Congress, 27 October 2005, art 45.
49 Ibid.
50 Min (2025).

nominally compliant supervisory board, populated with a compliant administrative staff member or junior employee, to lawfully exclude employee representatives from the board of directors entirely. The supervisory board is a progressively marginalised institution in Chinese listed company practice, consistently documented as exercising little independent oversight and rarely challenging management decisions.[51] Channelling employee participation through this weakened body rather than the board structurally entrenches the formalism problem. The supervisory board lacks the information access, agenda-setting authority, and decision-making participation that board membership would confer.

The second is an unresolved fiduciary duty conflict. Article 180 imposes on all directors a duty of loyalty and care owed to the company and to the general body of shareholders. Employee directors are formally subject to this same framework. They are directors of the company, not delegates of the workforce. Yet their institutional rationale is precisely to represent labour interests, which may diverge materially from shareholder interests on workforce restructuring, executive remuneration, and sustainability expenditure. The 2023 *Company Law* provides no mechanism for resolving this conflict. Employee directors who advocate for labour interests risk breach of the loyalty duty as conventionally construed. Those who adhere to shareholder-value maximisation betray the representational purpose for which they were elected. The substitution loophole and the Article 180 indeterminacy mean that the 2023 reform risks producing institutional form without institutional function - mandatory in text, discretionary in effect.

2.2.2 Specialised Committees within BOD

Beyond employee directors, board-level influence may also be exercised through specialised committees. Audit committees are mandatory under the *Corporate Governance Code for Listed Companies*.[52] Nomination, remuneration, and audit committees are compulsory for SOEs.[53] A notable recent development is the rapid proliferation of board-level ESG committees: 36 A-share companies established or converted to dedicated ESG committees in 2024, up from only 10 the previous year, predominantly on the main boards.[54] Zijin Mining's nine-member board ESG committee is chaired by the board chair and including three independent directors with environmental or CSR expertise.[55] It illustrates how these bodies institutionalise stakeholder engagement by overseeing supplier, community, and media relations within

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[51] Shi (2020).

[52] Corporate Governance Code for Listed Companies (People's Republic of China) China Securities Regulatory Commission, 16 October 2025, art 44.

[53] Guiding Opinions of the General Office of the State Council on Further Improving the Corporate Governance Structure of State-Owned Enterprises (People's Republic of China) State Council, 3 May 2017, section 2(2).

[54] Gao (2024).

[55] Li et al. (2024).

the governance structure.[56]

Interviews with independent directors who hold concurrent academic appointments, a group well-positioned to observe the operational reality behind formal committee structures, point to a small number of concrete indicators that distinguish substantive ESG committee engagement from nominal compliance.

The first is the timing and framing of committee meetings. Where ESG committees convene only in the weeks immediately preceding the annual report disclosure deadline, and their agenda is confined to reviewing draft disclosure language prepared by the corporate affairs or financial department, deliberation tends to be retrospective and document-focused. Where committees meet on a standing quarterly schedule independent of the disclosure cycle, discussion more often extends to forward-looking matters, such as supplier audit findings, emissions-reduction project proposals, or stakeholder complaints requiring management response.[57]

The second is the committee chair's identity. Where the ESG committee is chaired by the chair of the board or an executive director, its output tends to track management's pre-existing disclosure narrative. Where it is chaired by an independent director with substantive sustainability expertise, committee members are more likely to request additional information or challenge proposed disclosure framing.[58]

The third is the committee's relationship to substantive board decisions. Several interviewees noted that the clearest signal of genuine engagement is whether ESG committee discussions can be traced into subsequent capital expenditure decisions or supplier contract terms.[59] The more common pattern, several observed, is for committee deliberations to feed only into the ESG report itself. On balance, interviewees suggested that the proliferation of ESG committees documented above has outpaced the development of these substantive preconditions, such that formal establishment of an ESG committee remains, at this stage, a more reliable indicator of disclosure compliance than of a shift in underlying governance practice.[60]

2.3 Public Pressure

Consumers and civil society actors lack access to formal governance channels, but digital communication technologies have fundamentally altered the cost structure of non-institutional governance pressure in China. This section analyses public pressure as a mode of *reputational governance*: the disciplining of corporate behaviour through

[56] Jiang (2024).
[57] Interview with lawyers of Hui Ye Law Firm, Singapore, 15 May 2026.
[58] Ibid.
[59] Ibid.
[60] Ibid.

reputational costs rather than the exercise of legal rights.

Reputational governance operates through two channels. The first is direct market discipline. Consumer boycotts reduce revenues and depress stock prices in listed companies, converting reputational damage into financial loss. The second is indirect regulatory conversion. Sustained public attention can trigger regulatory intervention, transforming decentralised consumer action into formal enforcement. One empirical research on China's A-share market (2014-2023) confirms that media scrutiny significantly improves ESG disclosure quality, both directly through reputational pressure and indirectly by reducing financing constraints.[61]

China's institutional context, however, gives reputational governance a distinctive structural feature absent from its Western analogues. In the UK and EU, NGO litigation,[62] investigative journalism, and consumer backlash can close the accountability loop independently.[63] In China, regulatory conversion, the second channel, is far more potent than direct market discipline, and its activation depends on whether the Party-state chooses to amplify or suppress the relevant discourse. The cases below are presented not as exemplars of mature mechanisms but as evidence of an emergent reputational governance infrastructure whose reach is constrained by this political economy.

In 2025, a social media post asking *"Which robot vacuum company treats its employees well? I'll buy that one"* spread virally across platforms.[64] It triggered coordinated boycotts of companies perceived as labour-unfriendly, with users sharing personal accounts and resurfacing historical controversies.[65] This episode illustrates how Chinese consumers, many of whom identify as workers themselves, can mobilise rapidly to discipline corporate conduct through their purchasing decisions.

The Arc'teryx incident offers a more consequential example. On 19 September 2025, fireworks released at 5,500 metres on a Himalayan ridge for a brand event triggered immediate accusations of ecosystem damage.[66] Within two days, Arc'teryx and Cai Guo-Qiang Studio[67] issued a joint apology and pledged ecological remediation, but domestic-overseas discrepancies in the apology letter fuelled further backlash. ANTA Group's stock price fell, wiping over HK$10 billion in market value.[68] The Shigatse

[61] Wei et al, (2025).
[62] Pargendler and Pollman (2026).
[63] MacLennan and De Catelle (2025).
[64] Zao Gua (2024).
[65] Xinze (2025).
[66] Ji (2025).
[67] Cai Guoqiang is one of China's contemporary artists. The "Rising Dragon" fireworks display in the Himalayas was his creation.
[68] Southern Metropolis Daily (2025).

municipal government subsequently launched an investigation.[69] Commentary from *Xinhua News Agency*[70] and *People's Daily* established the Party-state's normative stance. This demonstrated how sustainability-driven consumer engagement can be converted into regulatory enforcement through official media amplification.

Organised pressure has also grown. In May 2025, consumer protection commissions from twelve provinces in China jointly issued a boycott advisory targeting excessive packaging,[71] mobilising mainstream media and social platforms to demand that companies fulfil their sustainability responsibilities.[72]

Cross-national survey evidence indicates that over 59% of consumers globally are willing to boycott brands that neglect climate change (Dentsu & Microsoft, 2021).[73] While China's social media mobilisation intensity matches or even exceeds this global baseline on climate issues, this activism is highly selective.

A stark contrast emerged during the September 2025 Shanghai school lunch scandal. Student meals were found to contain insect contamination. Yet there was no sustained official media response, and regulatory intervention remained minimal.[74] This discrepancy underscores a distinct pattern. Public discourse is driven by selective amplification rather than independent accountability. Without autonomous consumer litigation, NGO standing, and editorially independent journalism, reputational governance will remain a high-variance, low-reliability supplement to formal enforcement. It cannot yet function as a stable governance mechanism. This pattern of selective amplification characterises the outcome of public pressure in China more broadly. Whether the *initiation* of such pressure constitutes an independent governance driver, distinct from policy, is a question Section 3.4 addresses separately.

2.4 Trade Unions and Employee Representative Congresses

China's trade union is a mass organisation of the working class under CCP leadership, serving as a bridge between the Party and workers.[75] The Employee Representative Congress (ERC) is the principal channel through which employees exercise democratic

[69] An (2025).
[70] Xinhua News Agency is the official state news agency of China, directly under the State Council and holding a ministerial-level status, whose editorials and commentaries are widely regarded as reflecting the normative stance of the Party-state.
[71] Jialiu (2025).
[72] Ibid.
[73] Dentsu (2022).
[74] Sohu (2025).
[75] Trade Union Law of the People's Republic of China (People's Republic of China) National People's Congress, 24 December 2021, art 2(1).

management rights.[76] The *Trade Union Law* and the *ACFTU Constitution*[77] both identify safeguarding employee interests as the union's core obligation.

