

GCGC 2025 Imperial College Research Talk

Corporate Governance and SOE Reform, A China Perspective

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- The Chinese government and the Chinese Communist Party have a constitutional mandate to develop a “socialist market economy.” To this end, the government and the Communist Party continue to exercise control directly and indirectly over the allocation of resources through instruments such as **government ownership and control of key economic actors and government directives.**
- Recently, the Communist Party also has taken steps to increase the strength and presence within business organizations in China. These efforts are so pervasive that...

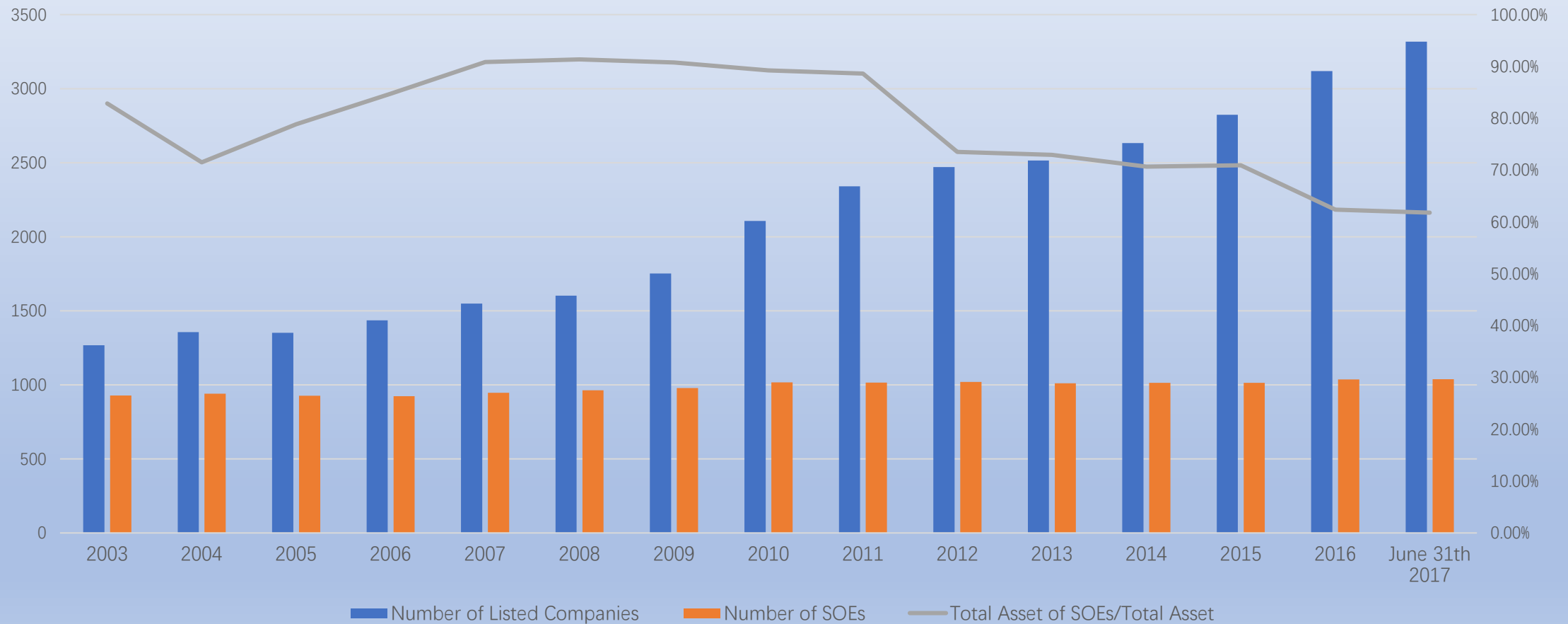
The party now overtake the state/administration in the tight control of the economy: the banking, media, public sectors, and SOEs.

The list now goes to non-SOEs.

