



Discussion on:

The Overlooked Reality of Shareholder Activism in China: Defying Western Expectations

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Summary

- Contrary to Western assumptions, China has developed a **rules-based market for shareholder activism** with **no evidence of systemic political interference**, even when state actors are involved.

		Targets		
		POE	Local SOEs	Central SOEs
Activists	Private	83	16	7
	Local	28	9	0
	Central	7	4	2

Number of activist targets
(2007-2023)

		Targets		
		POE	Local SOEs	Central SOEs
Activists	Private	37%	44%	43%
	Local	50%	56%	N/A
	Central	29%	25%	50%

Success ratio
(2007-2023)

Shareholder centric model under CCP's supervision

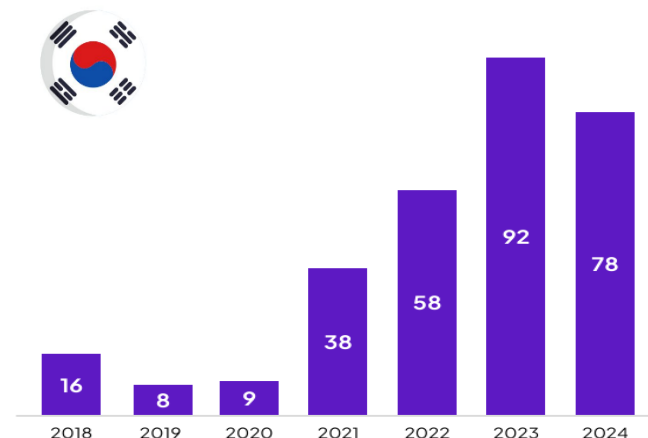
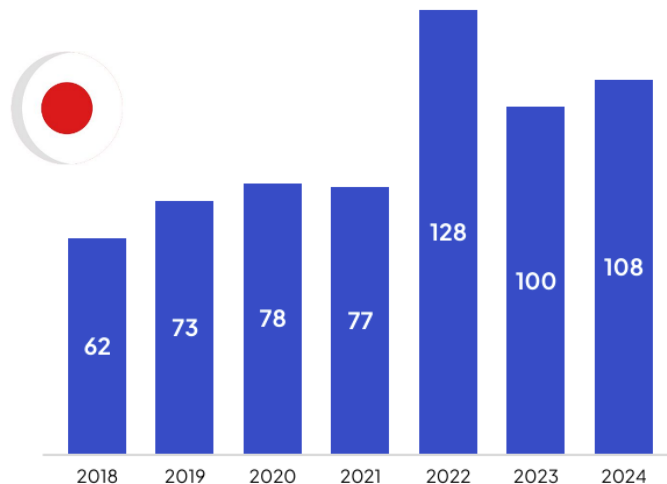
- China has promoted shareholder centric and rule based model to improve corporate governance and attract investors
 - Amendment to Company Law (2024) – enhancing minority rights (shareholder proposal, derivative suits, inspection rights, minority appraisal rights in case of controlling shareholder's abuse)
 - China Securities Regulatory Commission –emphasizing 30% dividend ratio
 - China Securities Investor Services Center – a governmental entity exercising shareholder rights, raising securities law suits on behalf of minority

Shareholder centric model under CCP's supervision (cont.)

- Market based, shareholder centric model goes hand in hand with CCP's influence
 - CCP organization within a company (§18 of Company Act)
 - Companies need to accept supervision from the government and the public (§19 of Company Act)
 - “Chinese state has less control over SOEs and more control over POEs than its ownership interest in the firms suggests” (Milhaupt & Zheng, 2014)
- Use of shareholderism to achieve policy goals
 - “the rise of institutional investors in China has been done in a way to reinforce the CCP's ultimate control” (Lin & Puchniak, 2021)

Shareholder empowerment in East Asia

- (Minority) shareholder protection movement in East Asia
 - Japan – decade of corporate reform; Stewardship Code (2014) and CG Code (2015); increase shareholder return by disclosure and market restructuring
 - Korea – Value-up Program (disclosure on COE, ROE, distribution plan); planned amendment of Commercial Code for a duty of loyalty toward shareholders
- Shareholder empowerment as a channel to achieve policy goals, e.g., boost economy, attract investors, resolve excessive inequality



Source:
Diligent

Review on possible selection bias (Section III.H.)