The 2023 *Company Law* reinforces these functions. Article 17 requires companies to support trade union operations and to consult unions and the ERC, as the basic form of democratic management, on major decisions including restructuring, dissolution, and formulation of significant internal rules.[78] Trade unions and ERCs contribute to ESG governance through data collection, mobilisation, and capacity building. By 2023, 31 provinces had trained approximately 876,000 employee environmental supervisors.[79] The China Mobile trade union participated directly in drafting the company's ESG report, contributing to both data collection and text. This illustrates how union involvement can enhance the credibility and depth of disclosure beyond what boards produce alone.[80]

The ERC originated in the planned economy as a politically mobilised governance instrument,[81] evolving into a more formalised institution as labour-management conflicts intensified under the market economy. Its authority is strongly correlated with state-ownership characteristics. Large SOEs such as China Railway Engineering Group have codified the ERC in their Articles of Association.[82] They issued detailed powers lists, and institutionalised coordination with the board and supervisory board, with front-line workers required to constitute the main body of representatives.[83]

Since 2012, the *Regulations on Enterprise Democratic Management*[84] have formally extended the ERC to all enterprise types, mandating that employee representatives constitute at least 5% of the workforce (minimum thirty),[85] with managerial staff capped at 20% and guaranteed representation for female and dispatched workers.[86] The enumerated powers include reviewing labour and welfare regulations, deliberating collective contracts, electing employee directors and supervisors, and supervising labour law compliance.[87] Private and foreign-invested companies have begun to

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[76] Regulations on Enterprise Democratic Management (People's Republic of China) The CPC Central Commission for Discipline Inspection and five other departments, 13 February 2012, art 3(1).
[77] Constitution of the All-China Federation of Trade Unions (People's Republic of China) All-China Federation of Trade Unions, 12 October 2023, General Provisions.
[78] Company Law of the People's Republic of China (People's Republic of China) National People's Congress, 29 December 2023, art 17.
[79] SASAC (2022).
[80] Li (2025).
[81] Chen (2023).
[82] Wang (2022).
[83] Ibid.
[84] Regulations on Enterprise Democratic Management (People's Republic of China) The CPC Central Commission for Discipline Inspection and five other departments, 13 February 2012.
[85] Ibid, art 8.
[86] Ibid, art 9.
[87] Ibid, art 13.

operationalise these provisions. Ningxia GCL Photovoltaic Technology structured its 2024 ERC with over 80% of representatives from front-line employees, with young employees and women making up nearly half.[88] HSBC Life Insurance established its ERC in 2021 under Shanghai Foreign Service Trade Union guidance, subsequently passing key workplace regulations through it.[89]

Effectiveness, however, is highly conditional. It tracks ownership type, firm size, and regulatory density. In large SOEs under SASAC oversight, mandatory reporting, Party committee integration, and performance evaluation linkages create a dense institutional ecosystem. Within that ecosystem, these mechanisms exercise genuine influence. In listed companies more broadly, the picture is mixed. External accountability from institutional investors and disclosure requirements provides some discipline. Yet structural employer dependence and professional limitations frequently dilute the impact of trade unions and employee directors. In small and medium-sized private enterprises, which constitute the majority of Chinese firms, trade unions are often absent. ERCs are nominal. Collective contracts replicate statutory minima with little incremental protection.

2.5 Regulatory Engagement

The state occupies a uniquely powerful position in China's stakeholder landscape. Unlike Western regulators, which engage primarily through law-mediated channels and leave substantive corporate decisions to boards and investors, the Chinese state acts simultaneously as regulator, controlling shareholder, policy designer, and agenda-setter. In China, state engagement encompasses both top-down regulatory enforcement and participatory governance through shareholding, public consultations, quasi-judicial investor protection, and adaptive regulatory experimentation.

Routine CSRC supervision constitutes the first dimension. In August 2025, the CSRC reviewed 2024 annual statements from 5,413 A-share listed companies. Of these, 192 received non-standard audit opinions. 72 qualified, 21 disclaimers, and the remainder emphasis-of-matter or going-concern modifications.[90] The CSRC's sample review found persistent deficiencies in revenue recognition, long-term equity investments, and asset impairment. It identified three regulatory priorities: enforcing corrective measures, improving supervisory efficiency, and issuing practical guidance on emerging accounting challenges.[91]

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88 Zhou and Mao (2025).
89 Labour Watch (2021).
90 CSRC (2024).
91 Ibid.

The second dimension is corrective and punitive enforcement.[92] Under the *Administrative Penalty Law*[93] and *Securities Law*,[94] the CSRC may impose measures ranging from warnings, fines, and confiscation of illegal gains to market entry bans and licence revocation, supplemented by lighter instruments such as regulatory talks, warning letters, and mandatory training. The sanction gradient matters. An administrative penalty can obstruct refinancing applications, translating regulatory intervention into immediate commercial pressure. The three major exchanges[95] operate in parallel as the market's first line of defence, using real-time surveillance to escalate from corrective letters through formal censure and trading restrictions to potential member suspension. In 2024, they collectively imposed 1,210 regulatory measures on 1,004 listed companies.[96]

For unlisted companies, the Market Supervision Administration (MSA) bears primary responsibility.[97] Hangzhou's "pyramid-shaped" model illustrates the proportionality principles guiding MSA practice. Under this model, 38 high-risk categories receive intensive scrutiny, 61 fall under "dual-random, one-public" checks,[98] and 95 low-risk categories are exempt from proactive inspection. Digital early-warning systems integrated into the "Zhejiang Enterprise Online" platform enable real-time alerts without on-site visits.[99] Nationwide, MSA handled over 1.15 million cases in 2023 (fines and confiscations: RMB 8.669 billion)[100] and addressed 181,000 food-related violations in the first half of 2025 alone (penalties: RMB 740 million).[101]

3. Driving Forces Underlying Stakeholders Engagements

While engagement strategies are diverse, they are animated by identifiable underlying objectives shaped by political and economic environments. Drawing on documented cases, practitioner interviews, and comparative legal analysis, this article identifies four

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[92] Provisions on the Functional Configuration, Internal Organisations and Staffing Levels of the China Securities Regulatory Commission (People's Republic of China) State Council, 29 October 2023, art 5.

[93] Administrative Penalty Law of the People's Republic of China (People's Republic of China) National People's Congress, 22 January 2021.

[94] Securities Law of the People's Republic of China (People's Republic of China) National People's Congress, 28 December 2019.

[95] The three major stock exchanges in mainland China are the Shanghai Stock Exchange (SSE), which is the largest and primarily hosts established blue-chip companies alongside its tech-focused STAR Market; the Shenzhen Stock Exchange (SZSE), which centers heavily on tech, manufacturing, and fast-growing enterprises through its Main Board and ChiNext platform; and the Beijing Stock Exchange (BSE), launched in 2021 to explicitly focus on funding innovative small and medium-sized enterprises (SMEs).

[96] Tian (2025).

[97] Regulations on the Functional Configuration, Internal Organisations and Staffing Levels of the State Market Supervision Administration (People's Republic of China) State Council, 30 July 2018, art 3.

[98] Hangzhou Fazhi (2025).

[99] Souhu (2021).

[100] SAMR (2024).

[101] Yang (2025).

interrelated drivers: (1) economic, (2) policy, (3) compliance, and (4) sustainability. These drivers are not mutually exclusive. A single instance of engagement may reflect multiple rationales simultaneously. Their relative salience varies systematically across stakeholder types, ownership structures, and institutional settings. This variation carries direct implications for reform design and is what the following analysis seeks to explain.

3.1 Economic Drivers

The economic logic of shareholder activism is broadly convergent across jurisdictions. Brav and Jiang classify US hedge fund activism into five categories: perceived undervaluation, capital structure, business strategy, asset or company sales, and corporate governance. [102] UK studies by Becht similarly emphasise restructuring, board reorganisation, and dividend policy changes. [103] Evidence from China's A-share market points in the same direction. Drawing on the documented cases in Appendix 2, activists most frequently sought dividend-related reforms, governance and board changes, and opposition to proposed mergers or diversification strategies. Board seat acquisition was frequently pursued in combination with other demands, since controlling the board strengthened capacity to advance subsequent claims.

That the sample is dominated by financial and governance activism, rather than environmental or social demands, is not a sampling artefact. It is a structural feature of China's stakeholder governance landscape. Non-shareholder stakeholders such as employees, consumers, and creditors lack direct governance channels through which to advance ESG claims independently. Their interests must instead be channelled through shareholder mechanisms: CSISC class actions, institutional investor coalitions, and proxy solicitation. The direct labour, consumer, and civil society pathways that carry sustainability demands in Western systems remain institutionally underdeveloped in China. The sample thus illustrates the article's central structural argument. That is, China's stakeholder empowerment model operates primarily through the proxy participation of shareholder-channel actors on behalf of broader stakeholder constituencies. Within this constraint, Chinese shareholder activism remains primarily economic in motivation. Governance improvements are valued instrumentally rather than as ends in themselves.

What distinguishes China is not the absence of economic drivers but how ESG considerations are being incorporated into them. In the US, ESG engagement is anchored in shareholder primacy[104] and filtered through single materiality:[105] what a

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[102] Brav, Jiang and Li (2022).
[103] Becht et al. (2009).
[104] Jebe (2019); Ho (2026).
[105] Schiehll and Kolahgar (2025); Madison and Schiehll (2021).

reasonable investor would consider relevant to an investment decision. Even recent regulatory expansions (SEC human capital disclosures,[106] California climate rules)[107] are justified as investor-protection measures rather than as corporate restructuring tools. Evidence from documented activism cases and practitioner interviews suggests that Chinese institutional investors are following a comparable logic. ESG engagement functions as a corrective to short-termism. It requires firms to account for risks that short-term strategies systematically externalize, including climate change, biodiversity loss, labour standards, community relations. Integrating these considerations into investment analysis aligns ESG engagement with sustainable financial performance. It supplements rather than displaces market logic.

