

# A STUDY ON CORPORATE GOVERNANCE OF CHINA'S STATE-OWNED ENTERPRISES - FOCUS ON THE ROLE OF BAOSTEEL CCP ORGANIZATION

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## ABSTRACT

*This study is focused on Corporate Governance of China's State-Owned Enterprises(SOEs)in which research was studied on the role of State-Owned Enterprises(SOEs) under Corporate Governance of CCP(China Communist Party) organization that has been not studied a lot in previous research. As a result of the case study of Baosteel, though China's State-Owned Enterprises(SOEs) accommodated western corporate governance system, the CCP organization in the corporate has been carried out the role of internal control mechanism which complements weakness of governance structure, and is giving positive influence on governance structure of SOEs as a distinctive character of China's State-Owned Enterprises through performance of political core function.*

*Key words: China's SOEs, Governance Structure, the CCP organization, internal control mechanism, Baosteel.*

*Abbreviations: CCP, China Communist Party; SOEs, State-Owned Enterprises; COSO, Committee of Sponsoring Organizations of the Tread-way Commission; CICSC, China Internal Control Standards Committee; SASAC, State-owned Assets Supervision and Administration Commission; PSC, Party Standing Committee; CPCC, China Party Central Committee;*

## INTRODUCTION

There is a common understanding that the economic development of China has been commenced since the Third Plenary session of the 11th Central Committee of the China Communist Party, and at the same time initiating open door policy from that time Chinese Government launched the first step of reformation targeting SOEs. The history of Chinese economic development acquires brilliant record of economic growth at this time, could be said fairly that it was the reforming history of China's SOEs. Before reform and opening-up policy was launched, all the corporations in China were owned by the Chinese government, for the reason that the productivity of SOEs was declined and the financial performance of the SOEs

was in deficit in many years. Since 1978 Chinese government considered economic growth as the major issue to reflect the Advanced Socialist, and started process of structure renovation in versatile perspectives including ownership, management pattern, supervising and incentive mechanism of SOEs. Having proceeded reforming measure for SOEs for several times gradually for 30 years, and it looks China's SOEs have formed management structure as modern enterprise, but undeniably there is the fact that those are still behind management efficiency than western enterprise, and have many problems in ruling structure. Also because there is political peculiarity as socialist system, we could understand that China's SOEs has distinctive characteristics apparently different from the moment western countries accommodate the Capitalism. Due to these distinctive characteristics and because achievement and problems occurred in China's SOEs cannot be explained by theories of management formed based on western enterprise, so to explain the record and problems occurring from China's SOEs it is necessary to complement strategic management theories developed by other countries to adjust the Chinese situation.

This study commenced by the analysis of reforming history of ruling structure of China's SOEs which tries to find discord with strategic management theories developed previously through the case study on the ruling structure of Chinese style SOEs. Especially it aims to examine the role of CCP organization which the portion is never been discussed in the existing study on the ruling structure of China's SOEs. The interesting thing is that China's SOEs didn't remove CCP organization already in the inside the corporation during in the process of accommodating the modern enterprise system, and enforced structure renovation by strengthening the systematic function of this part's role. Therefore, it needs to investigate not only the role play of CCP organization the characteristics of China's SOEs but also what sort of relationship CCP organization has with other organizations among the system, and what kind of influence it gives to achievement of the corporation, and it is assumed by this approach it will help to understand the characteristics of ruling structure of China's SOEs more clearly.

The structure of this study is as followings. Theoretical background of governance structure was investigated, and reformation of governance structure of China's SOEs was reviewed. Case study of Baosteel the number 1 steel manufacturing company in China has been provided, propositions for empirical study on the basis of case study, and finally the conclusion of the study, suggestion of the study and limitation were provided.

## **THEORETICAL BACKGROUND**

### **Corporate governance structure**

For the study of governance structure theoretical background varies according to how to look at the corporation. If we see corporation in perspective of Static Contract Theory it is asserted representing body and minimization of transaction costs would be the biggest issue of

corporation in relation with resource distribution for maximization of the corporation values(Williamson, 1985; Coase, 1989). Instead, in theory of Property Theory which sees corporation as complex of property assets owned by joint union, distribution of ownership and residual claims shall be considered important(Hart & Moore, 1990).