- Only 25% of targets in the dataset is SOEs
- Authors review the possibility that “perhaps only when severe problems arise in SOEs will activists dare to target them”
- Authors reject this possibility based on the following reasons:
 1. there is no significant difference between the ROAs of SOE and POE targets in the dataset, so similar level of problem with challenged targets
 2. the proportion of SOE and POE targets (25% vs 75%) are almost same with that of SOEs and POEs in listed companies (26% vs 74%), so similar level of activists challenge for both types

Hypothesis – SOEs need more activism

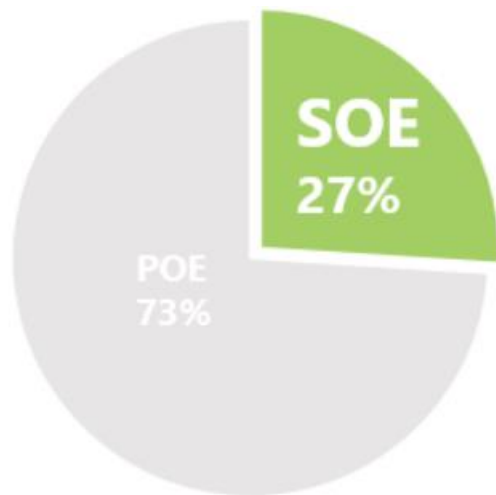
1. SOEs have substantially underperformed compared to POEs for many years
 - **CSI POE index** vs **CSI SOE index**
 - SOEs may need more activists attention than POEs. How about looking at the performance of all listed companies? (rather than ROA in the dataset)



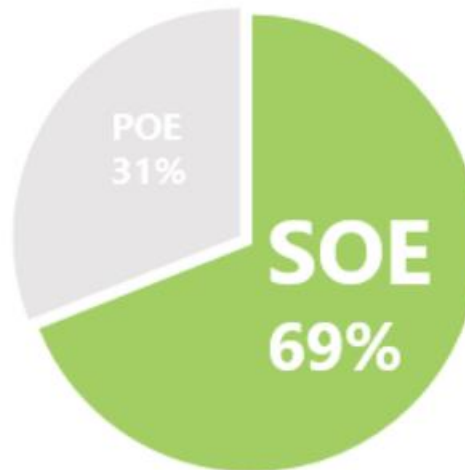
Source: CSIC and Fidelity

Hypothesis – SOEs need more activism

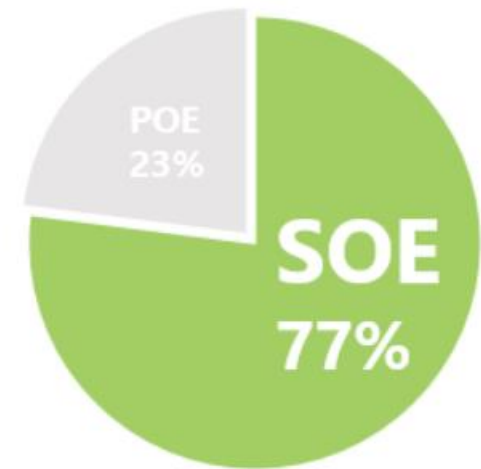
2. Despite the smaller number of listed SOEs, SOEs are much more important than POEs in Chinese economy in terms of size



Number of SOE companies



Share of Total Market Revenue



Share of Total Market Profit

Source: Premia Partners and CSIC



Thank you / 감사합니다

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