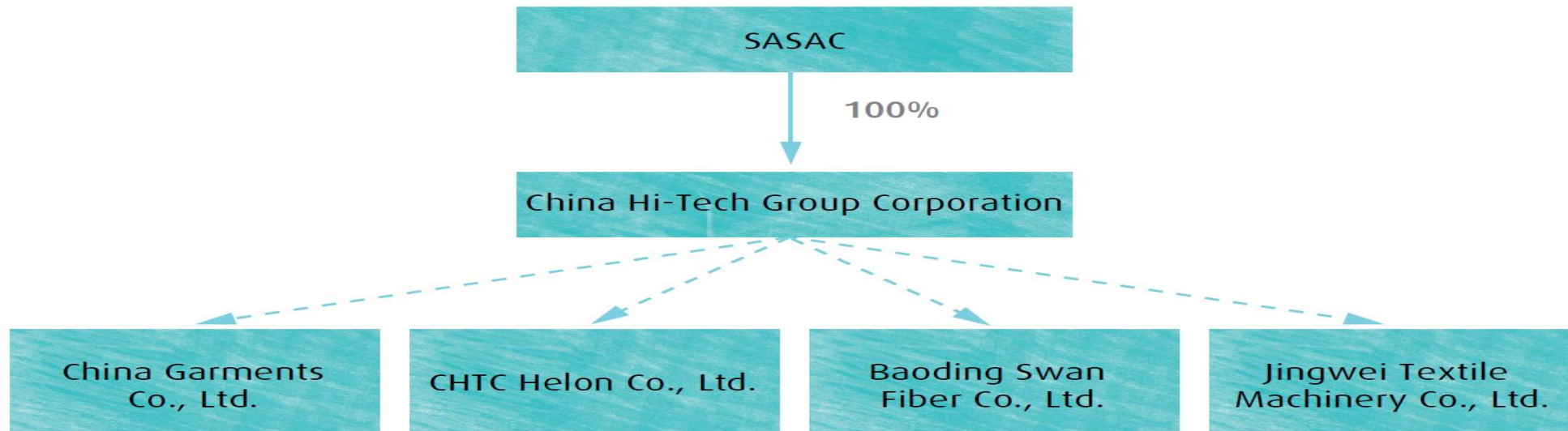
China Previous Successful Experience

- During the 1990s, and especially after the mid-1990s, the Chinese government accelerated the pace of privatization and liberalization.
 - In November 1993, the Party Central Committee had decided that the goal of the state owned enterprise reform was to develop “modern enterprises” characterized by “transparent property right, clearly identified rights and responsibilities, separation of government and enterprise, and scientific management.”
- China’s SOEs underwent a long process of gradual and progressive transformation.
 - Starting from 1997, Prime Minister Zhu Rongji reformed SOEs under the mantra of “Grasp the large, release the small” by restructuring strong firms through share issue privatization on stock market (Megginson, et al, 1999), and sell or close down weak or smaller.
 - The governance established the State-owned Assets Supervision and Administration Commission (SASAC) led by the State Council in 2003 to oversee SOEs. .
 - Ownership stake of many SOEs was transferred away from line ministries to SASAC with some exceptions (Central Huijin holds state shares of major banks and several financial institutions).
- However, recently there was **a great reversal of privatization.**

Summary of SOEs in listed firms



Two cases of SASAC's holding structure



The consequence of partial privatization

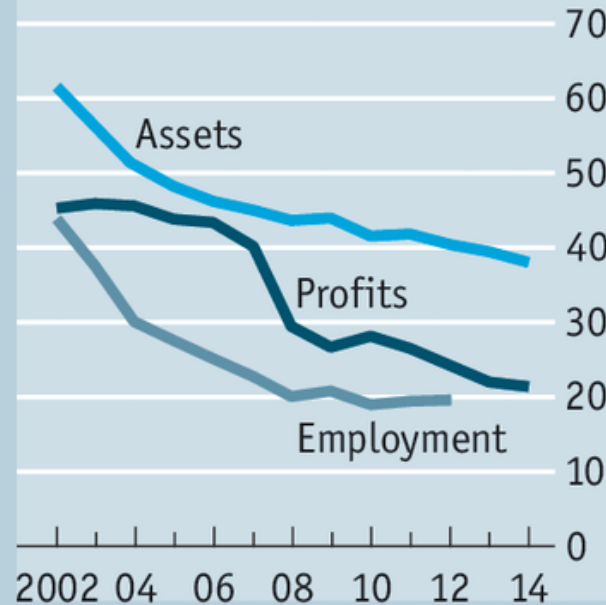
- The partial privatization approach has resulted in a great number of listed SOEs in which the state owns the lion's share of equity stake.
 - According to State-owned Asset Supervision and Administration Commissions (SASAC), as of 2008, listed companies controlled by the central government represent 37 percent of total market capitalization and 42 percent of revenues.
 - Privatization improves efficiency.
Evidence: SOEs are found to be associated with being uncompetitive and inefficiently managed (Lin, Cai and Li, 1998; Sun and Tong, 2003; Dewenter and Malatesta, 2001).
- Perotti (1995)'s critique.
 - Chinese government remain controls of SOEs, owns lion's share of stake, has key personnel decisions, and plays an proactive role.
 - Political interests and agenda prioritize those of shareholders.
- US government's critique of Chinese government on political control and failure to comply with WTO commitment

