

From Control to Ownership: China's Managerial Revolution

Andrew G. Walder

Stanford University, USA

ABSTRACT Over the past decade, the ownership and control of China's corporate sector has finally begun to depart fundamentally from patterns typical in the socialist past. Students of corporate governance have watched these changes with an intense curiosity about their impact on firm performance. Students of comparative economic institutions have examined them for hints of a new variety of Asian capitalism and have sought to anticipate China's international competitiveness and impact. But these changes potentially will create a new corporate elite with greater compensation, personal wealth, and independence from government agencies than ever before. This transformation of China's political economy may eventually alter the Chinese state itself, although the extent and nature of this change are still far from clear. The key questions of interest are the social origins of the new elite, the scale of the economic assets they control, and especially their continuing relationships with party and government agencies. The answers will vary decisively by sector, four of which are described here: a state-owned sector, a privatized sector, a transactional sector, and an entrepreneurial sector. The evolving mix of these sectors will determine the future contours of the Chinese corporate economy.

KEYWORDS corporate restructuring, managerial elites, ownership, privatization

INTRODUCTION

During the past decade, long-delayed changes in the ownership and control of China's corporations have accelerated. Large portions of the old state and collective sectors have been privatized, and large state enterprises in strategic industries have been restructured into corporations and listed on domestic and international stock exchanges. These changes have generated a thriving literature on corporate governance, regarding both traditional agency problems between owners and professional managers as well as obvious new conflicts among principals themselves (Peng, 2004; Peng & Luo, 2000; Su, Xu, & Phan, 2008; Wong, Opper, & Hu, 2004; Xu & Wang, 1999). They have also generated work on the emerging

contours of Chinese corporate capitalism and how its institutions compare with other modern political economies elsewhere in the world (Kennedy, 2005; Lieberthal & Lieberthal, 2003; Redding & Witt, 2009).

Both these streams of inquiry are focused on questions of competitiveness and performance. Work on corporate governance focuses on the performance of the firm (Fama & Jensen, 1983; Jensen & Meckling, 1976). Work on comparative capitalism focuses on the viability and international competitiveness of a nation's economic model (Fligstein, 2001; Hall & Soskice, 2001). Yet these same changes have important implications beyond their economic outcomes: they mark the creation of a new corporate elite who enjoy much higher levels of compensation and personal wealth and who are more independent of government agencies than was typical in the past. How far these changes will go is still far from certain. The differences from the old era of state socialism are already striking, but will China's version of a 'managerial revolution' provide its new corporate elite with anything approaching the independence and control that is common in established capitalist economies in liberal political systems? The answer will influence the future evolution of the Chinese state itself: will it evolve into a more familiar pattern of decentralization and pluralism, or will it concentrate its centralized control over capital, reinforcing unitary state power? In the rapidly changing Chinese context, research on management and corporate organization, therefore, has implications beyond the traditional intellectual boundaries of these fields.

My objective is to draw attention to the importance of this topic beyond our usual questions about corporate governance and firm performance, to state what the broader questions are, and to specify our areas of ignorance. I will sketch a research agenda about China's evolving social structure and political future. There are several questions of interest, all of them, at this stage, descriptive and factual. How 'new' is the new corporate elite? Who are they, and where do they come from? How is their wealth generated? What is their relationship to the Communist Party and government? How cohesive is this elite, and how is it interconnected domestically and internationally through formal organizations or kinship ties?

FROM CONTROL TO OWNERSHIP: THE PROBLEM

The changes in China's corporate forms represent a shift from bureaucratic administration to new and more complex forms of ownership and control, including, for the first time in half a century, a major role for private ownership. Theories about corporate ownership and control inevitably trace their origins to Berle and Means' (1933) famous treatise on the modern corporation, specifically what they saw as the rise of the 'management-controlled' corporation. This has stimulated several decades' worth of literature on corporate governance, interlocking directorates, and the theory of the firm, including a widespread questioning of the notion that modern corporations commonly have dispersed ownership that creates

intractable problems of control over professional managers (Claessens, Djankov, & Lang, 2000; Faccio & Lang, 2002; La Porta, Lopez-de-Silanes, & Shleifer, 1999; Mizruchi, 2004). Agency theory was one response to this question, showing how, in fact, the incentives for executives can be aligned with those of owners, while others have pointed out the prevalence and pitfalls of concentrated ownership, including conflicts among principals (Heugens, van Essen, & van Oosterhout, 2009; Su et al., 2008; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

Berle and Means, however, were not concerned exclusively or even primarily with firm performance. They saw agency problems as a symptom of the rise of a powerful new class of professional managers. This, in turn, would have important macropolitical consequences, potentially creating a looming threat to democratic institutions, which other observers referred to as the 'bureaucratization of the world' (Rizzi, 1939/1985). Burnham (1941) pushed the argument a step further and asserted that a worldwide managerial revolution was well underway, reaching its full development in state-controlled industries in Nazi Germany and Soviet Russia. Burnham made several assertions about the class interests of the managerial elite and their struggle for dominance. He argued that professional managers (but not entrepreneurs) saw planning and hierarchy as answers to social and economic problems and that they looked askance at unregulated competition, whether in the economy or the political system.