China's concentrated-ownership structure, however, creates a distinctive agency-cost configuration. Sceptics argue that controlling shareholders can undermine ESG engagement by prioritising short-term profits, cutting emissions R&D or abandoning sustainability initiatives, a pattern the literature terms "green encroachment."[108] Institutional investor intervention can constrain this behaviour, but the mechanism differs fundamentally from the US model.

In a dispersed-ownership system, the primary agency problem runs between managers and shareholders. Institutional investors aggregate monitoring capacity across fragmented ownership.[109] In China's concentrated-ownership system, the dominant agency problem is principal-principal conflict. Controlling shareholders may extract private benefits at the expense of minority investors.[110] Chinese institutional investors therefore perform a dual function: monitoring managers and disciplining controlling shareholders. Both tasks arise in a governance environment where the standard minority-protection tools such as independent directors, fiduciary litigation, and proxy contests remain structurally underdeveloped.

The economic logic of mandatory voting disclosure and CSISC-facilitated class actions is precisely to lower the transaction costs of this second-order monitoring function.[111] These mechanisms create credible deterrence where individual investors would otherwise face prohibitive free-rider problems. This is a governance design crafted in response to the controlling-minority shareholder conflict. It explains why China's institutional reforms have taken the forms they have.

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[106] LaViers (2024).
[107] Kalbfleisch, Rizzo and Tohan (2025).
[108] Zhang, Lv and Han (2024).
[109] Puchniak and Varottil (2023).
[110] Lin (2026).
[111] "Second-order monitoring" refers to minority shareholders monitoring controlling shareholders, as distinct from the first-order task of shareholders monitoring managers.

Collective action barriers[112] have been partially mitigated by two developments: investor alliances and information technology. Long-term investors including pension funds, insurance companies, and public funds often lack the incentive to act alone under diversification constraints. Alliances with activist funds address this.[113] Activist funds handle proposal drafting, board nominations, and proxy solicitation, while long-term investors contribute primarily through voting.

The Climate Action 100+ initiative (700+ signatories) operationalises this division of labour globally by designating lead investors to coordinate action.[114] The China Climate Engagement Initiative reflects the same logic domestically, having attracted over 30 institutional investors.[115] Practitioner interviews confirm that informal channels complement formal mechanisms. During due diligence visits and investor relations meetings, institutional investors regularly raise environmental concerns, urging green R&D investment or emissions reductions. Firms are more receptive in these confidential, relationship-based settings than in formal proposal processes.[116]

The US anti-ESG backlash, driven by the exclusive filtering of sustainability through financial materiality,[117] offers a cautionary lesson for China. China's political-economic context is shaped by macro-level policy objectives and the recency of sustainability as a market concept. In this environment, exclusive reliance on economic drivers would risk reproducing short-termism rather than overcoming it. This structural tension explains why China has pursued a pluralistic configuration of engagement drivers rather than a market-centred model. Economic drivers are necessary but insufficient. Without complementary policy and compliance frameworks, ESG engagement would lack the normative foundation needed to generate durable governance effects.

3.2 Policy Drivers

Policy is not merely a complement to market-based engagement in China. It is the primary organising force that structures stakeholder participation and channels corporate behaviour.[118] This distinguishes China's ESG architecture from every major Western comparator.

In the UK, the Net Zero Strategy and ISSB-aligned disclosure frameworks enable

[112] Gond J-P and Piani V (2013).
[113] Activist funds typically include hedge funds, private equity funds, and dedicated shareholder activism vehicles that take concentrated stakes in target companies with the explicit intention of pushing for governance or strategic changes.
[114] Climate Action 100+ (2017).
[115] China Climate Engagement Initiative (2023)
[116] Supra note 57.
[117] Allen (2025); Mariz F, Aristizábal and Alvarez D (2025); Harmes (2025).
[118] Lin and Hong (2022).

climate alignment rather than command it. [119] The EU's Green Deal,[120] Fit for 55,[121] REPowerEU,[122] and Net-Zero Industry Act[123] constitute an ambitious regulatory architecture. Yet it operates through disclosure obligations, financial incentives, and market-compatible mandates. This reflects Jebe's observation that Western ESG frameworks remain rooted in single materiality,[124] and Hilbrich's finding that even prescriptive EU rules are designed to channel behaviour through reputational and market mechanisms rather than administrative commands.[125] The EU's double materiality principle reshapes reporting frameworks. It does not dictate the substantive decisions firms must take in response.[126] Firm-level discretion is preserved across all three Western systems. Policy is influential but does not occupy a commanding position.[127]

China's configuration inverts this relationship. ESG policy is embedded within a party-state system in which macro strategies connect directly to bureaucratic incentives and governance outcomes. This dynamic has no Western analogue.[128] A 2023 study of 58 listed real estate companies found that Party building was the dominant governance focus in ESG reports. Among these companies, 96.55% had established formal Party organisation systems, and 74.14% actively conducted Party-related activities.[129] The incorporation of political governance into corporate governance occurs through policy channels rather than company law doctrine. In Western systems, this is structurally impossible. In China, it is routine.

This evaluation framework is widely regarded within the system as the primary lever of SOE governance. Its effect on managerial behaviour is more immediate than statutory duties under the *Company Law*. Evaluation outcomes translate directly into career consequences on an annual cycle, whereas litigation-based accountability, where it operates at all, unfolds over years.[130]

Why do Chinese SOEs exhibit relatively strong ESG compliance in the absence of activist shareholders, independent litigation, or robust market accountability? The answer lies in the state's direct administrative levers. The "*yi li wu lü*" (one profit, five

119 GOV.UK (2025).
120 European Commission (2019).
121 European Commission (2021).
122 European Commission (2022).
123 European Commission (2023).
124 Jebe (2019).
125 Hilbrich (2026).
126 Mans (2025).
127 Gadinis and Fregoni (2025).
128 Lin and Hong (2022).
129 Nie (2025).
130 Supra note 57.

ratios) framework for central SOEs assesses total profit, cash collection rate, return on equity, R&D expenditure intensity, total labour productivity, and asset-liability ratio. Performance scores translate directly into personal consequences.[131] Under SASAC's "*kaohe ding quliu*" (evaluation determines tenure) practice, executives ranked at the bottom for two consecutive years face mandatory removal.[132] Carbon emission intensity has now been formally incorporated into central SOEs executive evaluations. This converts a voluntary sustainability commitment into a hard career incentive.

Another answer lies in the substitution of administrative performance management for market and legal discipline. This governance architecture has no close analogue in Western systems. The critical analytical point, however, is that this mechanism functions as *governance infrastructure* rather than stakeholder engagement itself. It explains why SOE boards are receptive to ESG pressure from institutional investors and why CSISC nominations encounter less institutional resistance. It does not explain why ESG outcomes are achieved in the absence of any stakeholder participation. Where SASAC's mandate operates without activating independent stakeholder action, the result is conventional hierarchical command. Where it lowers resistance to engagement by institutional investors, employee bodies, and civil society actors, enabling them to exercise governance claims they could not otherwise enforce, it constitutes empowerment infrastructure. This is what distinguishes China's model from its Western counterparts.

Chinese environmental record illustrates policy primacy in quantitative terms. By June 2025, installed renewable energy capacity reached 2.159 billion kilowatts (59.2% of total capacity).[133] Non-fossil energy consumption rose from 15.9% in 2020 to 19.8% in 2024.[134] Energy consumption per unit of GDP fell 11.6% between 2021 and 2024.[135] These outcomes are inseparable from China’s Dual Carbon policy, requiring peak emissions before 2030, and carbon neutrality by 2060.[136] Its implementation is secured by incorporating environmental targets into local official performance evaluations.[137] Market discipline and litigation played a supporting role at best; administrative

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131 Yuan (2023). “One Profit and Five Ratios” is the core indicator system for evaluating the performance of central government-owned enterprises. “One Profit” refers to total profit, while “Five Ratios” refers to five key percentage-based indicators used to measure an enterprise’s profitability, capital efficiency, financial risk, innovation capacity, and production efficiency.

132 Heilongjiang Provincial SASAC (2026). The broader context for these performance evaluations is the SASAC reform to deepen the market-oriented operational mechanisms of SOEs, which requires that SOE managers be selected through competitive hiring, that those ranked at the bottom be reassigned, and that those deemed unqualified be removed from their positions.

133 National Energy Administration (2025).

134 Ibid

135 Ibid

136 Xin Hua News (2025).

137 Lin and Hong (2022).

incentive alignment did the work.

China's policy-to-law trajectory follows a distinctive pattern. Policy first articulates priorities, which are then translated into legal instruments. This trajectory is currently being driven by two intersecting pressures. Domestically, slowing growth has intensified labour-management conflict. The urban youth unemployment rate reached 18.9% in August 2025.[138] Firms under survival pressure have resorted to illegal dismissals, excessive overtime, and delayed wages. Internationally, competition pressure has exposed the fragility of low-cost business models. Insider trading and fraudulent disclosure episodes have heightened financial stability concerns.[139] The CCP has responded through policy rather than market incentives. The 20th Party Congress Report,[140] the 2025 Work Guidelines for Jointly Safeguarding Workers' Rights,[141] and the 2023 Company Law reforms reinforcing employee directors and trade union consultation rights collectively operationalise a macroeconomic stability agenda through firm-level governance reform.

