

Political Party and Firm Value, Evidence from Control Shift in SOEs

By Jerry Cao, Jeremy Goh, Wenlian Lin

Discussant: Yupana Wiwattanakantang

National University of Singapore

The 2025 Global Corporate Governance Colloquium (GCGC)

Imperial Business School, London

13-14 June 2025

Is state control good or bad for the firm?



The event: Institutionalizing the Party control

- **May 3, 2017** The State Council passed a regulation

Guo Ban Fa, 国务院文件 [2017] **No. 36**

“Guiding Opinions of the General Office of the State Council on Further Improving the Corporate Governance Structure of State-Owned Enterprises”

- It require SOEs to establish Party cells and amend their corporate charters to formalize the leadership role of the Party in their corporate governance.

Guo Ban Fa 国务院文件 [2017] No. 36

- **Symbolic provisions:** the Party Constitution is codified in the corporate charter by 2020.
- **Decision making provisions:** Major corporate decisions require prior consultation with the Party Committee.
 - Appointment of important cadres, investment in important projects, and the use of large funding.
- **Personal provisions:**
 - The one-shoulder provision: The secretary of the Party Committee serves as the Chairman of the Board
 - Double entry & cross appointment: It requires the cross appointment of members in the Party Committee and the Board of Directors.

Is the Party's control good or bad for the firm?

- **The helping hand hypothesis:** Active participation by the party will help align interests and enhance monitoring.
- **The grabbing hand hypothesis:** The party might not only prioritize political interest over economic benefits but also expropriate firms' resources.

“Good” governance can mitigate the negative effect

- The negative stock market reaction is more pronounced for SOEs with weaker internal governance and external oversight.
 - **Independent board**: At least 1/3 are independent board members
 - **Large supervisory board**: More than 3 members
 - **Big 4 auditors**
 - **Foreign ownership**

- Is the 2017 event the first time that the Party gained control of the firms?

Has not the Party been controlling the firms?

- “No Chinese firm can be considered fully autonomous or independent from the state.” (Milhaupt and Zheng, 2015).

The Party's Controlling Mechanism (1)

- Mixed ownership between SOEs and POEs
 - SOEs invest in private companies and vice versa.
- The Party sets the rules
- Regulations, administrative guidelines, as well as unspoken regulations
 - Businesses were forced out of overheated sectors such as real estate.

See e.g., Milhaupt and Zheng, 2015; Leutert (2018), Lin (2021); Chen, Guo, and Lin (2023)

ASIA

Battle Royale: China's Pause In Gaming Approvals Reminds Tencent And Rivals Who's In Charge