Burnham worked with a simple model of power and privilege: those who control assets enjoy the benefits. He argued that Berle and Means misunderstood the nature of property – there could be no separation of 'ownership' from 'control' – 'Those who control *are* the owners' (Burnham, 1941: 92). The managerial elite, he argued, are indifferent to the form of property: 'The position, role, and function of the managers are in no way dependent upon the maintenance of capitalist property and economic relations (even if many of the managers themselves think so); they depend upon the technical nature of the processes of modern production' (Burnham, 1941: 91). In short, so long as managers control large-scale business organizations, their class interests are served.

With the benefit of hindsight, it is easy to spot severe flaws in Burnham's claims about Soviet-style economies. Executives in these economies did manage large concentrations of corporate assets, and they did live much better than ordinary citizens. Yet Party secretaries and government officials, often suspicious of the loyalties of these professional managers, greatly restricted their control of assets. Their standard of living, even at the apex of the hierarchy, was always very modest compared with their corporate counterparts in market economies. As individuals and as families, the managerial elite owned almost nothing; their homes were allocated to them by government entities at subsidized rents; if they had access to an automobile, it belonged to the organization; their ability to travel was restricted; and they had virtually no personal wealth, either at home or offshore (Walder, 1992). Privileges were precarious: they could be taken away on short notice if the

individual lost political favour in periodic purges. While their offspring enjoyed career advantages, property inheritance across generations was non-existent. Socialist-planned economies may have provided a social basis for dictatorship, as Burnham feared, but they did not generate a managerial elite with power and privilege comparable to their counterparts in market economies.

During the past two decades, China has initiated a managerial revolution of its own, a gradual but steady unwinding of the bureaucratic system that Burnham feared was the end of history. At the core of the process is the creation of new ownership forms in an economy where all assets were owned and controlled by a government jurisdiction. This is often labelled privatization, but in some ways, the term is misleading. To be sure, there are thousands of new private firms that have grown to serve national and even international markets after being founded by individual entrepreneurs from modest backgrounds. But change has also affected industrial ministries and large state firms that have created joint ventures with multinationals or that have been restructured and listed on international stock exchanges (Walter & Howie, 2006: 85–130). This two-pronged process is directly relevant to Burnham's vision for it represents a trajectory of China's socialist era managerial elite into a new environment that potentially affords them more wealth, independence, and power than ever before. Yet it is still far from clear how much more wealth, independence, and power this managerial elite will have. The broader implications of this very different managerial revolution for China's future are obviously very large, yet they have so far gone relatively unexplored.

The Contours of Change

The structure of Chinese industry has steadily moved towards forms of ownership where the old state sector has lost ground relative to new market-oriented firms established by local governments and private and individual enterprise. The rural collective sector led this change in the 1980s, and measures of total industrial output and especially employment showed steady declines in the old state sector share to the point where it had dipped below 50 percent by 1996 (Lin & Zhu, 2001: 307–308). If we restrict our attention to the urban corporate sector, changes in ownership lag far behind overall national averages, but the extent and rate of change are still impressive. A national census of some 250,000 firms with annual sales of at least 5 million yuan (US\$700,000) provides a more relevant baseline measure of the process of change. Analysis of controlling shareholders across all varieties of traditional and restructured firms showed that 72.1 percent of value added was still produced by government-controlled firms (either state or collective) in 1998.^[1] By 2003, however, this number had already dropped to 47.8 percent (Dougherty, Herd, & He, 2007: 315).

Analysts customarily focus on the growth of a genuinely private sector – firms controlled by independent legal persons, individuals, or non-mainland corpora-

tions. This sector produced 27.9 percent of value added in 1998 but increased to 52.3 percent by 2003. The largest percentage gain was in firms controlled by domestic Chinese individuals (from 5.8 to 17.2 percent) (Dougherty et al., 2007: 315). Data from subsequent waves of this census have yet to be publicly released, but these trends have surely become more pronounced in more recent years. The personal wealth of those who own and control these large private companies are a radical departure from the former socialist model. Virtually all of the 398 Chinese citizens listed by *Forbes* magazine as having a net worth of at least US\$200 million in 2007 were the founders or controlling shareholders of these private firms (*Forbes*, 2007). By 2008, there were just under 1,000 Chinese individuals with a net worth of at least US\$100 million (*Hurun Report*, 2008), and web-based news sources in China, quoting internal government studies, have reported more than 3,200 with a net worth greater than US\$12.5 million and some 27,000 with a net worth greater than US\$1.25 million (*Chinese Newsnet*, 2008).