On market security, the April 2024 State Council *Opinions on Strengthening Supervision, Preventing Risks, and Promoting High-Quality Development of the Capital Market*[142] was the first comprehensive capital market guidance issued in a decade. It set out five imperatives: (1) strengthened Party leadership, (2) “finance for the people,” (3) comprehensive supervision, (4) market- and law-based governance, and (5) high-quality development. Specific measures (stricter disclosure, tighter independent director supervision, constraints on controlling shareholder reductions, enhanced manipulation enforcement) have since been implemented through CSRC interventions, enhanced creditor protections in the 2023 *Company Law*, and CSISC litigation expansion. The significance of the April 2024 Opinions lies not in their novelty but in their sequencing. Policy articulated the objectives. Law and regulation followed to institutionalise them. This confirms the structural priority of policy in China’s ESG governance architecture.

Policy primacy in China reflects four structural features absent from Western systems. First, official promotion remains tied to policy implementation outcomes, creating powerful top-down enforcement incentives. Second, CCP policy instruments are more flexible, adaptive, and granular than formal legislation, enabling rapid response to evolving social and economic challenges. Third, China’s compressed market

[138] National Bureau of Statistics (2025).
[139] Guo (2023).
[140] Xi (2022).
[141] Work Guidelines for Jointly Safeguarding the Legitimate Rights and Interests of Workers (People’s Republic of China) All-China Federation of Trade Unions, the Supreme People’s Court and other 5 departments, 19 May 2025.
[142] Several Opinions on Strengthening Supervision, Preventing Risks, and Promoting High-Quality Development of the Capital Market (People’s Republic of China) State Council, 12 April 2024.

development history means many actors lack internalised sustainability norms, making policy intervention a necessary catalyst rather than a residual tool. Fourth, multi-layered policy issuance by Party organs at different levels achieves fine-grained governance that legislation alone cannot deliver.

The reach of this policy-driven evaluation architecture is not confined to China's domestic jurisdiction. Interviews with senior management of overseas subsidiaries of major Chinese SOEs operating in Singapore across the construction, telecommunications, energy, and metallurgy sectors, indicate that SASAC's performance evaluation framework, including its ESG-related indicators, applies to overseas operations on substantially the same basis as domestic ones, notwithstanding the subsidiaries' simultaneous compliance with Singapore's company law and listing requirements where applicable.[143] Several interviewees described a dual reporting structure: overseas entities comply with host-jurisdiction governance and disclosure requirements as a matter of local legal obligation, while simultaneously reporting upward through SASAC's evaluation framework as a matter of organisational accountability, with the latter generally perceived as carrying greater consequence for management given its direct link to career outcomes.[144] This suggests that the policy-primacy mechanism identified in this article is not merely a domestic governance feature but travels with the firm: Chinese SOEs operating abroad remain embedded within the administrative performance management architecture described above, even as they navigate host-country legal frameworks that may embody very different governance logics. This dual embeddedness, simultaneously subject to host-country company law and home-country administrative evaluation, represents an under-examined feature of state-led stakeholder empowerment as it operates beyond China's borders, and merits further research as Chinese SOEs' overseas footprint continues to expand.

3.3 Compliance Drivers

Compliance constitutes a third driver. Engagement arranged primarily to satisfy legal or regulatory requirements, oriented toward minimising sanction risk rather than internalising stakeholder interests. The compliance logic is inherently reactive and generates a characteristic pathology, formalistic adherence that satisfies regulatory form while generating minimal substantive change. This pathology is not unique to China. UK firms frequently respond to the *Corporate Governance Code*'s "comply or explain" framework[145] through box-ticking behaviour, formally adhering to governance

[143] Interview with a researcher at a SASAC-affiliated think tank, Singapore, 16 January 2026.
[144] Ibid.
[145] UK Corporate Governance Code 2024 (United Kingdom) The Financial Reporting Council, 22 January 2024, introduction.

prescriptions irrespective of substantive relevance.[146] Some scholars question whether governance codes improve practices or merely increase compliance costs.[147]

The EU compliance architecture is among the most comprehensive globally. It encompasses CSRD/ESRS double materiality reporting,[148] SFDR investor obligations,[149] the EU Taxonomy,[150] and mandatory human rights and environmental due diligence under CSDDD,[151] France's *Duty of Vigilance Law*,[152] and Germany's LkSG.[153] It achieves substantive engagement through three mechanisms that China currently lacks. First, systemic integration. Disclosure, due diligence, and stewardship obligations are functionally interconnected. Reporting feeds investor engagement reinforces monitoring and enforcement, and creates a self-reinforcing accountability loop. Second, double materiality. The explicit linkage of corporate impacts on stakeholders to governance and strategy narrows the gap between formal compliance and substantive consideration, making purely symbolic adherence analytically visible and reputationally costly. Third, external enforcement density. NGO litigation, regulatory oversight, investor stewardship, and consumer greenwashing challenges provide multiple simultaneous accountability channels.[154] The EU's compliance architecture recalibrates corporate incentives rather than merely constraining firms. Its effectiveness is an emergent property of systemic design, not of compliance logic alone.[155]

China's compliance configuration diverges from the EU model on all three dimensions. Channels exist, including trade unions, ERCs, and employee directors. However, they lack specificity, procedural clarity, and systemic integration, making compliance obligations readily perceived as external administrative burdens. Trade unions are formally established across Chinese enterprises, yet collective contracts routinely replicate statutory minima. Industry-wide bargaining has been piloted only in sectors such as taxis and construction, with automobile coverage below 15%.[156] In 2022, trade unions handled less than 3% of labour disputes nationwide, and only 11% of Pearl River Delta workers would seek union assistance first.[157] This weak mediation record sustains a recursive trap. Low-cost competitive pressure generates rights infringements,

146 Reddy (2019).
147 Cheffins and Reddy (2022).
148 Mans (2025).
149 Ian, Craig and Mattew (2025).
150 Katrin and Katrin (2024).
151 Morgane, Nadia and Otto (2025).
152 Bernhard and Valentin (2025).
153 David, Sophia and Sina (2023).
154 Claude (2025).
155 Lan (2026).
156 Zhong (2025).
157 Ibid.

suppressing the innovation that would allow firms to exit low-cost strategies.[158]

Employee directors face structurally analogous constraints. Concurrent service as trade union leaders[159] and employer financial dependence[160] undermine independence. Controlling shareholders may instrumentalise employee directors as anti-takeover devices.[161] Job security concerns inhibit adversarial positions.[162] Practitioner interviews corroborate these observations. Employee directors drawn from front-line workers routinely defer to management on substantive proposals, lack the financial and legal expertise needed for meaningful board engagement. Where the employee director simultaneously chairs the trade union, he faces structural incentives against any position that could threaten the union's employer-dependent funding.[163] The 2023 *Company Law* formally recognises ERCs but defines neither their concrete functions nor their procedural authority. In the absence of targeted training mandates, dedicated information rights, or formal channels for minority dissent, the statutory requirement risks becoming, in the words of one practitioner, "a tick-box exercise with a democratic veneer." This formulation captures the compliance trap precisely: legal recognition without institutional infrastructure produces a form of governance theatre that satisfies regulatory form while generating no substantive protection on ESG.

The gap between China and the EU in compliance effectiveness is ultimately a gap in institutional complementarity. China's rules are fragmented and unevenly detailed. Without systemic integration linking disclosure, monitoring, investor stewardship, and enforcement, compliance is easily reduced to cost avoidance. The diagnostic implication is important. The problem is not the compliance logic per se, but the absence of the reinforcing institutional architecture that converts compliance obligations from defensive exercises into governance-reshaping mechanisms.

Nevertheless, the conditions for compliance deepening are already visible. China's special representative litigation regime, introduced under Article 95(3) of the 2019 *Securities Law* and operationalised through CSISC, demonstrates what consequential enforcement can achieve. In *Zeda Yisheng* (the first STAR Market special representative proceeding), CSISC secured RMB 285 million for 7,195 investors through a court-mediated settlement in 2023.[164] In *Jintong Ling*, a 2025 first-instance judgment ordered RMB 775 million to over 43,000 investors for six years of financial

[158] Ibid.
[159] Yu (2013).
[160] Clarke (2006).
[161] Securities Times (2025).
[162] Yu (2013).
[163] Supra note 57.
[164] CSISC (2023).

misrepresentation.[165] The procedural architecture of opt-out-by-default registration, CSISC as designated representative, and aggregation of dispersed claims substantially lowers enforcement transaction costs, making credible deterrence accessible at scale where individual investors would otherwise face prohibitive free-rider problems.

Practitioner interviews confirm the behavioural shift. Within legal and finance departments of listed companies, the question is no longer whether disclosure obligations are legally required, but whether existing practices can withstand class action scrutiny, a shift from defensive compliance to proactive governance.[166] This is the compliance-to-internalisation dynamic in operation. Consequential enforcement converts external regulatory constraint into endogenous corporate concern. Compliance logic can thus function as a transitional mechanism. It is not merely a holding pattern until market incentives mature, but an active catalyst for stakeholder norm internalisation.

3.4 Sustainability Drivers

Beyond the three foregoing drivers, documented cases and practitioner observations identify a fourth category: engagement motivated primarily by the autonomous pursuit of sustainable development. This autonomy is partial and conditional, but it is real. In these instances, ESG operates as an independent rationale for action that precedes rather than follows state signalling.

What distinguishes sustainability-driven from policy-driven engagement is not the absence of state involvement in the outcome but the direction of causation. Citizen or investor action initiates pressure. State endorsement may follow, amplify, or suppress it, but does not precede it. This directional distinction refines rather than negates the analytical category.