Performance of SOEs remains miserable

State-owned, and in a state

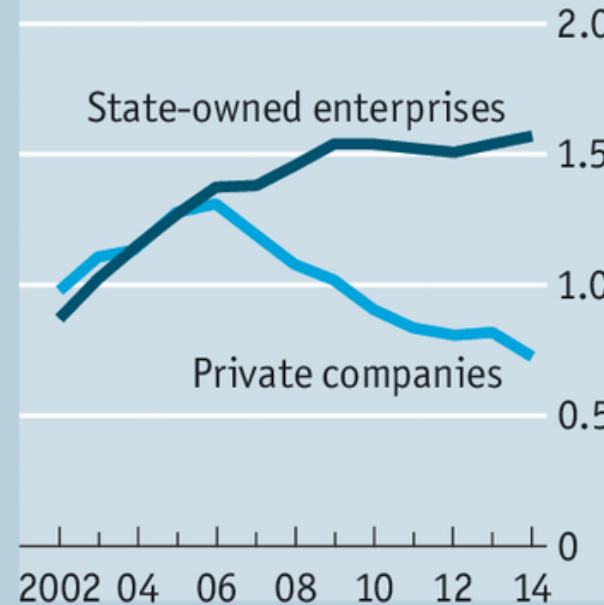
China

State-owned enterprises' share, %

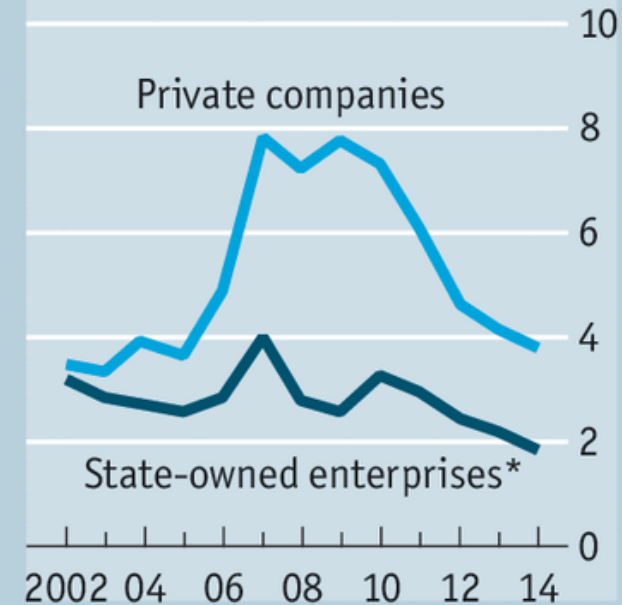


Sources: CEIC; NBS; WIND; IMF

Debt/equity leverage ratio



Return on assets, %



*Excluding local- government financing

Corporate governance challenge of SOEs

- One prevailing governance challenge for the state as the major shareholder in SOEs is to exercise control and balance political controls and agency problem/conflict of interest. (Qian and Stigler, 1996, Qian 1996; Bai, et al, 2004; Chang and Wong, 2004)
- Two layers of institutions are developed: SASAC and the Party
 - SASAC is the delegated overseeing agency led by the State Council.
 - Internally, a board of directors (a supervisory board to less extent) is required by the CSRC (China Securities Regulation Commissions) to monitor managers in firms. One third of directors are required to be independent.
 - However, SASAC has the authority to appoint to executives while boards are left with a minor monitoring role.
 - Hermalin and Weisbach (1998) show that hiring and firing of the management is one of central roles for boards of directors in governance. Cao, et. al. (2018) find incentive of political promotion in SOEs important for executives..
 - The SASAC used to exercise political control on behalf of the state and the party.

What we study in this paper?

- The shift of board control from the state council (SASAC) to the party. There is an elevation of political control by the CPC through political reform and controls over SOEs (The party ruling everything literally)
 - Establish party cells/organization within firms.
- Eventually...the Rule #36 was announced at 5pm, May 3rd, 2017.
 - The State Council issued the Rule #36 outlining the reform of corporate governance structure, which explicitly enforces the legal entity of the CPC to ensure the party authority over the board.
 - This mandate renders the CPC the oversight role over the boards and allows the CPC to directly interfere in corporate boards.
 - The main objective of Rule #36 is that major decisions of SOEs should ensure the interests of CPC party.

Hypothesis

- Main hypothesis

The CPC's interference as extra political controls over SOEs will deteriorate corporate governance.

- Sub-hypotheses

1. The negative value effect of the announcement of Rule #36 will be greater for SOEs with weaker political presence in place or greater incentive conflict to implement party control.
2. SOEs with weak internal governance or external market oversight will experience larger negative value loss.

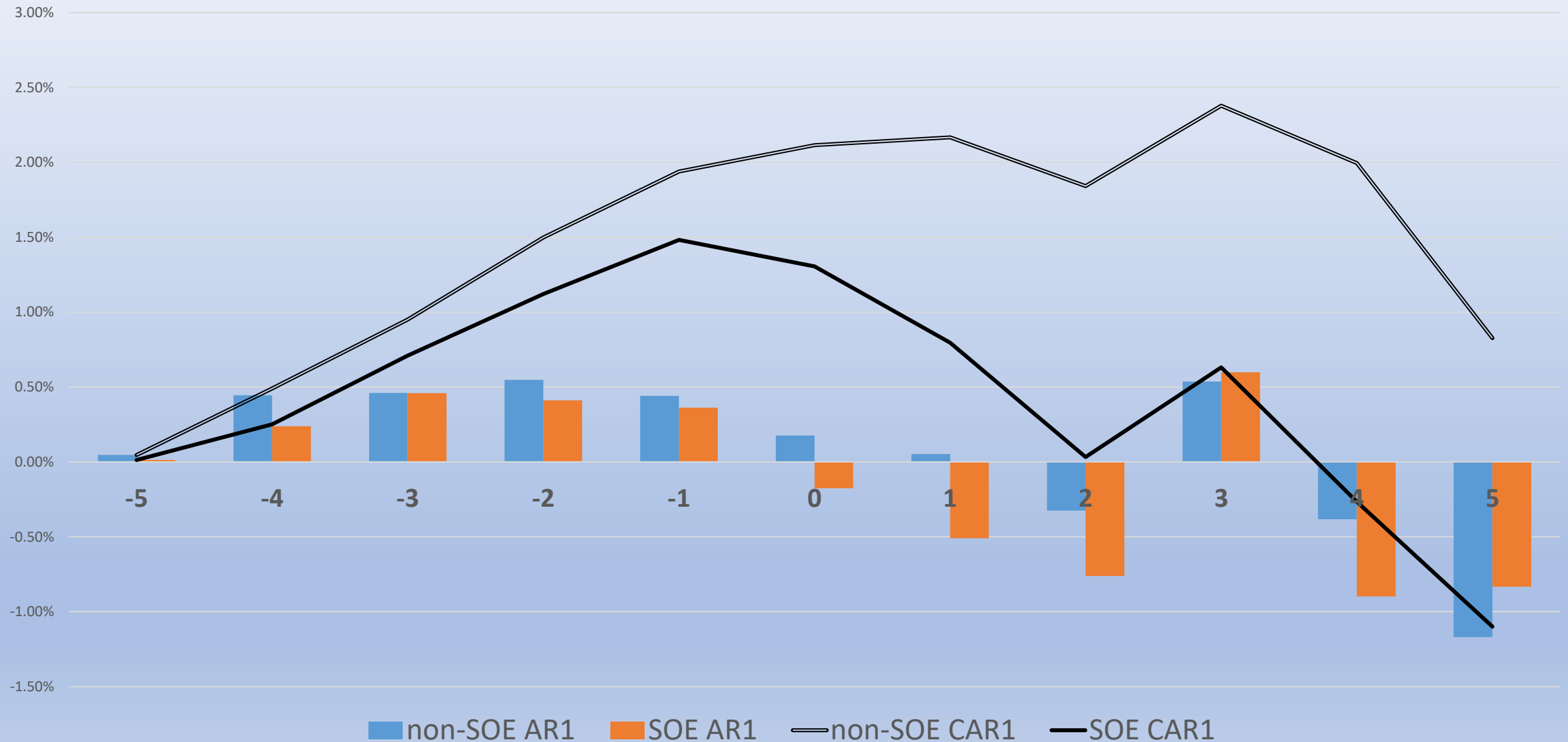
SOEs amended their Company Charter to legalize the CPC's role