The large corporate sector, however, is still overwhelmingly state-controlled. When the process of restructuring large state firms involves foreign joint ventures or public listings on stock exchanges, large infusions of new capital are pumped into firms that previously were uncompetitive and stagnant. This ushers in a rise in executive compensation and managerial living standards, although so far much more modest than in the new private sector. Depending on the form restructuring takes, the process can provide managers with either a significant ownership stake in the firm, greatly enhanced autonomy from outside government supervision, or both. This is far less common when the restructured firm remains under state control but is much more common when the firm migrates out of the state-controlled category entirely, taking its managerial corps with it. At present, the old socialist era managerial elite is firmly established on both sides of this state/private divide.

Corporate Restructuring and Privatization

Although we have referred to these changes as a managerial revolution, the changes in China are gradual and evolutionary compared with other transitional economies. In many post-Communist economies, privatization occurred much more rapidly, and incumbent managers seized much larger equity shares from the beginning. By 1999, less than a decade after the onset of reform in Eastern Europe, 80 percent of the GDP was produced by the private sector in Hungary and the Czech Republic and 70 percent or more in Russia, Lithuania, and Estonia. At the same point in time, the comparable figure for China was still only 55 percent, even though China's market reforms began almost a decade earlier, and the private sector initially grew almost exclusively by the creation of new firms rather than privatization of existing ones (Walder, 2003: 902). In Russia, by 1993, management insiders had already acquired majority shares in two-thirds of privatized and privatizing firms (McFaul, 1995: 210), and a small number of wealthy oligarchs

assumed control of key sectors of the economy (Goldman, 2003: 98–122; Hoffman, 2002). China's much more gradual transformation is due to the survival of the Communist Party and its continuing commitment to some form of socialism.

Generally speaking, the smaller the firm, the more likely are incumbent managers to assume controlling shares of its assets. The most common owners to emerge from the widespread privatization of the relatively small township and village enterprises in the late 1990s were the incumbent managers (Li & Rozelle, 2004). A large survey of small- and medium-sized urban firms in 2005 showed that the top management held 49 percent of the equity in the state or collective enterprises that had experienced restructuring.^[2]

In the larger state enterprises, management equity stakes in restructured enterprises were also very common, but they were more modest. A relatively early survey of restructured state firms conducted by the State Statistical Bureau in 1998 showed that management insiders held equity shares in more than 56 percent of these firms. However, in only 11 percent of them had managers acquired more than 5 percent of the total equity, and the management share averaged only 2.4 percent (Lin & Zhu, 2001: 326). Subsequent surveys of state firms showed a steady increase in these numbers: by 2001, incumbent managers held some 10 percent of the equity in restructured firms (Garnaut, Song, & Yao, 2006: 46). As this process continued, management shares grew, in part because laws favour incumbent managers and in part because managers are able to manipulate the process in ways favourable to themselves (Ding, 2000a,b; Garnaut, Song, Tenev, & Yao, 2005: 176–197; Qin, 2005).

The Scale of the Corporate Sector

At the top of China's corporate hierarchy, the key issue is not the percentage of equity held by professional management but the assets that they control and the degree of independence that they have from the controlling shareholder, which in most instances is still the state. This corporate sector is large, with roughly 1,700 firms registered and listed on stock markets in Shanghai, Shenzhen, Hong Kong, Singapore, London, and New York. By 2009, China had 34 firms ranked in the *Fortune* Global 500 (excluding three from Hong Kong). The largest of these, Sinopec, had revenues of more than US\$207 billion and, at the time, ranked 9th in the world. China National Petroleum (PetroChina), with 181 billion in revenues, was not far behind. The smallest firm in the top 500, Aluminum Corporation of China, had more than 18 billion in revenues. (*Fortune*, 2009).

Some of these firms rank among the world leaders. In 2009, Sinopec and PetroChina were not far behind Total and ConocoPhillips as the world's 7th and 8th largest petroleum refiners. China Railway Engineering and China Railway Construction ranked 4th and 5th in their category. Sinochem was the 3rd largest trading company (not far behind Mitsui). In metallurgy, BaoSteel Group ranked

6th, China MinMetals ranked 9th, SinoSteel 10th, and Hebei Iron and Steel Group 11th, all of them outranking US Steel (12th). China Mobile ranked 8th in telecommunications (*Fortune*, 2009).

In its somewhat different ranking, *Forbes* listed 89 Chinese corporations in their Global 2000 for 2009 (*Forbes*, 2009). This longer list gives a better sense of the depth and scale of China's corporate sector. It includes 15 banks, nine diversified financial corporations (real estate, securities), 16 in metals and minerals, and eight in transportation (including Air China, China Eastern, and China Southern Airlines). More than 40 firms were listed on the New York stock exchange, and hundreds of others are listed on NASDAQ and in Hong Kong, Singapore, and London.