Sustainability-driven engagement represents a genuinely emergent normative force. It operates within political constraints but is not reducible to them. Its growing visibility marks an expansion of bottom-up governance capacity that the state-capitalism framework systematically underestimates.

The distinction from the selective amplification pattern documented in Section 2.3 operates at the level of initiation rather than outcome. Sustainability-driven engagement is defined by citizen or investor action that precedes state response, not by the achievement of accountability without state endorsement. A mechanism can be bottom-up in its initiation and still require top-down endorsement for its completion. The two

[165] Jiangsu Securities Regulatory Bureau (2023).
[166] Supra note 57.

observations are analytically compatible.

The Arc'teryx incident illustrates this convergence mechanism. Consumer condemnation on social media, rooted in ecological concern rather than any policy cue, compelled an immediate corporate response: video removal, public apology, and a pledge to commission a third-party ecological assessment. Only then did the Shigatse municipal government launch an investigation.[167] Xinhua and People's Daily commentary followed, establishing the Party-state's normative stance. The sequencing is analytically significant. Bottom-up normative pressure preceded and invited top-down institutional response. This is the opposite of the policy-driven pattern, in which state initiative structures stakeholder action. Sustainability-driven engagement can therefore catalyse regulatory intervention rather than being catalysed by it.

Sustainability motivations extend beyond consumers. Green investment funds integrate sustainability considerations into voting and engagement strategies independently of regulatory mandate.[168] Multinational corporations impose ESG requirements on Chinese suppliers to align global value chains with international standards,[169] generating sustainability pressure that originates outside China's domestic policy framework entirely. Regulatory actors including CSRC, SAMR and major exchanges have incorporated sustainability language into governance agendas, signalling that sustainability legitimacy is becoming institutionally recognised even within the regulatory apparatus. Collectively, these developments indicate that sustainability concerns are beginning to function as an autonomous source of legitimacy for stakeholder engagement, not derived from policy authorisation but generating claims on corporate behaviour independently.

Comparative perspective, however, reveals the institutional gap that constrains sustainability drivers in China. In the UK, stewardship culture anchored in the UK Stewardship Code enables systematic ESG engagement, voting escalation, and coalition-building.[170] Meanwhile, civil society organisations and investigative media sustain scrutiny beyond formal regulation. In the EU, NGOs, consumers, and trade unions are active participants in double-materiality assessments and mandatory due-diligence processes,[171] and civil society litigation on greenwashing and human rights violations has become an enforcement mechanism in its own right.[172]

The structural enablers of robust sustainability-driven engagement are either absent or

167 An (2025).
168 Chiu, Lin and Rouch (2022).
169 Hao et al. (2025).
170 Lee (2011).
171 Śledzik, Mariusz and Marcin (2025).
172 MacLennan and De Catelle (2025).

constrained in China. These include press freedom, autonomous NGO ecosystems, guaranteed access to information and courts under the Aarhus Convention,[173] and institutionalised legal pathways that translate normative expectations into enforceable standards. Sustainability-driven engagement in China therefore remains more fragmented and contingent. Effective where it aligns with state policy priorities, suppressed or ignored where it does not.

This contingency is not permanent. President Xi Jinping's introduction of "new quality productivity" in September 2023[174] signals a progressive reorientation of development strategy away from resource-intensive growth toward innovation-led, high-tech, sustainable development. This shift creates institutional space for sustainability-driven engagement to function as a mechanism for overcoming path dependence, rather than merely social critique. As this policy horizon expands, the conditions for bottom-up sustainability engagement to operate with greater autonomy are gradually emerging. China's sustainability drivers are best understood as institutionally transitional. They are increasingly capable of initiating governance pressure, but not yet capable of closing the accountability loop without state endorsement. The trajectory is incremental, moving toward the self-reinforcing dynamics that characterise sustainability-driven engagement in the UK and EU.

4. Legal Infrastructure Empowerment and the Way Forward

The evidence assembled above poses a theoretical challenge. How should China's stakeholder engagement landscape be characterised in a way that is neither dismissive of its plurality nor naïve about its constraints? The heterogeneity of outcomes across driving models reflects the formative influence of China's political economy on stakeholder participation. However, it also reveals a governance architecture with distinctive structural logic that comparative corporate governance theory has not yet adequately theorised. For other jurisdictions operating under analogous political-economic constraints, China's trajectory is not merely descriptively interesting. It offers a conditionally generalisable institutional model whose underlying logic warrants normative evaluation.

4.1 Beyond the State Capitalism Paradigm

The state-capitalism framework posits that China either lacks meaningful stakeholder engagement or exhibits only a state-orchestrated simulacrum.[175] The evidence examined in this article contradicts both positions. Engagement manifests in diverse

173 Hartley and Wood (2005).
174 Qiushi Commentary (2024).
175 Groswald Ozery (2023) pp 149-150

forms and through multiple channels, both top-down regulatory coordination and bottom-up market-oriented participation coexist within China's hybrid system. However, empirical plurality alone does not refute the state-capitalism thesis. What is needed is a theoretical account of *why* this plurality is not reducible to state orchestration. That account requires disaggregating the state's role.

State-led stakeholder empowerment, as advanced in this article, does not presuppose a monolithic state actor. The state operates through three analytically distinct functions with fundamentally different implications for stakeholder agency. The *first* is the state as rule-setter. Through the *Company Law*, the *Securities Law*, and associated regulations, it establishes the legal infrastructure within which stakeholders exercise independently cognisable governance rights that survive changes in political preference. This infrastructure includes shareholder rights, representative litigation procedures, and mandatory employee directors.

The *second* is the state as stakeholder proxy. Through CSISC, the state aggregates the latent governance claims of dispersed minority shareholders and retail investors who would otherwise face prohibitive collective action costs, enabling participation that is genuinely constituted by private interests even if channelled through a public body. The *third* is the state as political gatekeeper. Through official media, bureaucratic approval, and selective enforcement, it shapes which bottom-up mobilisations succeed and which are suppressed.

These three functions are not merely descriptively distinct. They are normatively incommensurable. The state-capitalism objection, that state-led empowerment is governance outsourcing rather than genuine stakeholder agency, has force only against the gatekeeper function. It does not touch the rule-setter or proxy functions.

When the 2023 *Company Law* mandates employee directors in firms with 300 or more employees, it creates statutory entitlements that individual stakeholders can invoke regardless of subsequent Party preferences. When CSISC secures RMB 24.59 billion for Kangmei Pharmaceutical investors or achieves board-seat changes at fourteen listed companies through proxy solicitation, it acts on private investor mandates, not administrative commands.[176]

These outcomes represent a concrete redistribution of governance power through legal mechanisms recognisable in any advanced capital market jurisdiction. This is not governance outsourcing. It is governance infrastructure construction. To allow the gatekeeper constraint to eclipse the rule-setter and proxy functions is to conflate the pathology with the institution. Doing so foreclose precisely the comparative

[176] CSISC (2021).

institutional analysis that China's experience most urgently demands.

The theoretical contribution of the state-led empowerment model lies in its resolution of a puzzle that neither state-capitalism nor liberal-market frameworks can adequately explain. How can genuine stakeholder agency emerge and expand in a system characterised by concentrated political authority? The answer this article advances is institutional rather than ideological. Agency emerges not despite state involvement but through the institutional forms that state involvement takes. Rule-setting creates durable entitlements. Proxy aggregation solves collective action problems that markets cannot. Gatekeeping constrains but does not eliminate the space for autonomous engagement. The model thus identifies the conditions under which authoritarian governance can generate stakeholder empowerment. These conditions are replicable, at least partially, in other jurisdictions where the state plays a similarly dominant role in corporate governance.

Nonetheless, the gatekeeper constraint is real and consequential. Intellectual honesty requires its acknowledgment. Policy primacy persists. Institutional investors frame ESG as risk mitigation and policy alignment more than as value creation. Compliance-driven participants treat engagement as regulatory cost rather than strategic asset. Bottom-up sustainability mobilisations succeed primarily when they secure top-down endorsement.[177] The theoretical point is not that China has transcended policy primacy. It is that policy primacy itself has become more variegated and institutionally mediated than the classical state-capitalism framework anticipated. Genuine stakeholder agency has emerged in the interstices of political authority. The state-capitalism framework, by design, cannot see it.

4.2 Legal Infrastructure Empowerment

The single most reliable predictor of whether stakeholder engagement in China produces substantive and sustained outcomes is the density and coherence of its legal institutional embedding. This finding is not merely descriptive. It carries a normative implication. Institutional design, rather than stakeholder motivation or market pressure, is the primary lever for improving governance outcomes. The evidence supports a three-tier model of institutional empowerment. Each tier is defined not only by its legal form but by the governance logic that makes it effective.

The first tier is statutory law. Its effectiveness derives from universality and durability. Shareholder activism and CSISC representative litigation generate substantive outcomes because the *Company Law* and *Securities Law* create rights that are enforceable against any counterparty and that survive political fluctuation. The

[177] Liang et al. (2025) pp 9-13.

normative lesson is that statutory codification is necessary precisely where governance interests are most likely to conflict with incumbent power: shareholder rights against controlling shareholders and investor claims against fraudulent issuers. Procedural clarity is not a technical refinement. It is the mechanism through which formal entitlements become practical capacities. Regulatory engagement derives its institutional foundation from the same sources. The *Administrative Penalty Law* supplies procedural guarantees that convert enforcement discretion into accountability.