SOEs Name	Announcement Date	Market Capitalization Year 2017 (Billion RMB)
Shanghai Pudong Development Bank Co., Ltd.	2017/6/13	370
New China Life Insurance Company Ltd.	2017/8/30	190
Guangzhou Automobile Group Co., Ltd.	2017/7/7	160
Shanghai International Port (Group) Co., Ltd	2017/10/31	150
Aluminum Corporation of China Limited	2017/8/18	110
Zhejiang Zheneng Electric Power Co., Ltd.	2017/11/9	72
Aecc Aviation Power Co, Ltd	2017/11/8	61
Jiangxi Copper Company Limited	2017/8/30	56
SDIC Capital Co., Ltd	2017/11/18	56
Shanxi Xinghuacun Fen Wine Factory Co.,Ltd	2017/7/5	49
China Shipbuilding Industry Group Power Co., Ltd	2017/10/24	43
Bank of Hangzhou Co., Ltd.	2017/8/26	42
Financial Street Holdings Co., Ltd.	2017/12/2	33
Shanghai Construction Group Co., Ltd.	2017/12/12	33
China Petroleum Engineering Co., Ltd.	2017/9/19	32
Fiberhome Telecommunication Technologies Co., Ltd.	2017/12/2	32
Shanxi Xishan Coal and Electricity Power Co., Ltd	2017/9/30	32
Zhejiang China Commodities City Group Co., Ltd.	2017/12/13	31
Tongling Nonferrous Metals Group Co., Ltd	2017/8/28	31
Bank of Guiyang Co., Ltd.	2017/6/27	31

We carry out an event study

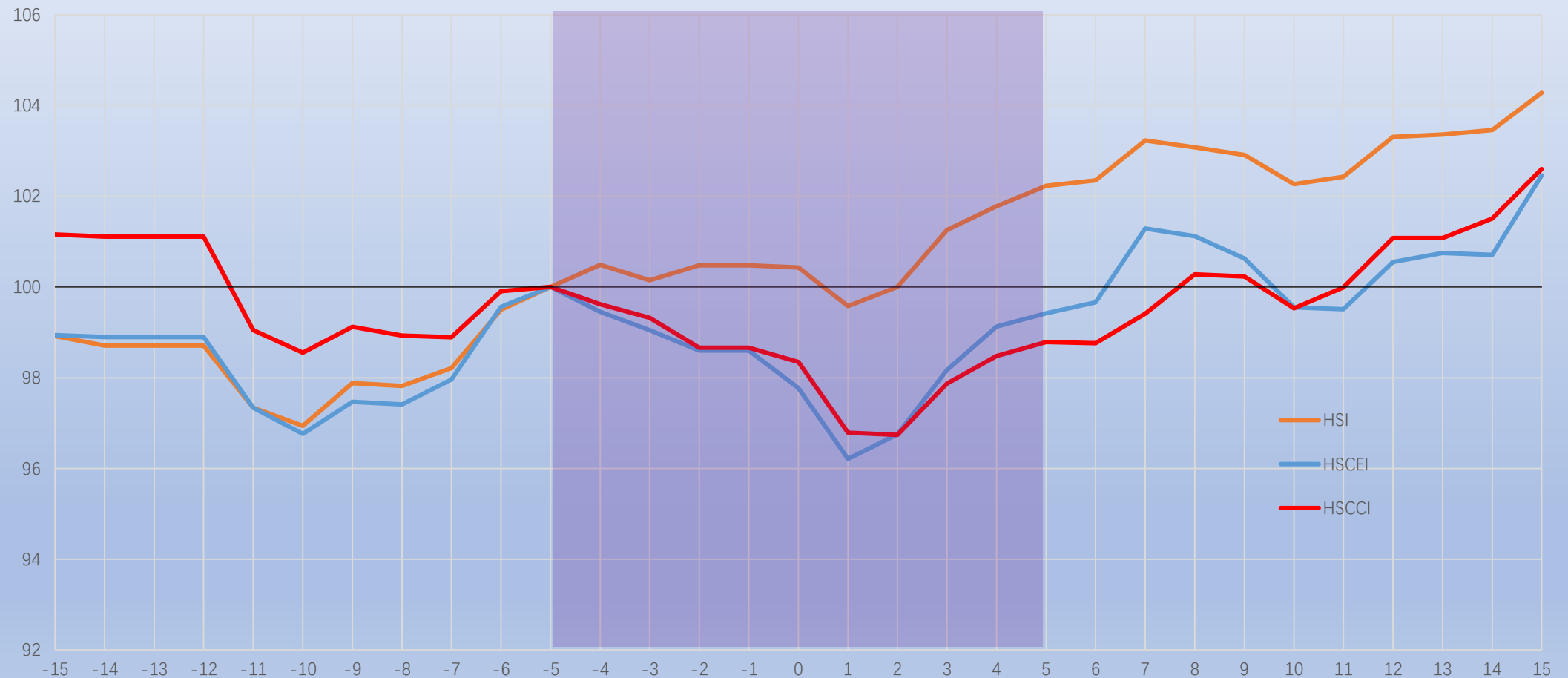
- The announcement of the Rule #36 presents a quasi-natural experiment to understand the general impact of political controls by the party over SOEs.
- This event helps identify expected market value change of firms and illuminate the economics of corporate governance reforms dominated by the CPC rather than the state.
 - Regardless, the new policy was unexpected: its announcement was made half a year before the 19th CPC National Congress when new policies were expected to be unveiled.
 - Almost immediately after the announcement, many SOEs redrafted their by-laws to include clauses that give core power to party committees in the governance structure.