Origins of the New Corporate Elite

Who are the top executives of these firms, and how did they achieve these positions? The origins of the corporate elite mirror those of their corporations, and almost all of the large companies that we have listed were originally state-owned. The Chinese firms in the *Forbes* Global 2000 in 2009, all listed companies on domestic and international stock exchanges, provide ample evidence of the socialist-era origins of the vast majority of these companies (*Forbes*, 2009). All of the top banks on the list were established by the state in the 1950s. The railway companies are spin-offs of the state railway administration. China Mobile and China Telecom are offshoots of the Ministry of Post and Telecommunications. The large airlines originated in the old Civil Aviation Administration of China, although regional governments have funded smaller start-ups (Chung, 2003: 79–80). The oil companies are offshoots of the old Ministry of Petroleum. Almost all of the mining and metal refining companies were originally state firms under the ministries of metallurgy and mining. The steel corporations on the list are familiar names from the socialist era – Baoshan, Wuhan, Ma'anshan, Anshan, Handan, Baotou. The same is true for the utilities, shipping companies, and the distiller of China's notorious sorghum liquor, Kweichow Maotai.

There are many newer firms that did not originate in the old socialist economy, but at this stage, they are still rare among the corporate giants. In the *Forbes* Global 2000 (*Forbes*, 2009), they now appear near the bottom of the list, mostly in new business sectors that emerged after the onset of reform: computers (Lenovo), consumer retailing (Suning Appliances, Guangdong Midea Electric, Belle), internet commerce (Alibaba.com, TenCent), real estate (Country Garden, Poly), and investment firms (R & F, Guoyuan). These firms are the leaders in the large entrepreneurial business sector, and it is in these firms, not the restructured socialist sector, that one finds China's wealthiest individuals. *Forbes'* list of 63 Chinese billionaires in 2007 (*Forbes*, 2007) included individuals connected to Zijin Mining, Suning Appliance, Guangdong Midea Electric, Country Garden Holdings, Baidu, Li Ning Sporting Goods, TenCent, and Poly Real Estate – all private firms

established after 1980. The full list of China's richest 400 individuals with holdings greater than US\$200 million includes even more individuals connected to these same firms and similar ones but not to the older state firms (*Forbes*, 2007).

The Corporate Elite and the Party State

In recent years, political scientists have shown strong interest in the relationship between private-sector entrepreneurs and the Communist Party. The decision in the late 1990s to welcome private businessmen into the Party has led to speculation about the changing nature of political power in China. Research, however, has tended to focus on the entire range of private entrepreneurs from the small business owners to owners of medium and large companies. These are primarily individuals who have achieved some local prominence and are being welcomed into the Party for the first time (Dickson, 2003, 2008; Pearson, 1997; Tsai, 2007). With rare exceptions (e.g., Kennedy, 2005), these studies do not address the potential national impact of the massive concentrations of corporate wealth at the top of China's economic and political hierarchies.

Our focus is not on bottom-up changes due to the entry of thousands of small local entrepreneurs into the Party. Instead, we are interested in the impact of two phenomena that occur at the top of the corporate hierarchy. The first is when ranking government and party cadres who have worked as managers in the socialist economy obtain greater control over state assets and, in the process, generate personal wealth or obtain significant ownership stakes. The second is when individuals establish enterprises to take advantage of new market opportunities that are afforded them due to a relationship with incumbent government officials. The list of China's wealthiest individuals also includes entrepreneurs in a wide range of sectors that appear to rely on entrepreneurial skill and inventiveness more than government connections. The list of these inherently entrepreneurial sectors is long: solar energy, internet services, air conditioners, sporting goods, clothing, beverages, auto parts, and livestock feed are all sectors in which large new corporations have been built. All of these are sectors where individuals built companies by inventing new products and services or means of delivering them to consumers in ways formerly ill served by the state sector.

The real estate sector is a different story. It generates the largest concentrations of private wealth – 24 of the 63 billionaires on the *Forbes* list for 2007, close to 40 percent of the total, made their fortunes in real estate (*Forbes*, 2007). Real estate is different from the other sectors in one crucial way. The sector's most valuable resource, land, is owned and controlled by local governments or by state enterprises. Land sales have become a major source of government revenue, and the enormous profits in this sector mirror massive flows of revenues to government entities that are parts of the deals underlying this business activity (Wang & Murie, 1999; Zhu, 1999). Significant proportions of the government revenues from these

sales make their way into the hands of government officials – most of the highly publicized corruption scandals in recent years have grown out of real estate deals (Deng, 2008; Zhang, Li, & Dai, 2006). When government officials control access to a key resource, they have significant leverage over firms in that sector. However, the dependence works both ways – officials are at the same time dependent on that sector as a source of both public revenue and (corrupt) personal or family income, thereby influencing the behaviour of government agencies. There are other sectors that have this character – mineral rights, mining, and military weaponry come to mind – but real estate is by far the most common and widely dispersed.