The second tier is targeted administrative regulation. Its effectiveness derives from informational and relational proximity. SASAC's "*yi li wu lü*" performance evaluation and carbon intensity metrics achieve ESG compliance in central enterprises not through universal legal mandate but through granular, personalised enforcement. This is made possible by the regulator's proximity to the regulated entity. The CSRC's enhanced governance requirements for listed companies on misrepresentation,[178] ESG disclosure,[179] and algorithmic governance[180] reflect the same logic. A regulator with continuous informational access and shareholding relationships can implement engagement measures with a precision that uniform legislation cannot match.

The normative implication is that the regulator-entity relationship itself is a governance resource. Institutional design should leverage rather than displace it. The 2024 SASAC *Opinions on Market Value Management of Listed Companies Controlled by Central Enterprises*[181] exemplify this model. SOEs are required to strengthen ESG management systems and prepare high-quality ESG reports. This obligation operates not through statutory compulsion but through a relationship of regulatory accountability that makes compliance and performance alignment mutually constitutive.

The third tier, soft law, derives its effectiveness from adaptive legitimacy. China's *Corporate Governance Code for Listed Companies*[182] does not impose the "comply or explain" mechanism of the UK Code. Yet it achieves incremental governance improvement. The average listed company governance index reached 64.94 in 2025, reflecting a steady rise over multiple years.[183] The mechanism is not coercive

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[178] Guidance on Strict and Impartial Law Enforcement and Judicial Practice to Safeguard the High-Quality Development of the Capital Market (People's Republic of China) Supreme People's Court of China and China Securities Regulatory Commission, 15 May 2025.

[179] Administrative Measures for Information Disclosure by Listed Companies (People's Republic of China) China Securities Regulatory Commission, 1 July 2025.

[180] Administrative Provisions on Algorithmic Trading in the Futures Market (Trial) (People's Republic of China) China Securities Regulatory Commission, 13 June 2025.

[181] Several Opinions on Improving and Strengthening Market Value Management of Listed Companies Controlled by Central Enterprises (People's Republic of China) State-owned Assets Supervision and Administration Commission, 17 December 2024, art 3.

[182] Corporate Governance Code for Listed Companies (People's Republic of China) China Securities Regulatory Commission, 16 October 2025.

[183] Shanghai Securities News (2025).

enforcement but iterative norm consolidation. Soft law articulates governance expectations that actors internalise over time, creating the normative baseline on which harder instruments can subsequently build. This is not a second-best alternative to statutory codification. It is a necessary stage in the institutionalisation of governance norms in a market economy that has not yet developed the cultural and professional infrastructure for compliance as internalisation.

The three tiers operate as a system, not as alternatives. Statutory law provides universal entitlements and durable protection. Targeted regulation achieves precision and responsiveness where informational proximity exists. Soft law generates normative diffusion where coercive enforcement is premature or counterproductive.

The failure of employee directors, trade unions, and ERCs illustrates what happens when this systemic logic is violated. Nominal statutory recognition without procedural specification, without targeted capacity-building regulation, and without soft law norms of meaningful participation, produces a governance form that satisfies legal text while generating no governance substance. Key operational dimensions remain legally indeterminate, including election procedures for employee directors, nomination rules for union representatives, and the scope of eligible candidates.[184] The statutory entitlement thus lacks the institutional infrastructure needed to convert it into effective agency.

The non-institutionalised tier, such as consumer boycotts and social media pressure, completes the picture by negative example. Such channels can produce immediate results. The Arc'teryx incident caused a HK$10 billion market value loss and prompted a rapid corporate apology and remediation pledge. Yet their impact is contingent rather than systemic. It depends on alignment between public discourse and Party-state policy priorities.

The Shanghai school lunch scandal illustrates the floor of reputational governance in China. Despite insect contamination in student meals, the company denied wrongdoing, state media remained silent, and regulators took no meaningful action.[185] Without independent enforcement pathways, reputational governance remains a high-variance supplement to formal mechanisms. It is not a stable component of the governance architecture.

The normative conclusion is unambiguous. Deepening stakeholder governance in China requires converting non-institutionalised engagement into institutionalised engagement. This does not mean suppressing the former. It means building the legal

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[184] Liu D (2023).
[185] Sohu (2025).

infrastructure that makes governance outcomes reproducible rather than contingent.

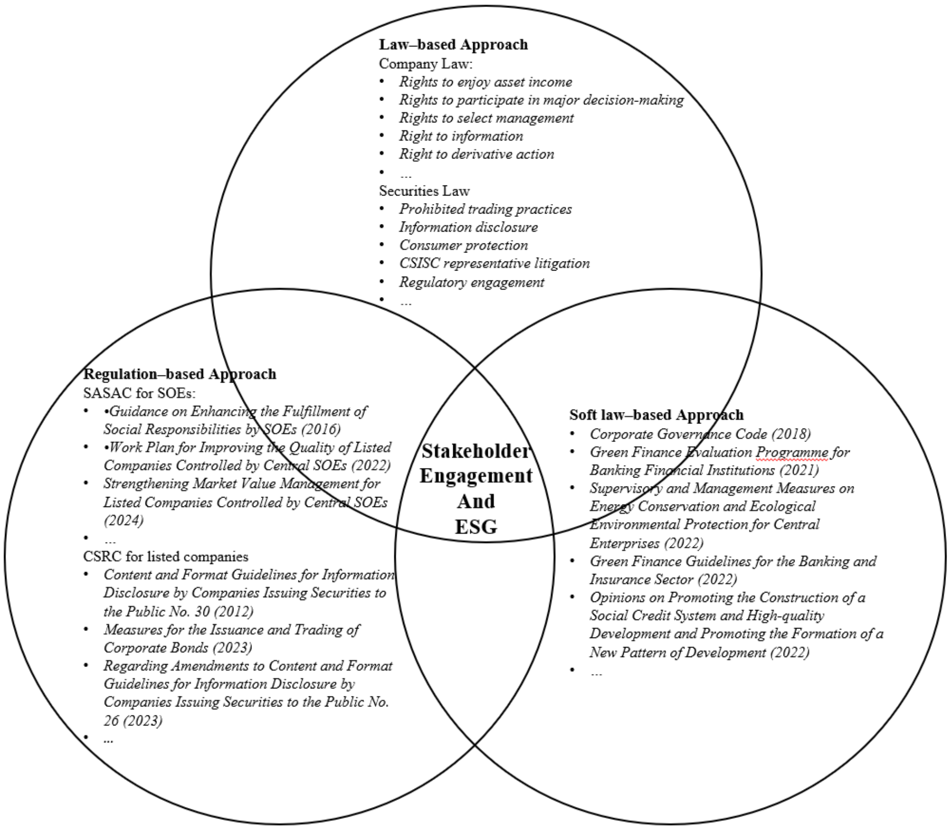
4.3 The Way Forward

The normative analysis in Section 4.2 generates a reform agenda organised around a single diagnostic principle. Effective stakeholder engagement requires not just legal recognition. It also requires institutional complementarity, including the co-presence of enforceable entitlements, procedural specification, capacity infrastructure, and enforcement architecture. Where these elements are absent, legal recognition produces governance theatre. Where they are present, even modest entitlements generate substantive outcomes. China's reform task is therefore not primarily one of legislative expansion but of institutional complementarity construction.

China has, in effect, already pioneered a tiered institutionalisation model. This model distributes legal intensity differentially across governance actors and entity types (see Figure 1). Uniform statutory rules create universal baseline entitlements. Targeted administrative regulation imposes heightened engagement duties on key entities, such as SOEs and listed companies, where informational proximity enables enforcement precision. Soft law generates normative diffusion at the frontier of emerging governance expectations.

This architecture is not accidental. It reflects a rational response to the heterogeneous preconditions for effective governance across China's corporate population. The Hangzhou proportionality model extends this logic to regulatory engagement itself. High-risk sectors receive intensive supervision. Medium-risk sectors are subject to risk-based sampling. Low-risk sectors are presumptively exempt from interference. This demonstrates that the tiered approach is generalisable beyond listed companies.

Figure 1. Mixed model of stakeholder engagement institutionalization in China



The reform priority is not to displace this architecture but to address its three principal deficiencies.

The first is procedural indeterminacy. The statutory recognition of employee directors, ERCs, and trade union consultation rights is necessary. However, it is insufficient without procedural specification, such as election mechanisms, information entitlements, quorum requirements, and dissent channels. The normative case for procedural specification rests on a simple governance logic. Rights without procedures are aspirations, and procedures are what convert aspirations into capacities. The EU's experience confirms this: CSRD's detailed ESRS reporting standards, CSDDD's mandatory due diligence procedures, and SFDR's prescribed disclosure frameworks achieve substantive compliance precisely because they reduce managerial discretion to engage in purely formal adherence. The *Company Law* should similarly specify the operational content of employee participation rights, starting with listed companies and SOEs where enforcement capacity already exists, before extending to smaller private firms.

The second is collective action infrastructure. The principal-principal conflict at the heart of China's corporate governance problem, in which controlling shareholders extract private benefits at minority expense, cannot be addressed by individual stakeholder action alone. What makes CSISC's representative litigation effective is its solution to the collective action problem. Through opt-out-by-default registration, aggregation of dispersed claims, and designated representation at scale, it converts individually unenforceable claims into actionable governance pressure. This architecture should be extended beyond securities litigation.