CAR surrounding the announcement event



Robust test with Hong Kong market

This figure plots the cumulative total return of major indices in Hong Kong centered on the event date, May 3rd 2017. The indices include HSI (HangSeng Index), HSCEI (HangSeng China Enterprise Index), HSCCI (HangSeng Red-Chip Index) and all indices are normalized to 100% at the beginning of the five-day event window around the event date.



Key Findings

1. SOEs experience significant negative CAR around the announcement of the Rule #36, while non-SOEs experience positive CAR. Their difference is statistically and economically significant.
2. The negative CAR is more pronounced for central SOEs than local SOEs, for SOEs with greater presence of the CPC in boards, for SOEs with greater state control.
3. The negative CAR is more pronounced for SOEs with sound external oversight, e.g., higher institutional ownership/greater board independence, greater media attention/analyst coverage, or in provinces with higher marketization index.

Data

- We collect the data of listed firm on daily stock return as well as the financial information from China Stock Market and Research Database (CSMAR), a well accepted database on Chinese financial and accounting research.
 - We keep A-share stocks traded on two mainland stock exchanges – the Shanghai Stock Exchange and the Shenzhen Stock Exchange and drop B-share stocks.
 - Financial firms are excluded since they share different disclosure regulations.
 - We also require all firms should be tradable within five trading-day window centered on May 3rd, 2017.
 - To avoid confounding effect, we also drop the events following: disclosure of quarterly, semi-annual, or annual report, and/or with the announcement of events of material importance.
- The final sample consists of 2306 firms.
- As the ownership data, we combine several widely used databases (CSMAR, the China Centre for Economic Research (CCER) Database and the Wind Database) and manually check for any errors.
 - The central SOEs are manually collected from State-owned Assets Supervision and Administration Commissions (SASAC).
 - We also identify each firm's ownership structure based on both ultimate owner and blockholder information.

Methods

- The estimation windows for CAPM are used from 210 trading days to 11 trading days prior to May. 4th 2017.

- $R_{i,t} = \alpha_i + \beta_i R_{M,t} + \varepsilon_{i,t}$ (1)

- $CAR1_{(-1,1)} = \sum_{-1}^1 AR_{i,\tau}$, $CAR1_{(-2,2)} = \sum_{-2}^2 AR_{i,\tau}$.

- $AR_{i,\tau} = R_{i,\tau} - (\hat{\alpha}_i + \hat{\beta}_i R_{M,t})$ for each event windows ($\tau = -1, 0, 1; \tau = -2, \dots, 2$)

- $CAR2$ uses excess return over the value – weighted market portfolio

- Baseline Regression:

- $CAR_i = \gamma_j + \delta_k + \beta_1 SOE_i + \beta_2 X_i + \epsilon_i$ (2)

Summary Statistics

Panel A: CARs Centered on May.4 th 2017								
	Full Sample		SOE=1		SOE=0			
Variables	N	Mean	N	Mean	N	Mean	Dif	T-Value
CAR1(-1,1)	2,306	0.32%	812	-0.33%	1,494	0.67%	-0.99%	6.69
CAR2(-1,1)	2,306	-0.87%	812	-1.12%	1,494	-0.74%	-0.39%	2.91
CAR1(-2,2)	2,306	0.34%	812	-0.68%	1,494	0.89%	-1.57%	7.24
CAR2(-2,2)	2,306	0.40%	812	-1.64%	1,494	-1.28%	-0.36%	2.57
Panel B: Main Variables								
	N	Mean	S.D.	p25	p50	p75		
SOE Dummy	2,306	0.352	0.478	0.000	0.000	1.000		
LnSZ	2,306	22.233	1.242	21.372	22.105	22.923		
B/M	2,306	0.496	0.324	0.280	0.423	0.617		
Leverage	2,306	0.404	0.201	0.240	0.388	0.552		
BHR	2,306	0.050	0.090	0.000	0.038	0.086		
lvol	2,306	0.020	0.009	0.015	0.018	0.023		
Panel C: SOEs Insider's CPC's Position								
	N	Mean	S.D.	p25	p50	p75		
Central SOE Dummy	812	0.213	0.410	0.000	0.000	0.000		
Party Director	812	0.484	0.500	0.000	0.000	1.000		
Party Manager	812	0.127	0.333	0.000	0.000	0.000		
Party Supervisor	812	0.243	0.429	0.000	0.000	0.000		
Panel D: Firm's Other Characteristics								
	N	Mean	S.D.	p25	p50	p75		
Wedge	2229	4.62	7.56	0.00	0.00	7.35		
Share Concentration	2306	0.58	0.19	0.43	0.57	0.73		
Institution Ownership	2306	38.41	23.89	18.20	38.81	57.16		
Big N Auditing	2306	0.72	0.45	0.00	1.00	1.00		
Independent Directors	2306	0.37	0.06	0.33	0.33	0.43		
Analyst Coverage	2306	7.28	7.46	1.00	5.00	11.00		
Media Attention	2306	2.59	1.38	1.88	2.30	2.90		
Marketization	2306	8.19	1.70	7.00	9.08	9.63		