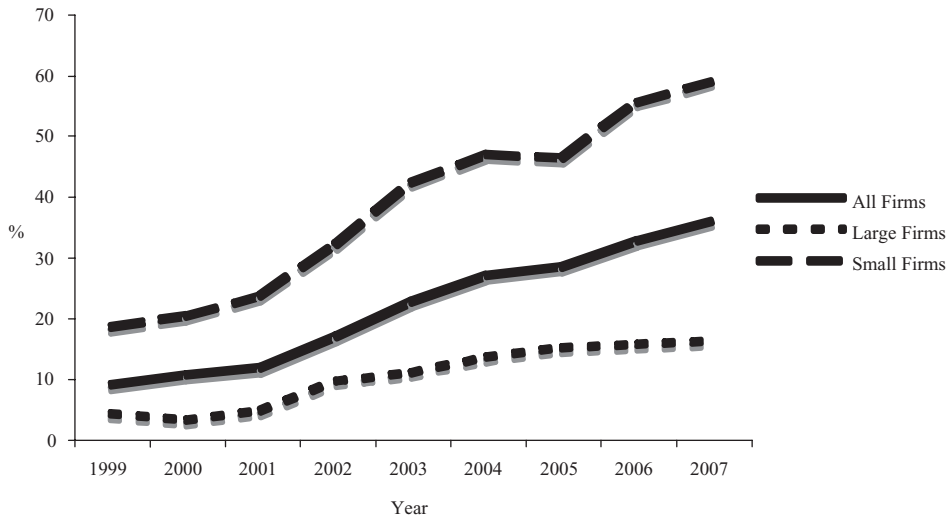
A RESEARCH AGENDA

It seems evident that a fundamental transformation of China's corporate system is well underway. But it is still far from clear how extensively ownership will evolve away from the state and how much autonomy and wealth the new corporate elite will enjoy. It is also still far from clear what the relationship between various parts of the new corporate elite and China's governmental institutions shall be and what pattern of ownership and control will come to characterize the Chinese corporate economy.

The core research question intersects with existing scholarship on corporate governance, but its aims are different. The key question is not in the impact of these changes on the performance of firms, but their impact on China's social structure, especially its economic and political elites. We want to identify who the owners are and through what mechanisms they control corporate assets. Of particular interest are the individuals, families and non-listed private firms that hold equity stakes in China's corporations and their connections, if any, with the Chinese party state. Ownership is important as a direct measure of wealth, but control rights that exceed ownership shares can permit the extraction of private wealth in ways that disadvantage other stakeholders, including state agencies (Ding, 2000a; Young et al., 2008).

The key research site to pursue these questions are the 1,700 corporations that are publicly listed on Chinese and international stock exchanges. There is a relative abundance of information about these firms that is part of the public listing process, and the history and evolution of most of them are relatively open to examination. Preliminary analyses of databases on share ownership of the roughly 1,500 firms listed on the Shanghai and Shenzhen stock exchanges reveal that these corporations have also steadily evolved in the direction of greater private equity stakes. By one crude measure of corporate control, the identity of the single largest shareholder, private control of listed corporations grew from 6.5 percent in 1999 to 35 percent in 2007 (see Figure 1).^[3] The largest corporations, however, remain overwhelmingly under state ownership and control and are, in fact, subsidiaries of state firms or ministries. Private control among large firms in the top quintile ranked by market value grew from 3.3 percent in 1999 to only 14.3 percent in 2007. In the small firms in the bottom quintile, however, the shift to private control was much

Figure 1. Percent of listed firms whose largest shareholder was private entity, 1999–2007



Source: Annual datasets on corporate ownership in the CCER Database, Sinofin Financial Information and Beijing University's China Center for Economic Research. 'Large firms' are the top quintile of firms based on size; 'small firms' are the bottom quintile.

more rapid: from 17 percent in 1999 to just under 60 percent in 2007 (calculated from the CCER Database). As shown in Figure 1, the largest corporations are still closely held by the state, but many of the smaller ones have already evolved away from state ownership and control.

Social research on corporations in capitalist economies has long focused on mapping the power structure of national business sectors and, less commonly, the relations between business and government. One perennial preoccupation is to map corporate power through the study of inter-firm networks, usually defined as interlocking directorates or overlapping membership on boards of directors (Schwartz, 1987; Zeitlin, 1974). Especially important in many of these studies is to assess the changing role of major banks in corporate networks (Fligstein & Brantley, 1992; Mintz & Schwartz, 1985). Another strong motivation is to try to assess the extent to which corporate networks provide instruments of control for a small number of elite families (Palmer & Barber, 2001). These networks are thought to facilitate collective action in efforts to influence national policy (Burris, 2001; Davis, Yoo, & Baker, 2003; Kogut & Walker, 2001; Useem, 1984) just as the circulation of top executives in and out of the executive branch of the US government may afford corporations another form of influence and representation that completely bypasses policy-making processes in the legislature (Freitag, 1975, 1983; Mills, 1956).

These traditions of research are relevant to our interest in China, and some have already begun to chart the links among enterprises through interlocking directorates (Ren, Au, & Birtch, 2009). But initially, the central preoccupation should not be the

connections among firms but the ongoing links between governments and firms. In China, one need not look closely at inter-corporate networks in order to find structure and coordination in the economy, nor does one need to look very hard to find connections between corporate and governmental power. The ministry and bureau structures of central and provincial governments now play a much diminished role, but they and their successors, like the State Asset Supervision and Administration Commission (SASAC), which oversees a select group of some 150 of the largest restructured state enterprises, still exercise formal authority over the state-controlled firms, and in recent years, their influence has increased (Naughton, 2008). In addition, the Communist Party organizations of these supervisory agencies or relevant levels of government are still organized within these corporations, their top management is still under their authority, and Party committees often contest with state supervisory agencies and owners over the appointment of managers and the setting of corporate policy (Chang & Wong, 2004; Oppen, Wong, & Hu, 2002; Wong et al., 2004).