In relationship between corporate governance structure and corporate achievement major study theories are developed as 3 as followings. First, convergence of interest hypothesis based on Agency Theory of Berle & Means(1967) or Jensen & Meckling(1976). This is the advocacy if stock ownership of corporate management is getting increased, activity costs having no relation with corporate values, so to speak, agency costs will be reduced and it forms the same interest with owners. Second, managerial entrenchment hypothesis in opposition to Agency Theory, if stock ownership of management is getting increased, then business owner tends to obtain private interest than maximization of the corporate values and values of the corporation getting decreased. Third, compromise hypothesis between Agency Theory and the managerial entrenchment hypothesis asserts that stock proportion of management and corporate values are not in linear relationship but non-linear relationship where the positive and the negative coexist according to stock holding rate(McConnell & Servaes, 1990).

According to western literature study, corporation with good governing hierarchy deals better with agency issues(Aoki & Qian, 1995). Cochran & Wartick(1988) claims that central issues of corporate governance structure derives from the facts that those should take the profit does not coincide with those taken the profit actually by strategic behavior of top management. Problems to be solved basically from the governance structure is how to secure the interest of capital supplier of the corporation and governance structure should protect the interest of capital investors of capital(Heier, Dugan & Sayers, 2004).

When considering the study of Chinese scholars on governing hierarchy of China's SOEs, due to extraordinary social and political circumstances of China, there are many asserts that stockholders-proxy representative issue of western market economy have appeared different pattern in China(Fu, 2006; Ouyang, 2003; Zhang & Han, 2008). Fu(2006) argued that the problem of governance structure of China's SOEs comes directly from characters of China's SOEs and reforming process of SOEs. They assert China's SOEs during economy transformation period due to its abstractive ownership of national property and it lacks corporate ownership which causes agency problem, and they claim ownership of national property should be clarified to solve such problem(Ouyang, 2003; Zhang & Han, 2008). Also for reformation of governance structure of China's SOEs there are claims which assert proper outside circumstance(Zou & Hu, 2004; Lv, 2008).

Also some experts claim when discussing governance structure of SOEs, problems of governance structure would be improved only when internal control mechanism of the corporation and external control mechanism of the corporation work together at the same time(Guo, 2004; Zhu, 2005). In case of the U.S. due to corruption of Enron in 2002 when the administration announced Sarbanes-Oxley Act which enforces internal control mechanism of

corporation to respond the problems of governance hierarchy unbalance of American enterprise and defects of external control system, then it became a case control mechanism has drawn attention not much dealt in previous study so far.

### **Internal control mechanism**

The concept of internal control originates from when “Internal accounting control system” was defined for the first time in <Securities Exchange Act> of U.S. in 1934. However it was defined as definition of accounting at that time and had no organizing meaning. In 1992 the United States established Committee of Sponsoring Organizations of the Tread-way Commission(COSO), and announced Internal Control- Integrated Framework which is the professional study report on internal control. According to the report COSO Committee prepared, internal control can be defined as followings: “ Internal control is a process, effected by entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding achievement of objectives in the following categories. Combining with business management internal control mechanism includes control environment, risk appraisal, control activity, information and communication and monitoring, and in modern corporate system soundness of corporate governance structure could be evaluated by internal control mechanism” (COSO, 1994).

Though China became to have interest in internal control mechanism lately since 2005 compared to western countries, they attracted worldly attention by its rapid legalization process. Chinese finance department incorporated “China Internal Control Standards Committee(CICSC)” on July 15th in 2005, and acknowledgement was spread out fast during 2005-2007, and Basic standard for enterprise internal control was into effectuation on July 1st in 2009 legally prepared by CICSC since March 2007.

By developing standards of corporate internal control mechanism in such a short period of time, obviously China is still in immature situation, and has many difference from internal control mechanism western scholars claimed (Liu, et al., 2009). Though there are many problems in China’s SOEs, but what is the reason for China’s SOEs not only achieved brilliant economic growth and gave positive social influence? To explain these questions let us take a look at unique organization of China’s SOEs only had, the role of CCP organization performed in corporation.