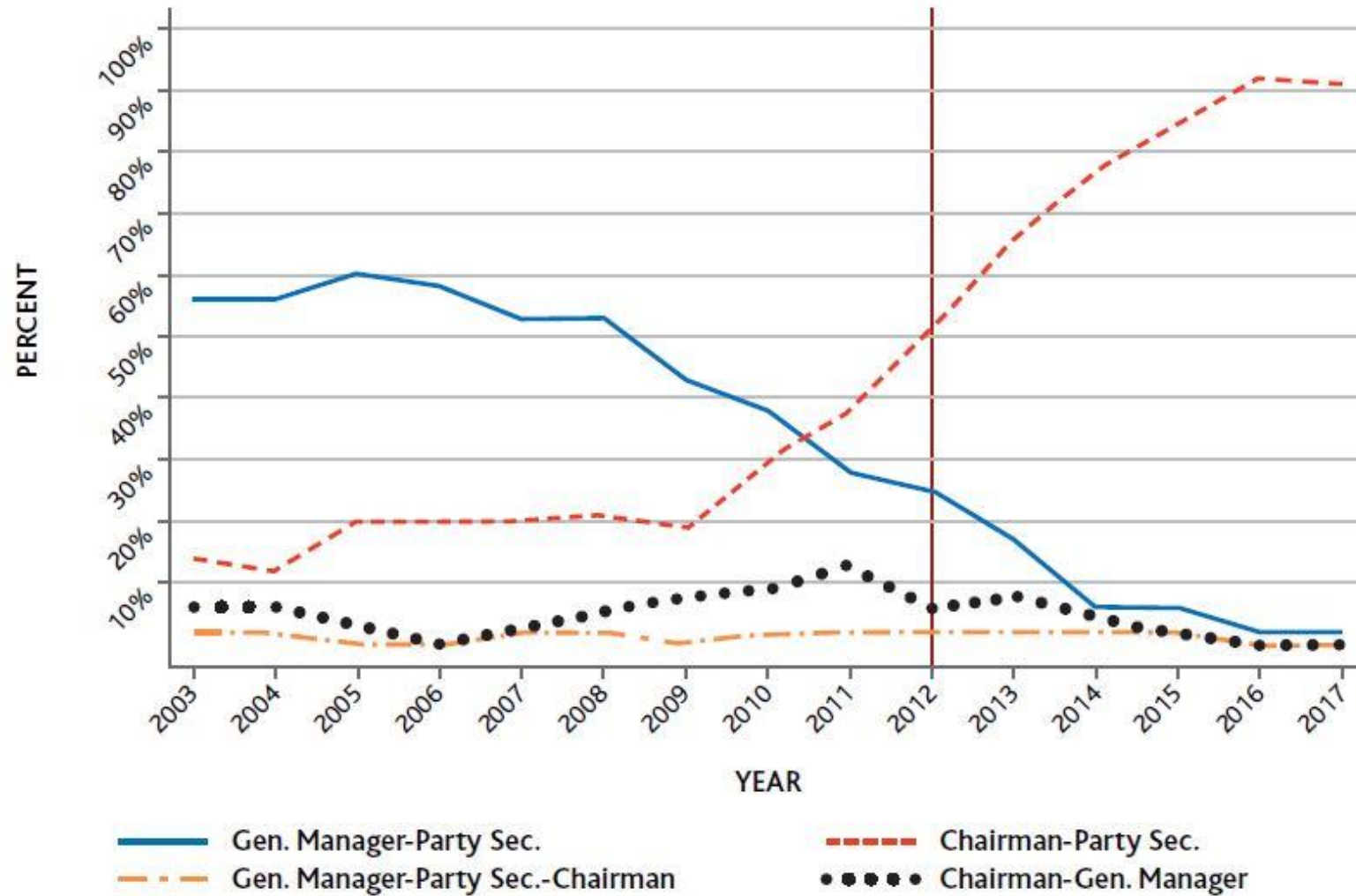
By [Yue Wang](#), Senior Contributor. ⓘ

[Follow Author](#)

Published Aug 22, 2018 at 02:46am EDT, Updated Aug 22, 2018 at 07:17am EDT

China's gaming industry – [the world's largest](#) – has effectively been left in limbo after authorities stopped approving new games amid a wider government reshuffle aimed partly at strengthening the Communist Party's control over cultural policies.

Almost all important SOEs: The Party Committee Secretary serving as the Chairman of the Board



The Party is
Involved with the
appointment of
high-level SOE executives

Huawei founder Ren Zhengfei on why he joined China's Communist Party and the People's Liberation Army

Ren speaks of his time in the military and how he came to join the Chinese Communist Party