This suggests that a first cut at the question of corporate networks in China should be to map the extent to which the old formal organizational hierarchy, which is now reflected in ownership stakes, survives intact. Mapping ownership stakes that run from ministries and bureaus of central and regional governments to the corporations themselves will help us understand the extent to which the bureaucratic hierarchy has been translated into ownership ties. Charting the history of a corporation that has been restructured or privatized in the past decade will usually provide a clear sense of the firm's origins and the remaining ties to these former supervisory agencies.

Examining equity stakes forces us to map the more complicated ownership of restructured state firms and privatized corporations and examine the new kinds of networks that cut across formal hierarchies. There are four main types of shares in firms listed on China's stock exchanges in Shanghai and Shenzhen: state shares, legal person shares, A-shares, and B-shares. State shares and legal person shares are held primarily by state asset management agencies or by state-owned enterprises. A-shares are held by domestic individuals, and B-shares are held by foreign investors. On the Shanghai stock exchange in 1999, 42 percent of the largest shareholders in listed corporations held state shares while 57 percent held legal person shares, and more than 90 percent of the legal person shares were held by state-owned enterprises. In short, almost all of the largest shareholders at that time were state entities (Chang & Wong, 2004: 621). This situation has evolved considerably in the ensuing decade, and it suggests a second item on our research agenda: mapping the networks of ownership among state agencies, enterprises, and banks as well as other domestic and foreign entities, both state and private, and their changes through time.

One major issue in mapping enterprise ownership is to document whether the ownership and control exercised by state agencies over restructured and privatized

corporations are diminishing through time. Furthermore, enterprise ownership may reveal whether horizontal ties to private owners or to government entities with ownership stakes but no supervisory authority over firms is gradually supplanting the vertical ties of bureaucratic authority that defined state ownership and control at the outset of the reforms. Another important question that ownership ties can illuminate is about the large corporations in the private entrepreneurial sector – the new private firms that did not evolve out of the old state sector but were established after the onset of reform. To what extent does the evolving ownership of these firms show network ties that are independent of state entities, and to what extent do ownership patterns betray a growing integration between this private entrepreneurial sector and the state? The data on China's listed firms permit one to chart their ultimate ownership with methods that have been used to analyse corporate ownership and control in other world regions (Claessens et al., 2000; Faccio & Lang, 2002), although the standard legal categories need to be rethought and recalibrated (see Delios, Wu, & Zhou, 2006), and more intensive investigation of individual cases may be necessary to determine whether blocks of shares held collectively by employees are in fact controlled by management.

A third topic on our agenda is the movement of individuals across organizational boundaries. We have already noted that most of the top management of restructured or privatized state firms originated in the former state enterprises and bureaus out of which these new organizations were formed. The managers of these top corporations, in turn, are often promoted back up into the government and regional and national party committees. Top managers commonly hold positions on regional party committees, People's Congresses, or Political Consultative Conferences; in some cases, regional government officials have held concurrent positions in corporations (Dickson, 2008; Garnaut et al., 2005: 190). Executives in the top state-controlled corporations will continue to move into the top reaches of national power – the Party committees of national bureaus and commissions, the State Council, and the Central Committee itself. Especially significant would be overlapping ties or the movement of management personnel from top private firms in the entrepreneurial sector into such positions (see Li, Meng, Wang, & Zhou, 2008).

A final area of interest is the personal ties that link these concentrations of corporate power to the top reaches of the political system. This is the most obscure and difficult of the agenda topics, but it is potentially very important. Personal ties of this kind can provide entrée to the highest reaches of political power, and in turn, they can benefit those in the business world who are known to have such ties. It will come as no surprise to observers of China (or, for that matter, many other countries) that such ties serve an important function in an emerging market economy. Yet we have only a vague sense of the extent of such ties and their potential importance. To examine these networks in a systematic way rather than through anecdote and scandal presents a major challenge.

A Four-Sector Model

In pursuing these questions, we need to recognize that China's emerging corporate sector is a varied one. Answers will be different for different types of firms. The first step is to differentiate corporations based on their origins and recent history of evolution. If we distinguish them according to their founding date and their relationship to the government, we can define four broad sectors. The first two include firms that were founded as government firms, primarily in the earlier era of socialist planning, and were government owned and operated. One of these sectors, state-owned corporations, remains firmly under government ownership and control with little evident managerial autonomy. The other, privatized state corporations, is predominantly owned by private entities or by managers with controlling ownership stakes.