### **REFORMING GOVERNANCE STRUCTURE OF CHINA’S SOES**

By In later 20th centuries, governments around the world initiated reforming SOEs to cope with fiercely increased market competition. To face this confrontation each government by enlarging operational autonomy used various resolving methods including renovation of corporate management mechanism. By launching reforming open door policy since 1978, China has pushed firm reforming policy of SOEs by targeting effective union between state economy

and market economy continuously. Reforming SOEs since 1993 has focused on systematic renovation, initiated by launching the reformation on the ownership introduced modern corporate system into SOEs. By this measure China's SOEs could develop capability according to law, make their own decisions regarding their operations, be responsible for their own losses and profits and be capable of expanding or contracting themselves to compete international enterprise, and corporate management mechanism became systemized also. To summarize reforming history of China's SOEs would be divided as followings.

Reformation Time	1978-1985	1986-1991	1992-2002	2003-Now
Main Contents	Delegate the decision right to factory director holding profit into SOEs  Expanded management autonomy	Management responsibility system  Separation of Ownership & managerial authority	Modern Corporate System  Incorporation introduced reformation, Laws Strengthening	The SASAC (State-owned Assets Supervision and Administration Commission) Establishment. Enhance supervision and service of State-owned assets
Reformation Results	Performance Evaluation  System inexistence  External Environment Shortage of reformation  State-owned Assets Invasion victims	Short-term performance  Excessive pursuit Government administrative department Corruption deepening	Despite some achievements, owner of state-owned assets is still issue	Emphasize the political core role of the CCP organization for the corporate governance structure

Though reformation of China's SOEs since 1978 has not ended yet, but acquired much achievement. Those are summarized as 3 points as followings. First, governance structure of SOEs has been improved. More than 50% of major SOEs achieved stock share system. Especially in case of SOEs directly controlled by central government of China, more than 65% among those achieved in inducing modern corporation system successfully. Second, it improved influence of state-owned economy. Total amount of State-owned capital by 2007 was 11,620 billion RMB, and total assets of SOEs was 29,464 billion RMB, and tax payment of SOEs in

2007 was 880 billion RMB which acquires 17.6% among national fiscal income reporting, and 20 China's SOEs have been grown as the Fortune 500 companies. Third, by establishing State-owned Assets Supervision and Administration Commission (SASAC), and supervised investors of State-owned assets, supervising management for State-owned assets was strengthened.

Though China's SOEs achieved great results in systematic and economic perspective for 30 years reforming drive, still there are problems remained. In legal modern enterprise system at SOEs it shows shortcomings at supervising mechanism for corporate directors due to functional absence of board of directors, and this is an assignment to be resolved by SOEs in the future. Though it is required for China's SOEs legal governance system to be adjusted to market economy to achieve target of continuing operation, but legal governance system is stationed at early primary stage so the development of SOEs is being restricted.

Wu (2008) claims the process of systematic change of China's SOEs has been restricted by political circumstance of SOEs is faced. He suggested when talking systematic reformation of China's SOEs, involvement of CCP and Chinese government, and political precondition like Socialism are operated as indispensable elements of environment, and when political roots of SOEs behind governance structure change, then we could understand the changes of governance structure in SOEs. Therefore, on the issue of what kind of role CCP organization does in China's of SOEs, and what sort of role CCP organization does in governance structure shall be investigated in details by the case study of Baosteel, the biggest Chinese steel company.

## CASE STUDY OF BAOSTEEL

### Introduction of company

Baosteel is Chinese representative State-owned Enterprise which is directly controlled by the SASAC what is the subsidiary department of State Council in Chinese government execute the responsibility as owner for Baosteel.

Baosteel is the most competitive steel company in China, and obtained No. 3 position in world steel industry by acquiring 38,870 thousand ton(2009) in steel production. According to survey of National Bureau of Statistics of China, Baosteel accomplished No. 1 among Chinese engineering enterprise for consecutive 6 years, and annual corporate income in 2009 was 195.3 billion RMB, and net profit was 14,900 million RMB, total assets amount 402 billion RMB, number of employee was 106,914, and ranked 220th in Fortune500.

Baosteel invested R&D budget focused into high additive value steel products and produced steel products requiring to industry as automobile, home electronics, petroleum chemistry, space aircraft and electronics, and selling those steel products by exporting to 40 countries and regions through global sales network.