Subsample Summary of CARs according to province

Panel A: Province Level						
	SOEs			non-SOEs		
Province	N	CAR1(-1,1)	CAR1(-2,2)	N	CAR1(-1,1)	CAR1(-2,2)
Beijing	89	-0.12%	-0.61%	115	1.63%	2.67%
Guangdong	77	-0.68%	-1.03%	270	0.77%	1.17%
Shanghai	73	0.86%	1.00%	98	1.41%	2.20%
Shandong	51	-0.68%	-1.41%	92	0.17%	-0.17%
Jiangsu	44	-0.25%	-0.81%	193	0.31%	0.29%
Hubei	38	0.20%	0.80%	36	-0.51%	-0.63%
Anhui	34	-1.03%	-1.33%	39	0.31%	0.20%
Zhejiang	34	-0.11%	0.25%	226	0.64%	0.93%
Hunan	32	-0.67%	-1.93%	33	0.55%	0.74%
Sichuan	29	-0.14%	-1.16%	57	1.42%	0.98%
Liaoning	27	-0.16%	0.02%	34	0.48%	1.23%
Fujian	26	-0.63%	-0.96%	54	0.59%	0.82%
Shaanxi	26	-0.90%	-1.52%	11	-0.55%	-1.42%
Henan	22	-0.99%	-1.30%	39	0.64%	1.70%
Shanxi	20	-1.09%	-0.54%	11	0.76%	2.63%
Xinjiang	19	1.02%	0.16%	17	0.39%	-1.45%
Tianjin	18	-1.15%	-3.09%	11	0.11%	0.43%
Hebei	18	-2.84%	-3.46%	21	1.65%	2.64%
Jiangxi	16	-0.77%	-1.14%	13	0.60%	1.10%
Jilin	15	-0.11%	-0.81%	15	0.18%	-0.52%
Chongqing	15	1.19%	0.36%	17	1.16%	0.74%
Guangxi	14	0.33%	0.73%	11	-0.03%	-1.92%
Heilongjiang	14	-1.02%	-3.02%	15	0.29%	-0.54%
Yunnan	13	-1.73%	-1.78%	8	0.76%	0.98%
Gansu	12	1.15%	3.91%	12	-0.30%	0.40%
Guizhou	11	-0.42%	-0.71%	4	1.62%	2.56%
Hainan	8	2.43%	2.17%	13	1.17%	0.92%
Inner Mongolia	7	-2.08%	-4.02%	12	-1.13%	-1.94%
Qinghai	4	-2.14%	-1.19%	7	-0.83%	-3.00%
Ningxia	3	1.37%	-0.25%	2	-0.13%	-1.90%
Tibet	3	-1.07%	-1.49%	8	-0.22%	-0.17%

Subsample Summary of CARs according to industry

Panel B: Industry Level						
	SOEs			non-SOEs		
CSIC Industry LV1	N	CAR1(-1,1)	CAR1(-2,2)	N	CAR1(-1,1)	CAR1(-2,2)
Industrials	243	-0.53%	-1.46%	414	1.06%	0.81%
Materials	151	-0.16%	-0.18%	234	0.12%	0.51%
Consumer Discretionary	138	-0.20%	-0.31%	253	0.63%	0.66%
Utilities	70	-0.50%	-1.16%	13	0.77%	0.58%
Consumer Staples	59	-0.02%	-0.06%	88	-0.09%	-0.44%
Information Technology	55	0.98%	0.38%	262	1.38%	2.66%
Health Care	48	0.28%	0.17%	167	-0.09%	-0.07%
Energy	38	-2.72%	-1.90%	25	0.18%	0.86%
Telecommunication Services	10	-1.08%	0.20%	38	0.66%	0.90%

Baseline regression results

	CAR from market model			
	(-1,+1)	(-1,+1)	(-2,+2)	(-2,+2)
	(1)	(2)	(3)	(4)
SOE Dummy	-0.009*** (0.003)	-0.006** (0.003)	-0.014*** (0.004)	-0.011** (0.004)
LnSZ		-0.005*** (0.001)		-0.008*** (0.002)
Leverage		0.001 (0.003)		0.001 (0.008)
B/M		0.008*** (0.002)		0.012*** (0.004)
BHR		0.026** (0.011)		0.012 (0.011)
Ivol		-0.496*** (0.098)		-1.330*** (0.188)
Constant	0.015*** (0.003)	0.136*** (0.025)	0.022*** (0.004)	0.219*** (0.043)
Province F.E.	Y	Y	Y	Y
Industry F.E.	Y	Y	Y	Y
N	2306	2306	2306	2306
adj. R-sq	0.040	0.062	0.052	0.099

Regressions according to the extent of SOEs meeting the reform requirement or not