Reading Time: 3 minutes

Why you can trust SCMP 



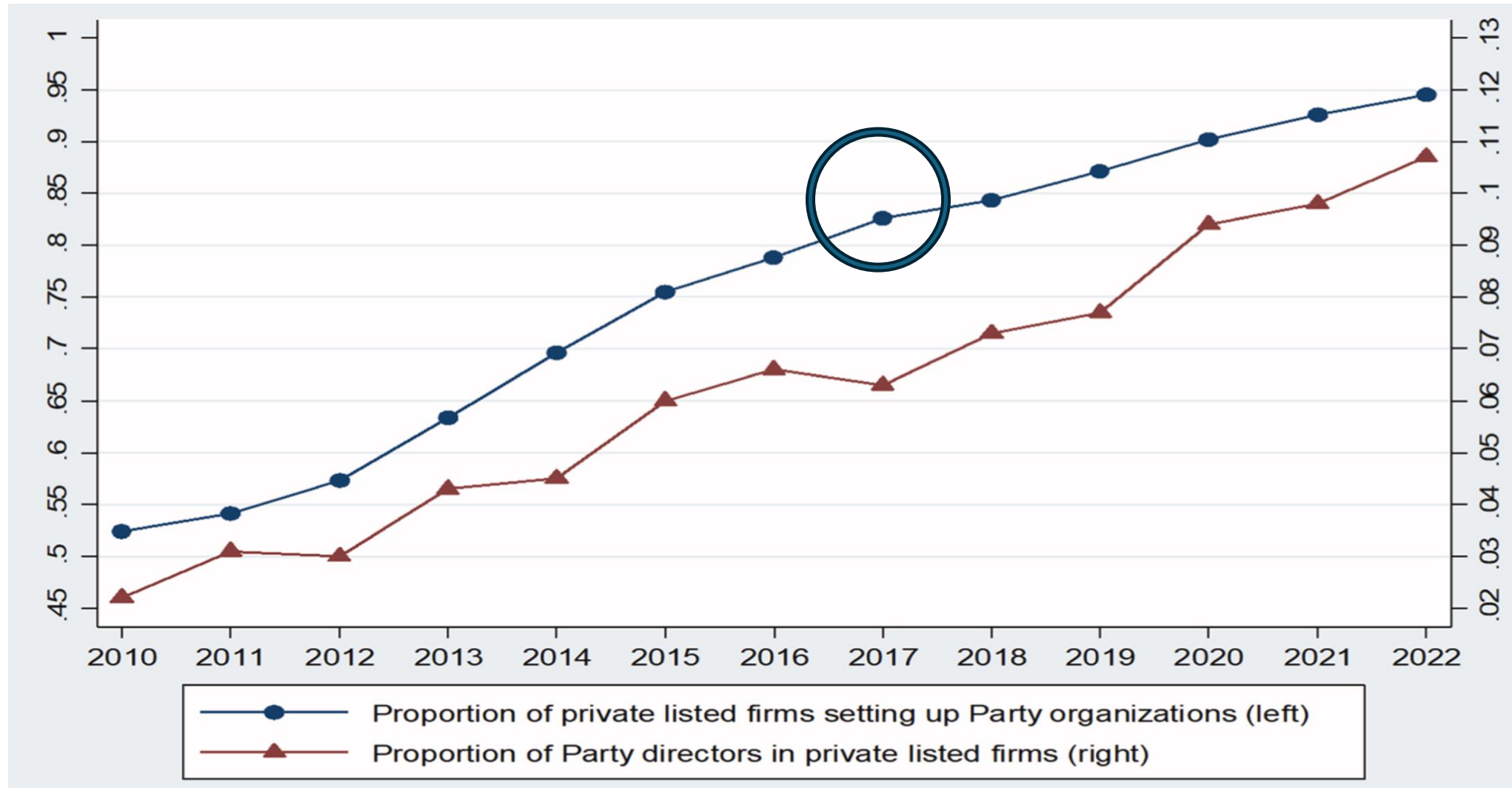
Why is Jack Ma a member of the Communist Party of China?

🕒 27 November 2018



By Robin Brant
BBC Shanghai correspondent

Party cells in private listed firms: More than 80% of private firms have set up Party cells in 2017



Cheng, 2025, Political governance and firm performance in China: Evidence from a quasi-natural experiment, Journal of Financial Stability.

Capitalist Wal-Mart goes communist

Wal-Mart, a bastion of private business, has fought efforts to form unions elsewhere in its worldwide operations. But in recent weeks it said it has agreed to work with the state-sanctioned labor federation to allow unions in its outlets in China, where it has 30,000 employees.



Aug 2006

Source: The Associated Press

Wal-Mart, capitalist retailer for the masses, now has its first
communist party branch.