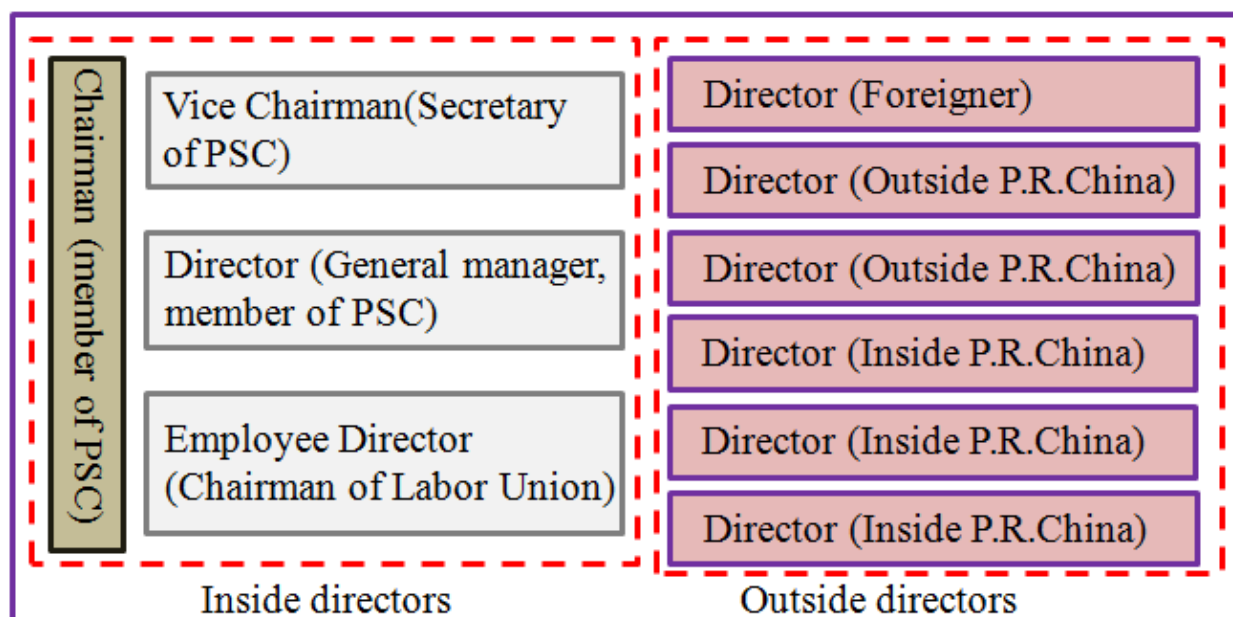
In recent years Baosteel by establishing strategy which integrates steel supply chain, technological chain and resource chain and stationed itself as competent excellent corporation based on steel industry by unifying external materials through M & A.

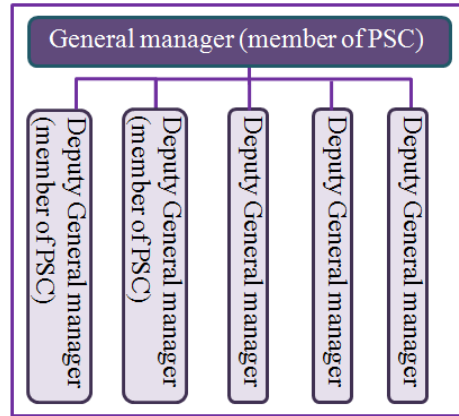
In reforming China's SOEs Baosteel became a model enterprise inducing modern corporate system like outside director for the first time as central enterprise in October, 2005, and improved system of board of directors continuously. At the same time SASAC provided strategic reforming mission as "Combining the system of board of directors and the political core function of the CCP organization" to Baosteel and Baosteel performed reformation by focusing on relation and connection of the CCP organization and corporate governance structure continuously for that.

Furthermore, we'll take a look at governance hierarchy of Baosteel, and will analysis what kind of role the CCP organization played in the governance structure.

Baosteel started to apply modern corporate system by introducing board of directors from October in 2005. Though governance structure of Baosteel is similar to western enterprise as composed of board of directors and top management team, Party Standing Committee(PSC: top Party organization in corporation) which is the CCP organization exist both at board of directors and top management team included by overlapping, so this is different from that of United States and Europe. Detailed governance structure is as following <figuer1> and <figure2>.