The remaining two sectors include firms that were founded as private entities after the onset of market reform in the early 1980s and were never under government ownership and control. The first of these includes transactional corporations, firms headed by individuals who formerly held government positions or by individuals with close relationships with government offices or office holders. The second sector includes entrepreneurial firms that developed new technologies or business models that were not defined by transactions with government agencies or relationships with government officials. The questions that we have posed about the ownership and control of large corporations will differ greatly across these sectors.

The state-owned sector. Corporations in this sector were founded as old socialist enterprises, largely before the 1970s, or they originally were arms of a state ministry or bureau and subsequently spun off as a formally independent company after 1980. They are still predominantly owned and controlled by central or regional governments, with at least 50 percent of their shares held by government entities and usually much more. Their top executives are appointed by party and government agencies and are all veteran socialist managers, government officials, or party secretaries. Many of them circulate back into government positions after a stint as executives. Managerial ownership stakes are relatively rare in this sector and tend to be small where they exist. Appointments to top managerial posts are controlled by state agencies, executive compensation is modest by international standards, opportunities for asset stripping are limited, as is managerial autonomy. In many ways, these corporations can still be viewed as arms of the state, although they are more loosely held than the old socialist state sector.

Almost all of China's largest and most powerful corporations are still in this category. In 2007, for example, the largest single shareholder of Sinopec and PetroChina was a state entity that held between 76 and 86 percent of the equity. At Baoshan Steel, the figure was 74 percent; at Shanghai Auto, 84 percent; Shanxi

Taigang Steel, 71 percent; China Eastern Airlines, 60 percent (CCER Database). These figures are only for the largest single shareholder; in almost all cases, other state entities hold equity stakes. What is clear from these examples is that state ownership is concentrated enough to exercise unchallenged control of the firm. Increasingly, state control is exercised by the SASAC, which at the end of 2007 was responsible for both regulating this sector and representing the interests of the state as owner. A key question is how SASAC and other state agencies will choose to exercise their oversight and how effective this oversight will be (Naughton, 2008).

The privatized state sector. Privatized state enterprises are a different story. These are companies that were founded as state enterprises but were substantially privatized during a subsequent restructuring, which could often include management buyouts that occurred under less than transparent circumstances. Government entities may still hold a significant ownership stake, but they are unable to exercise the same level of control as in the state corporations. Controlling shares in these firms are held by private entities and sometimes by the management itself. The top executives in most cases began their careers in the state sector but are no longer appointed by the state, which has relinquished its ability to appoint executives in such firms. The managers of these firms enjoy greater autonomy from state agencies relative to the state corporations. Their executives enjoy much higher levels of compensation and are much more likely to hold substantial ownership stakes.

A leading example of this type is China Ping An Insurance, a group of companies in insurance, annuities, and banking. The firm was founded as a state entity in 1988 as Shenzhen Ping An Insurance and was renamed China Ping An Insurance in 1992 and expanded its business nationwide. It was reorganized as a joint stock company in 1997 and again in 2002 as a stock-holding group company with initial public offerings in Hong Kong in 2004 and Shanghai in 2007. The largest shareholders are two companies that nominally are collectively owned by all employees but are, in practice, controlled by the top executives. Large stakes on the order of 5–10 percent of shares are held by HSBC Insurance, Goldman Sachs, and by an array of domestic companies (Ping An Insurance, 2004, 2009). The executives of Ping An Insurance are compensated at levels that approach international standards, and they reportedly enjoy some of the highest executive compensation in China.

Many of the smaller listed firms, among whom more than 50 percent are now controlled by private entities, many of them the result of management buyouts, are also in this category. It is necessary to trace corporate histories to determine which of them were originally government established and owned. At present, one is far more likely to find a corporate elite with significant ownership stakes and autonomy in this sector than in the state sector, where it is still relatively rare. But the ownership stakes may themselves be the product of prior political influence, and ongoing political ties may well attenuate managerial control and prove necessary to maintain ownership stakes.

The transactional sector. These firms were originally established as private entities by former government officials and managers or by people who had strong ties with them. They relied heavily on these government relationships for their original setup and continue to depend on them as a key feature of their business models. Typically, these companies are in industries whose business is built on obtaining assets that are legally owned by the state and under the control of government agencies. Prime examples are real estate and construction companies, which must obtain control of land in urban areas for development projects, and private mining and materials trading firms. Private firms are heavily represented in the real estate industry – 45 percent of the listed firms in real estate and property development have private entities as their largest shareholder. These private stakes can be very large: they comprise 54 percent of the shares in Beijing Wantong Pioneer, 72 percent in Zhejiang Guangsha, and 69 percent in Xinjiang International (CCER Database).

Reflecting the close partnership between government and private business, these firms commonly have a diversified ownership structure that mixes substantial government interest with private stakes. Access to property for development projects and especially the clearing of neighbourhoods for development in prime locations requires solid government backing and active cooperation (Wang & Murie, 1999; Zhu, 1999). China's largest real estate company, Wanke, was founded in Shenzhen by a famous private entrepreneur in 1988 and went public in 1992. It, nonetheless, has a diversified ownership structure with the largest single owner, with 7 percent of the stock, a government entity (CCER Database).