There is currently no stewardship code in China. A Chinese stewardship code could be designed around the principal-principal conflict rather than the dispersed-principal problem of the UK model.[186] It should require institutional investors to disclose voting rationales on related-party transactions, dilutive placements, and governance proposals where controlling shareholder interests may diverge from those of minority investors. The 2025 mandatory voting disclosure regime and CSISC's established proxy solicitation practice already provide the institutional scaffolding. The reform task is to harden and systematise these practices through quasi-regulatory instruments. The goal is to establish a Chinese stewardship architecture that aligns with, rather than ignores, the policy-channelling orientation that Lin and Puchniak (2022) have identified as structurally characteristic of Chinese institutional investors.[187]

The third is enforcement credibility. The compliance-to-internalisation dynamic documented in Section 3.3 establishes that consequential enforcement is the catalyst for converting defensive compliance into proactive governance. The CSISC class action regime has demonstrated that scale-enabling procedural architecture can make credible deterrence accessible where collective action would otherwise be prohibitive. The same logic applies to consumer litigation, environmental enforcement, and labour rights. China’s current enforcement architecture is asymmetric. Strong and credible for securities fraud (through CSISC representative litigation and CSRC administrative penalties). Weak and episodic for labour rights (where trade unions handle less than 3% of disputes) and environmental violations (where enforcement remains politically contingent). Closing this asymmetry would convert the non-institutionalised tier into an institutionalised one without requiring fundamental architectural change. The key measures include developing consumer representative litigation mechanisms, strengthening trade union enforcement capacity, and expanding access to environmental public interest litigation for a wider range of civil society actors.

The sequencing of reform matters as much as its content. The preconditions for effective hard-law mandates, including professional capacity, information access, enforcement mechanisms, and cultural acceptance of adversarial governance, remain unevenly developed across China's corporate population. Imposing uniform statutory rights without the supporting infrastructure risks replicating the formalism already visible in trade union and ERC channels: legal recognition without institutional

[186] Lin and Puchniak (2022).
[187] Ibid.

substance.

The reform path should therefore follow the logic of the existing tiered architecture. First, soft law articulates governance expectations. Then, sector-specific ministerial rules and local regulatory experimentation develop enforcement models. Statutory codification follows only once the institutional infrastructure for substantive compliance is established. This sequencing is not gradualism as political compromise. It is gradualism as institutional rationality. Governance norms require cultural and professional infrastructure to function. That infrastructure must be built before norms can be hardened into entitlements.

Ultimately, China's experience generates a theoretical proposition with broader comparative significance. State-led stakeholder empowerment is not a transitional stage on the path toward liberal market governance. It is a distinct governance model with its own internal logic, institutional complementarities, and reform trajectory. The model works by using state authority to solve collective action problems that markets may not. It aggregates dispersed investor claims through CSISC. It creates career incentives for ESG compliance through SASAC evaluation. It builds normative infrastructure through policy-to-law sequencing. In doing so, it preserves genuine space for stakeholder agency within the entitlements and procedures that state rule-setting creates.

The model's central vulnerability is the gatekeeper function. Where state endorsement is withdrawn, governance outcomes collapse to contingency. The reform agenda this article proposes is therefore, at its core, an agenda for reducing the model's dependence on the gatekeeper function by strengthening the rule-setter and proxy functions. This means building durable entitlements, closing collective action gaps, and establishing enforcement credibility that does not depend on political alignment. That is the institutional path from state-led empowerment toward stakeholder governance with genuine autonomy. It proceeds not by displacing the state's role but by progressively institutionalising it.

5. Conclusion

This article began with a question that comparative corporate governance theory has not satisfactorily answered. How does meaningful stakeholder engagement emerge and expand in a political economy characterised by concentrated state authority, concentrated corporate ownership, and underdeveloped market accountability mechanisms? The conventional answer is that it largely does not, or does so only as state orchestration. The evidence assembled here contradicts that answer. Three findings emerge with implications beyond China.

The first is the disaggregation of the state. The state-capitalism framework treats the state as a monolithic actor whose involvement necessarily displaces stakeholder agency. This article shows otherwise. The state operates through three distinct functions: rule-setter, stakeholder proxy, and political gatekeeper. The first two generate genuine empowerment. The rule-setter creates statutory entitlements enforceable against incumbent power. The proxy aggregates dispersed private claims into actionable governance pressure. "State-led" and "stakeholder-empowering" are not contradictory. What may matter is the institutional form that state authority takes, not its presence or absence.

The second finding concerns policy primacy. China's ESG architecture is fundamentally policy-driven. SASAC's performance evaluation converts sustainability commitments into hard career incentives. The Dual Carbon policy embeds environmental targets into bureaucratic promotion criteria. The policy-to-law trajectory tests governance innovations through administrative experimentation before statutory codification. The result is a governance architecture with no close Western analogue. Policy primacy is not a transitional feature awaiting market maturation. It is a structural characteristic with its own logic and, as the Chinese energy transition demonstrates, its own capacity to generate substantive outcomes at scale.

The third finding is the institutional complementarity principle. The single most reliable predictor of substantive stakeholder engagement outcomes is the density and coherence of legal institutional embedding. Statutory law, targeted administrative regulation, and soft law are not alternatives. They are complementary tiers of a system whose effectiveness is emergent. The failure of employee directors, trade unions, and ERCs illustrates what happens when complementarity is absent. Nominal statutory recognition without procedural specification, capacity infrastructure, or enforcement architecture produces governance theatre. The innovative CSISC representative litigation illustrates the opposite. Opt-out registration, designated representation, and aggregation of dispersed claims convert formally weak private interests into effective governance forces.

These three findings converge on this article's core contribution. State-led stakeholder empowerment is a distinct and internally coherent governance model. It is not a transitional approximation of liberal market governance. Its central vulnerability is the gatekeeper function. Where state endorsement is withdrawn, governance outcomes collapse to contingency. The contrast between the Arc'teryx response and the Shanghai school lunch scandal illustrates this clearly. The reform agenda this model implies is not one of replacing state leadership with market autonomy. It is an agenda for reducing dependence on the gatekeeper function by hardening entitlements, expanding proxy-aggregation infrastructure, and building enforcement credibility independent of political alignment.

The broader implication is clear. The binary choice between market-driven accountability and administrative command is probably a false one. Policy primacy and genuine stakeholder agency may coexist. Institutional architecture, rather than political regime type, is likely the primary determinant of whether stakeholder engagement generates durable governance effects. That insight extends well beyond China.

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Appendix 1. Comparative Models of Stakeholder Engagement and ESG Governance

Dimension	**China**	**US**	**UK**	**EU**
Dominant driver of stakeholder engagement	Policy-driven, supplemented by economic, compliance, and emerging sustainability drivers	Economic-driven (shareholder value, risk management)	Mixed: economic + stewardship norms, increasingly sustainability-oriented	Compliance- and sustainability-driven, embedded in regulatory architecture
Role of the state	Central and proactive: state acts as regulator, shareholder, policy designer, and agenda-setter	Limited and indirect: regulator of disclosure and markets, not engagement architect	Enabling and coordinating: sets frameworks, relies on market and stewardship culture	Strong but rule-based: EU institutions design comprehensive policy-law frameworks
Relationship between policy and law	Policy precedes law; policies are flexible, detailed, and rapidly operationalised; law institutionalises policy outcomes	Law precedes or constrains policy; strong judicial review limits policy experimentation	Policy guides soft law and reporting frameworks	Policy and law are tightly coupled through directives and regulations
Primary engagement channels	Regulatory engagement; shareholder activism via state-sanctioned mechanisms; quasi-public collective actors	Shareholder proposals, proxy voting, private engagement	Stewardship engagement, voting, escalation under UK Stewardship Code	Mandatory due diligence, stakeholder consultation, litigation, NGO pressure
Stakeholder participation beyond shareholders	Selective and tiered: employees, consumers, creditors empowered unevenly; expansion via hard law, regulation, and soft law	Limited; justified mainly through financial materiality	Moderate; stakeholder voice recognised through reporting and stewardship	Strong and formalised: workers, NGOs, communities integrated via double materiality and due diligence
Institutionalisation strategy	Hierarchical and incremental: law → regulation → soft law;	Market-based and decentralised	Soft-law-heavy with reputational enforcement	Highly institutionalised and system-wide

	targeted at key entities (SOEs, listed firms)			
Role of sustainability-driven bottom-up engagement	Emerging but contingent; often effective only when aligned with state priorities	Strong but polarised; significant anti-ESG backlash	Relatively strong; supported by media and NGOs	Strong and institutionalised via civil society and courts
Distinctive feature	State-led empowerment model balancing control and engagement through policy-law hybridity	Market autonomy with adversarial politics	Stewardship-based coordination	Regulatory constitutionalisation of ESG

Appendix 2. Representative Shareholding Activism Cases in China's A-share Market (2008-2025)

No.	**Year**	**Target Company**	**Type**	**Goal**	**Entity**	**Engagement Strategies**	**Result**
Part I Shareholder Activism – Private Funds and Hedge Funds							
1	2008	Ningxia Building Materials Group Co., Ltd. 宁夏建材集团股份有限公司	Listed POE	Request for participation in management	Shanghai Baoyin Investment Consulting Co., Ltd. 上海宝银投资咨询有限公司	Private engagement by making requests to the board	Failed
2	2011	Xiamen Xiangyu Co., Ltd. 厦门象屿股份有限公司	Listed SOE	Sued for civil tort of misrepresentation	Huarun Shenguotou Trust Co., Ltd.; Hongshan Fund Management 华润深国投信托有限公司；深圳市红山投资管理有限公司	Litigation	Succeeded
3	2012	Gree Electric	Listed	Appointment of	Penghua Fund Management	Teaming up with other	Succeeded