The Walmart logo, consisting of the word "Walmart" in white, followed by a yellow six-pointed star icon, and the Chinese text "沃尔玛全球购" (Walmart Global Purchase) in white below it, all on a blue background.



中国特色现代 国有企业制度

“A modern enterprise system
with Chinese characteristics”

Party-Building Movement & SOE Reforms

- **June 11, 2015:** Regulations on the Work of the Party Committee of the Communist Party of China
 - Outlining the principles and procedures for the Party work, focusing on building the Party's leadership
- **August 24, 2015,** “Guiding Opinions on Deepening State-owned Enterprises Reforms”
 - It states that the “rule by law” (*yifazhiguo*) is a core guiding principle for the new phase of SOE reform.
 - A directive encouraging SOEs to incorporate Party cells into their governance systems

See e.g., Lin (2021); Chen, Guo, and Lin (2023); Xie, Lin, Li (JCF 2022)

October 10, 2016

President Xi gave a speech emphasizing the the Party leadership as the “foundation and soul” of SOEs.

“Modern state-owned enterprise system with Chinese characteristics”
(中国特色现代国有企业制度)

The party-building must be incorporated into corporate charters.

The Party committee shall participate in key decision-making: Appointment of cadres, major investment, and using of large funds

Xi stresses CPC leadership of state-owned enterprises

A national meeting on building the role of the Party within SOEs



Chinese President Xi Jinping, also general secretary of the Communist Party of China (CPC) Central Committee, speaks during a national meeting on building the role of the Party within state-owned enterprises (SOEs) in Beijing, capital of China. The national meeting on building the role of the Party within SOEs was held here from Oct. 10 to 11, 2016. (Xinhua/Lan Hongguang)

Formalizing the Party leadership in SOEs

- **Dec 17, 2016:** the State-Owned Assets Supervision and Administration Commission (SASAC) held a meeting and reiterated the importance of Party committee leadership in SOEs.
- **January 3, 2017,** SASAC issued the first guidelines on the Party-building provisions.
 - A set of model party-building provisions to use as a reference for SOE charter amendments
 - **Central SOEs** must revise their corporate charters to formalise Party-building work and the Party committee in corporate governance.
- **March 3, 2017,** the Party issued another guiding opinion to direct **all SOEs** to formalize legal status of party organizations in their corporate charters by 2020

See e.g., Lin (2021); Chen, Guo, and Lin (2023); Xie, Lin, Li (JCF 2022)

Codifying the Party in the Corporate Charter

- “A modern enterprise system with Chinese characteristics” (中国特色现代国有企业制度)
- The Party’s power over business decisions, once implicit and wielded behind the scenes, is now exercised openly and directly.

Is the Party explicit control good or bad?

The Party's new way to explicitly control the firms is an interesting event to explore further and beyond the grabbing hand & helping hand hypotheses.

Positive Returns on some event dates (2015 – 2017)

Cumulative abnormal return (CAR) of SOEs and non-SOEs surrounding each event.

| (1) Event date | (2) CAR (−2, +2) of SOEs | (3) CAR (−2, +2) of non-SOEs |
|------------------------|-----------------------------|---------------------------------|
| Jun 11, 2015 | 0.0552 | 0.050 |
| Oct 10, 2016 | 0.0117 | 0.009 |
| Dec 17, 2016 | 0.0436 | 0.0446 |
| Oct 24, 2017 | 0.0096 | 0.0086 |
| Mean across all events | 0.0286 | 0.0253 |

Xie, S., Lin, B., & Li J., 2022. Politicization of corporate governance and firm value. Journal of Corporate Finance.

Governing the Party

- **What is the role of “modern” mechanisms to restraint the Party?**
 - Social media/ Stock investment platform (Sina Weibo (255M active user/day), WeChat, Eastmoney Guba, Snowball; 37M registered users, 220k posts per day)
 - Financial influencers
 - Market mechanisms, e.g., shareholders or bondholders massive selling
 - Shareholder activism campaigns (Zhou, Zhang, and Puchniak (2024))
 - See also Barber et al., (2022); Cookson et. al., (2020, 2022, 2023, 2024)