	CAR from market model							
	Corporate Charter			Position of CPC			Central SOEs	
	(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)
	(1)	(2)		(3)	(4)		(5)	(6)
SOE × no meet	-0.007**	-0.012***		-0.006**	-0.011**		-0.009**	-0.018**
	(0.003)	(0.004)		(0.003)	(0.004)		(0.003)	(0.006)
SOE × meet	-0.002	-0.009		-0.004	-0.012**		-0.005*	-0.010**
	(0.003)	(0.007)		(0.003)	(0.004)		(0.003)	(0.004)
LnSZ	-0.005***	-0.008***		-0.005***	-0.008***		-0.005***	-0.008***
	(0.001)	(0.002)		(0.001)	(0.002)		(0.001)	(0.002)
Leverage	0.002	0.001		0.001	0.001		0.001	0.001
	(0.003)	(0.008)		(0.003)	(0.008)		(0.003)	(0.008)
B/M	0.009***	0.012***		0.009***	0.012***		0.008***	0.012***
	(0.003)	(0.003)		(0.002)	(0.004)		(0.002)	(0.003)
BHR	0.025**	0.012		0.026**	0.012		0.026**	0.012
	(0.010)	(0.011)		(0.011)	(0.011)		(0.011)	(0.012)
Ivol	-0.498***	-1.331***		-0.498***	-1.329***		-0.494***	-1.324***
	(0.098)	(0.189)		(0.098)	(0.189)		(0.099)	(0.189)
Constant	0.138***	0.220***		0.137***	0.219***		0.134***	0.213***
	(0.026)	(0.043)		(0.025)	(0.043)		(0.025)	(0.040)
Province F.E.	Y	Y		Y	Y		Y	Y
Industry F.E.	Y	Y		Y	Y		Y	Y
N	2306	2306		2306	2306		2306	2306
adj. R-sq	0.063	0.099		0.062	0.099		0.062	0.100

Regressions according to the incentive conflicts of firms

	CAR from market model							
	Ownership			PC			Wedge	
	(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)
	(1)	(2)		(3)	(4)		(5)	(6)
SOE×More	-0.007**	-0.012**		-0.008**	-0.014***		-0.007**	-0.016***
	(0.003)	(0.005)		(0.003)	(0.004)		(0.003)	(0.005)
SOE×Less	-0.005	-0.009*		-0.002	-0.005		-0.006*	-0.010**
	(0.004)	(0.005)		(0.003)	(0.005)		(0.003)	(0.005)
More	0.002	0.004		-0.000	-0.003		-0.002	-0.004*
	(0.002)	(0.004)		(0.002)	(0.003)		(0.002)	(0.002)
LnSZ	-0.006***	-0.008***		-0.005***	-0.008***		-0.005***	-0.008***
	(0.001)	(0.002)		(0.001)	(0.002)		(0.001)	(0.002)
Leverage	0.002	0.002		0.002	0.001		0.001	0.001
	(0.003)	(0.008)		(0.003)	(0.008)		(0.003)	(0.008)
B/M	0.008***	0.012***		0.008***	0.012***		0.008***	0.011***
	(0.002)	(0.004)		(0.002)	(0.003)		(0.002)	(0.004)
BHR	0.026**	0.013		0.025**	0.012		0.026**	0.012
	(0.011)	(0.012)		(0.011)	(0.011)		(0.011)	(0.012)
Ivol	-0.510***	-1.353***		-0.493***	-1.325***		-0.515***	-1.358***
	(0.103)	(0.191)		(0.098)	(0.188)		(0.095)	(0.183)
Constant	0.141***	0.226***		0.138***	0.221***		0.140***	0.219***
	(0.027)	(0.044)		(0.024)	(0.042)		(0.025)	(0.042)
Province F.E.	Y	Y		Y	Y		Y	Y
Industry F.E.	Y	Y		Y	Y		Y	Y
N	2306	2306		2306	2306		2229	2229
adj. R-sq	0.062	0.100		0.063	0.100		0.066	0.104

Regressions according to the governance of firms

	CAR from market model							
	Independent Director			Supervisory Board			Ownership Concentration	
	(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)
	(1)	(2)		(3)	(4)		(5)	(6)
SOE×More	-0.003	-0.005		-0.002	-0.003		-0.007*	-0.012**
	(0.004)	(0.004)		(0.004)	(0.005)		(0.004)	(0.006)
SOE×Less	-0.008***	-0.016***		-0.007**	-0.012***		-0.005**	-0.011***
	(0.003)	(0.005)		(0.003)	(0.003)		(0.002)	(0.003)
More	-0.001	-0.001		-0.004	-0.010*		0.001	-0.000
	(0.002)	(0.002)		(0.003)	(0.006)		(0.001)	(0.002)
LnSZ	-0.005***	-0.008***		-0.005***	-0.008***		-0.005***	-0.008***
	(0.001)	(0.002)		(0.001)	(0.002)		(0.001)	(0.002)
Leverage	0.002	0.001		0.002	0.001		0.001	0.001
	(0.003)	(0.008)		(0.003)	(0.008)		(0.003)	(0.008)
B/M	0.008***	0.012***		0.008***	0.012***		0.008***	0.012***
	(0.003)	(0.004)		(0.002)	(0.003)		(0.003)	(0.004)
BHR	0.025**	0.012		0.025**	0.011		0.026**	0.012
	(0.011)	(0.011)		(0.011)	(0.012)		(0.011)	(0.011)
Ivol	-0.495***	-1.328***		-0.494***	-1.321***		-0.496***	-1.326***
	(0.098)	(0.190)		(0.100)	(0.188)		(0.098)	(0.187)
Constant	0.140***	0.227***		0.135***	0.213***		0.136***	0.219***
	(0.026)	(0.044)		(0.025)	(0.040)		(0.025)	(0.043)
Province F.E.	Y	Y		Y	Y		Y	Y
Industry F.E.	Y	Y		Y	Y		Y	Y
N	2306	2306		2306	2306		2306	2306
adj. R-sq	0.063	0.102		0.062	0.101		0.061	0.099