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
		Appliances Inc. 珠海格力电器股份有限公司	SOE	directors	鹏华基金管理有限公司	institutional investors	
4	2013	Shanghai Jahwa United Co., Ltd. 上海家化联合股份有限公司	Listed POE	Appointment of directors	Huashang Fund Management 华商基金管理有限公司	Teaming up with other institutional investors	Succeeded
5	2014	Taiji Computer Corporation Limited 太极计算机股份有限公司	Listed SOE	Veto the proposal regarding daily transactions	Baoying Fund Management 宝盈基金管理有限公司	Exercise of voting rights	Succeeded
6	2014	Guizhou Qianyuan Power Co., Ltd. 贵州黔源电力股份有限公司	Listed SOE	Issue of bonus shares	Shanghai Zexi Investment Management 上海泽熙投资管理有限公司	Shareholder proposal	Failed
7	2014	Ningbo United Group Co., Ltd. 宁波联合集团股份有限公司	Listed POE	Issue of bonus shares	Shanghai Zexi Investment Management 上海泽熙投资管理有限公司	Shareholder proposal	Failed
8	2014	Ningbo Zhongbai Co., Ltd. 宁波中百股份有限公司	Listed POE	Re-election of the board of directors	Xizang Zexi Investment Management 西藏泽添投资发展有限公司	Shareholder proposal; Governance change	Succeeded

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
9	2014	Huadong Medicine Co., Ltd. 华东医药股份有限公司	Listed POE	Veto proposal exempting controlling shareholder's asset injection commitment	Penghua Fund Management 鹏华基金管理有限公司	Exercise of voting rights	Succeeded
10	2014	Anhui Wanneng Co., Ltd. 安徽省皖能股份有限公司	Listed SOE	Proposed revision of 2013 annual profit distribution plan	Hongta Hotland AMC 红塔红土基金管理有限公司	Shareholder proposal	Failed
11	2014	Tongwei Co., Ltd. 通威股份有限公司	Listed POE	Establishment of buyout fund in cooperation with investee company	Heaven-Sent Capital Management Group 硅谷天堂产业集团股份有限公司	Private engagement	Succeeded
12	2016	FAW Jiefang Group Co., Ltd. 一汽解放集团股份有限公司	Listed SOE	Veto proposal for delaying fulfilment of commitment	Venus Investment Management Co., Ltd. 深圳市明曜投资管理有限公司	Open call for voting rights	Succeeded
13	2016	Yinchuan Xinhua Commercial Group Co., Ltd. 银川新华百货商业集团股份有限公司	Listed POE	Proposal to convert capital reserve into share capital	Shanghai Baoyin Chuangying Investment Management; Shanghai Zhaoying Equity Investment Fund Management 上海宝银创赢投资管理有限公司；上海兆赢资产管理有限公司	Shareholder proposal	Failed
14	2017	Pacific Shuanglin Bio-	Listed	Hostile takeover	Zhemin Tianhong Investment	General offer to	Succeeded

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
		pharmacy Co., Ltd. 派斯双林生物制药股份有限公司	POE		Partnership (L.P.) 杭州浙民投天弘投资合伙企业（有限合伙）	shareholders	
15	2019	Shenzhen Sunrise New Energy Co., Ltd. 深圳市兆新能源股份有限公司	Listed POE	Dismissal of chairman	Shenzhen Huitong Zhengyuan Private Equity Investment Fund Partnership 深圳市汇通正源股权投资基金合伙企业	Shareholder proposal; Governance change	Failed
16	2020	Dalian Sunasia Tourism Holding Co., Ltd. 大连圣亚旅游控股股份有限公司	Listed SOE	Dismissal of chairman and vice-chairman	Panjing Equity Investment Fund Management (Shanghai) Co., Ltd. 磐京股权投资基金管理（上海）有限公司	Shareholder proposal; Governance change	Succeeded
17	2021	Innovation Medical Management Co., Ltd. 创新医疗管理股份有限公司	Listed POE	Dismissal of board members	Hangzhou Lanchuang Investment Partnership; Zhejiang Fuzhe Capital Management 杭州岚创投资合伙企业；浙江国有资本平台	Teaming up with other institutional investors; Shareholder proposal	Failed
18	2021	Shandong Xinchao Energy Corporation Limited 山东新潮能源股份有限公司	Listed POE	Dismissal of the board of directors	Shenzhen Jinzhichangsheng Investment Co., Ltd. 深圳市金志昌盛投资有限公司	Teaming up with other institutional investors; Shareholder proposal	Failed

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
Part II Shareholder Activism – Public Mutual Funds (post-2022)							
19	2025	Air China Limited 中国国际航空股份有限公司(601111)	Listed SOE	Oppose seasoned equity offering (private placement) on grounds of disproportionate dilution of minority shareholders' interests	Guangfa Fund Management Co., Ltd. 广发基金管理有限公司	Exercise of voting rights at shareholders' meeting; post-vote public disclosure of objection reasoning ('本次定增发行显著稀释中小股东的权益')	Voted against; Guangfa subsequently reduced its holding in Air China following the vote
20	2025	China COSCO Shipping Energy Transportation Co., Ltd. 中远海能股份有限公司 (600026)	Listed SOE	Oppose private placement (seasoned equity offering)	Dacheng Fund Management Co., Ltd. 大成基金管理有限公司	Exercise of voting rights; public disclosure of objection reasoning ('募投项目对行业中长期价格有负面压力')	Voted against; placement outcome pending
21	2025	Biopeptide Co., Ltd. (百普赛斯) 百普赛斯股份有限公司	Listed POE	Abstain from H-share listing proposal	China Europe International Business School (CEIBS) Fund (中欧基金) 中欧基金管理有限公司	Exercise of voting rights; public disclosure ('公司现金储备充足，是否需要通过港股上市融资有待商榷')	Abstained; proposal passed
22	2025	Huafeng Chemical Co., Ltd. 华峰化学股份有限公司 (002064)	Listed POE	Block RMB 6 billion related-party acquisition (19 proposals) — concerns over valuation	Minority/retail shareholders collectively (中小股东集体投票)	Exercise of voting rights at AGM; controlling shareholder recused from vote	All 19 proposals defeated; acquisition terminated

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
				fairness (>500% premium)			
23	2025	Hainan Development Co., Ltd. 海南发展股份有限公司	Listed SOE	Block extension of controlling shareholder’s duty-free asset injection commitment	Minority shareholders (中小股东集体投票)	Exercise of voting rights; counter-proposal; controlling shareholder recused	Initial proposal defeated (56% against); revised proposal later passed after shareholder-friendly concessions
Part III CSISC Representative Litigation and Board Nomination							
24	2021	Kangmei Pharmaceutical Co., Ltd. 康美药业股份有限公司	Listed POE	Securities fraud class action — financial misrepresentation; compensation for over 50,000 investors	China Securities Investor Service Center (CSISC) 中证中小投资者服务中心	Special representative litigation under Securities Law Art. 95(3)	Succeeded — RMB 24.59 billion compensation awarded
25	2023	Zeда Yisheng Technology Co., Ltd. 泽达易盛（天津）科技股份有限公司	Listed POE (STAR Market)	Securities fraud class action — fraudulent IPO disclosure; compensation for 7,195 investors	China Securities Investor Service Center (CSISC) 中证中小投资者服务中心	Special representative litigation; settlement	Succeeded — RMB 280 million full compensation; first class-action settlement in

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
							China
26	2024–2025	Jintong Ling Technology Group Co., Ltd. 金通灵科技集团股份有限公司 (300091)	Listed POE	Securities fraud class action — 6-year financial misrepresentation (2017–2022); compensation for ~43,000 investors	China Securities Investor Service Center (CSISC) 中证中小投资者服务中心	Special representative litigation initiated Dec 2024; trial Dec 2025	Succeeded — RMB 775 million compensation ordered (Jan 2026 judgment)
27	2024	First Pharmaceutical Co., Ltd. 第一医药股份有限公司	Listed POE	Nomination of independent director candidate via public proxy solicitation	China Securities Investor Service Center (CSISC) 中证中小投资者服务中心	Joint nomination + open proxy solicitation (联合股东提名＋公开征集表决权)	Succeeded — first successful investor-protection-institution nomination of independent director in A-share market
28	2025	Shangfeng Cement Co., Ltd. 甘肃上峰水泥股份有限公司 (000672)	Listed POE	Nomination of independent director candidate (Du Jian) via public proxy solicitation	China Securities Investor Service Center (CSISC) + institutional investors 中证中小投资者服务中心联合机构投资者	Joint nomination + open proxy solicitation; CSISC represented aggregated minority shareholder votes at AGM (71.94% of	Succeeded — AGM approved on 16 May 2025; second successful CSISC independent

No.	Year	Target Company	Type	Goal	Entity	Engagement Strategies	Result
						minority ‘yes’ votes came via CSISC)	director nomination

Notes: ‘Type’ refers to the classification of the target company as at the date of the activism. POE = privately owned enterprise; SOE = state-owned enterprise. Cases 1–18 were identified through a review of regulatory filings, exchange announcements, and contemporaneous media reports for the period 2008–2021. Cases 19–28 (shaded) were added to update the sample through May 2026, using the same identification methodology. Selection focused on cases in which activist investors or investor-protection institutions publicly articulated specific governance or financial demands and the outcome was verifiable through public records.

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