The executives in this sector may be appointed by government agencies in those firms where they hold dominant stakes, but management will be much more independent in firms where private stakeholders are dominant. Some of them may be former government officials, while others may have no government background at all. However, the defining feature of this sector is that the firms have close working relationships with government agencies or officials whose cooperation is necessary for their success. Executive compensation in this sector can be very high, especially in the firms that are predominantly under private ownership. We observed earlier that the real estate sector has generated a disproportionate share of China's billionaires. Given the inherently close cooperation with government agencies that enables this sector to survive, it has also been one of the primary sources of illegal income for government officials.

The entrepreneurial sector. This fourth sector is distinct from the other three. These corporations were established as private firms to exploit new products, technologies, or business plans and subsequently grew to large scale. Unlike the previous sector, they do not rely on transactions with government entities for access to the resources that permit them to operate, although they all face a regulatory environment that requires good relationships with government agencies, and they remain

vulnerable to selective enforcement of regulatory powers by government agencies. These firms are common in consumer retailing, electronic appliances, services, software, and high technology sectors. The largest and most famous is Lenovo Computer, which started as Legend Computer, a start-up funded by the Chinese Academy of Sciences in 1984, and which is now the fourth largest producer of personal computers in the world (Francis, 1999). Other examples are the internet companies Alibaba and Sohu, the software company TenCent, and a wide range of consumer electronics, apparel, and retail chains. These corporations have the greatest degree of managerial autonomy, high levels of executive compensation, and generate large reservoirs of private wealth. In most cases, their founders and top executives have no background as government officials and do not rely on government connections for their ability to conduct business. They are also periodically targeted in corruption investigations, and selective prosecution of wealthy executives is a tool that can be used to exercise control over this entrepreneurial sector. The tool may also be used to expropriate independent private owners and seize their companies. The implicit threat of this kind of prosecution could serve as a powerful check on the autonomy of the corporate elite in this sector and make them dependent on state authorities in ways that are not immediately evident in their equity structure.

CONCLUSION

It should be evident that the issue of ownership and control in China today is not the same as the one first identified by Berle and Means that gave rise to generations of research on corporate governance in market economies. The old distinction between capitalist owners and professional managers is blurred in the evolution of Chinese corporate capitalism because one of the key questions is the extent to which professional managers who were state employees (and other government officials) are obtaining ownership stakes themselves and gaining control over corporations in ways that permit them to greatly enhance their personal wealth. Moreover, the membership of boards of directors and the perennial search for interlocking directorates is of little interest in the current context. What is of paramount importance is for us to understand the underlying pattern of ownership and control, how it changes, and the position of corporate management in these evolving structures.

Our ultimate question is what the eventual contours of the Chinese corporate economy will be. How concentrated will this corporate ownership and control become, and how effectively will political officials oversee it? A highly concentrated corporate sector in which wealth flows in through state-controlled energy exports, for example, is well known to foster the concentration of political power in such 'petro-states' as Venezuela (Karl, 1997) and Russia under Putin (Goldman, 2008). A more diverse corporate sector with dispersed assets, however, may have a

different effect. China's large-scale corporate sector is so far much more diversified than Russia's, and continued growth in the privatized and entrepreneurial sectors relative to the state-owned and transactional sectors would reinforce this characteristic. The future depends on the mixture of change within each of the four sectors we have identified and the relative balance between them as the Chinese corporate economy evolves. If the state-owned sector is consolidated and grows along with the transactional sector, China will evolve into a highly statist form of corporate capitalism in which wealth and political power are closely linked. If, on the other hand, the privatized and entrepreneurial sectors grow to dominate economic activity and if these sectors manage to carve out and preserve a serious degree of autonomy, power and wealth may become less closely linked and more dispersed. Whatever form the changes eventually take, the broader implications of China's ongoing managerial revolution for the country's future evolution can no longer be ignored.

NOTES

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- [1] Value added is a measure of total net output of Chinese firms, defined as the value of finished products minus the value of the inputs used in producing them. At the firm level, the measure is the basis for China's value added tax.
- [2] The data are from a survey conducted by Chinese People's University in 2005, jointly sponsored by the Bureau of Small and Medium Enterprises in the Commission on Development and Reform under the Chinese State Council and the World Bank. Xueguang Zhou of Stanford University kindly provided me with this tabulation.
- [3] Figure 1 is based on a series of annual datasets with information about all firms listed on the Shenzhen and Shanghai stock exchanges. The data are available via subscription from Sinofin Financial Information/Beijing University China Center for Economic Research. Calculations from these datasets in subsequent paragraphs will be referred to as from the 'CCER Database'.

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Andrew G. Walder (walder@stanford.edu) received his Ph.D. in Sociology from the University of Michigan and is currently the Denise O'Leary and Kent Thiry Professor in the School of Humanities and Sciences at Stanford University, where he holds a joint appointment in the Department of Sociology and the Freeman-Spogli Institute of International Studies. He has previously held teaching appointments at Columbia, Harvard, and the Hong Kong University of Science and Technology.

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