Regressions according to the external oversight of firms

	CAR from market model										
	Shareholder Rights and Foreign Investor			Reputable Auditor			Institutional Investor			Equity analyst	
	(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)		(-1,+1)	(-2,+2)		(-1, +1)	(-2, +2)
	(1)	(2)		(3)	(4)		(5)	(6)		(7)	(8)
SOE×More	-0.004	-0.000		-0.003	-0.006		-0.006*	-0.010***		-0.006**	-0.013***
	(0.005)	(0.005)		(0.006)	(0.008)		(0.003)	(0.003)		(0.003)	(0.004)
SOE×Less	-0.006**	-0.012**		-0.006**	-0.011**		-0.003	-0.009		-0.006*	-0.009**
	(0.003)	(0.005)		(0.003)	(0.005)		(0.004)	(0.006)		(0.003)	(0.004)
More	-0.001	-0.005		0.001	0.000		-0.003*	-0.004*		0.000	0.002
	(0.004)	(0.005)		(0.006)	(0.008)		(0.002)	(0.002)		(0.001)	(0.002)
LnSZ	-0.005***	-0.008***		-0.006***	-0.008***		-0.005***	-0.007***		-0.005***	-0.008***
	(0.001)	(0.002)		(0.001)	(0.002)		(0.001)	(0.002)		(0.001)	(0.002)
Leverage	0.001	0.001		0.002	0.001		0.000	-0.000		0.001	0.001
	(0.003)	(0.008)		(0.003)	(0.009)		(0.003)	(0.008)		(0.004)	(0.008)
B/M	0.008***	0.012***		0.008***	0.012***		0.007**	0.010**		0.008***	0.012***
	(0.003)	(0.003)		(0.002)	(0.003)		(0.003)	(0.004)		(0.002)	(0.004)
BHR	0.026**	0.012		0.026**	0.013		0.024**	0.011		0.026**	0.012
	(0.010)	(0.011)		(0.010)	(0.011)		(0.010)	(0.011)		(0.011)	(0.012)
Ivol	-0.497***	-1.335***		-0.503***	-1.338***		-0.504***	-1.339***		-0.494***	-1.308***
	(0.098)	(0.191)		(0.096)	(0.188)		(0.099)	(0.190)		(0.098)	(0.187)
Constant	0.137***	0.222***		0.142***	0.225***		0.123***	0.204***		0.135***	0.219***
	(0.027)	(0.049)		(0.029)	(0.052)		(0.026)	(0.044)		(0.025)	(0.046)
Province F.E.	Y	Y		Y	Y		Y	Y		Y	Y
Industry F.E.	Y	Y		Y	Y		Y	Y		Y	Y
N	2306	2306		2306	2306		2306	2306		2306	2306
adj. R-sq	0.061	0.099		0.062	0.099		0.064	0.100		0.061	0.099

Robustness test

	CAR from market adjust return			CAR from market model			
				PSM		HKSE	
	(-1, +1)	(-2, +2)		(-1, +1)	(-2, +2)	(-1,+1)	(-2, +2)
	(1)	(2)		(3)	(4)	(5)	(6)
SOE dummy	-0.003*	-0.004**		-0.006**	-0.012**	-0.014*	-0.016**
	(0.001)	(0.002)		(0.003)	(0.005)	(0.008)	(0.007)
Non-SOE Dummy						0.003	0.001
						(0.004)	(0.005)
LnSZ	0.002*	0.004***		-0.005***	-0.007**	-0.002**	-0.002**
	(0.001)	(0.001)		(0.001)	(0.003)	(0.001)	(0.001)
Leverage	-0.011***	-0.018***		0.001	-0.001	-0.014**	-0.012*
	(0.002)	(0.004)		(0.005)	(0.011)	(0.006)	(0.007)
B/M	0.004	0.000		0.011***	0.015***	0.002	0.001
	(0.003)	(0.004)		(0.003)	(0.004)	(0.001)	(0.001)
BHR	0.008	0.007		0.050*	0.038*	-0.005	-0.047
	(0.008)	(0.011)		(0.024)	(0.021)	(0.056)	(0.039)
Ivol	0.076	-0.571***		-0.397***	-1.097***	-0.109	-0.231*
	(0.076)	(0.099)		(0.105)	(0.213)	(0.125)	(0.111)
Constant	-0.047*	-0.086***		0.122***	0.191***	0.024*	0.024*
	(0.024)	(0.029)		(0.033)	(0.062)	(0.012)	(0.014)
Province/ Country F.E.	Y	Y		Y	Y	Y	Y
Industry F.E.	Y	Y		Y	Y	Y	Y
N	2306	2306		1200	1200	1580	1580
adj. R-sq	0.057	0.161		0.052	0.082	0.031	0.038

Conclusion

- Our analysis shows that the policy mandate of to elevate CPC's role in corporate governance of SOEs, an unexpected reform, generates significant negative market reactions.
- The key finding:
 - SOEs stocks dropped broadly following the announcement of the CPC's strengthened control in SOEs.
 - The value destruction is more pronounced for firms with less political control in place.
 - The value destruction is attenuated when internal and external governance are strong.
- The research suggests that political control in SOEs incurs great economic cost.
 - The governance reform of SOEs needs to increase the role of the market.
 - Continue to develop institutions as external disciplining force.
 - The accountability and incentive conflicts of SOEs remain critical issues to address

Possible Future Reform of SOEs:

- Adopt “Temasek” Model of Singapore by weakening SASAC’s role as a passive holding entity
- “Mixed Ownership” by introducing private investors into SOEs as large and influential shareholder
 - Anecdotal example, China Unicom.
- Boards of directors with new members from private sectors through “mixed ownership” reform.
- To strengthen political control or recede control for the market?