**Figure 1: BOD Members Of Baosteel (2009)**



**Figure 2: TMT Members Of Baosteel (2009)**

As in above figure 1 and figure 2, member of the PSC of Baosteel seated member of board of directors and also participates top management as “Cross into each organization, holding two positions at the same time”. This is the result after Baosteel induced system of board of directors members of PSC were reorganized to meet modern corporate system again. Contrary to top administrators executing strategy in SOEs or board of directors deciding the strategy, the Party organization of SOEs exist as role player of supervising the policy and guidelines of the State or CCP accommodated by SOEs and applied practically, PSC of Baosteel placed members of PSC into both board of directors and top management in the formation of holding additional position of board of directors and top management team from the judgment that it is not necessary to institute PSC in addition to board of directors and top management in the corporation. Therefore, though it is less than 5 years since board of directors of Baosteel instituted, and no matter what shortage of experience and know-how to perform the role of board of directors actually, because PSC developed continuously since incorporation of Baosteel exists there, so it is considered it performed as the role of supervision and assistance in some extent to top management team. And let us take a look into what kind of role the PSC does when detailed decision is made at Baosteel.

### **Political Core Function of Party Organization**

Party organization of corporation has similarity and difference comparing to that of non-profit organization like local community and school. As a common element party organization in all organization has responsibility to preach communist philosophy and policy to lower organization and does the role of supervising whether such cell organization learn the thoughts of the China Party Central Committee(CPCC), and whether they follow administration and policy of CPCC. Difference between Party organizations in other organization, in the corporation the CCP organization provides Communism philosophy learning activities with the view to getting



economic profit. So to speak, the PSC in the company not only play the role of supervising in modern corporate system but also provide support and assistance. Vital obligation of corporation is defined to create national economic interest by achieving economic effects, and accordingly corporate PSC not only provides support to corporate economic production activities but also provides necessary support and assistance to corporate administrators through unifying with national interest in the limits not violating policy principles of CPCC and central government.

There is complicated issue that “whether the PSC make a decision directly?” in case of strategic decision making process for corporation. Actually before Chinese reforming open door policy in 1978 all the Chinese enterprises belonged to state, and it can be said top corporate administrators and the Party committee were overlapped and all the strategic decision making of corporation was decided by the CCP organization. But from early stage of open door policy Deng Xiaoping pointed it was not effective for the CCP organization to manage the corporation directly, after that the role of the CCP organization was changed to focusing political core function(Deng, 1994). The CCP organization was required to promote spiritual attainments of the corporate members and do function as political brain to moderate purpose conflict between corporation and government. Actually the CCP organization on the matter of corporate management and production perform not a decisive opinion but an assistant or supervising role. Especially in the process of introducing board of directors which is a modern corporate system the CCP organization does not replace the function of board of directors but provide assistance and support to board of directors to promote the function of supervising and decision making process. And for top management teams it does not provide intervention and policy pressure from the CCP organization, instead it would be proper interpretation for political core function of the CCP organization in SOEs to be understood as perform assistant job for administrators to establish harmonious strategy with State progress.

To consider above, corporate PSC exist having connection with organization of the modern corporate system as board of directors, top management teams and audit committee, at the same time it exists as independent political hierarchy, the role of PSC is distinctively different from those of other organizations’. Especially while audit committee does provide supervision function to administrators and board of directors, the PSC is difference from audit committee that it provides support and assistance required to top management teams and board of directors while it supervise them simultaneously.

### **PSC and Internal Control Mechanism**

The PSC of Baosteel provides following 4 function in performing the political core function:

First, the PSC supervises the corporation whether they actually practice principles and policy of CCP and government.

Second, the PSC provides support and assistance in the realms of political authority to board of directors, meeting of stockholders and management team according to the law.

Third, the PSC participates in major important decision making of corporation and mitigates discord between board of directors and top management teams, also reports and advises negative opinion to top management teams on corporate strategy disagreement with management principles of State or CPCC. Important corporate decision makings the corporate PSC participate includes, for example, corporate development strategy, important personnel movement, management of human resources, salary distribution related to employees benefit, strategy on production and important decision making for corporate reformation.

Fourth, the PSC provides ideological and political education to enhance the Socialism construction of ideological infrastructure, and leads the management of constituent members including Labor Union and Communist Youth League which are the subsidiaries workers organization of corporation.

Considering above, the PSC of Baosteel is functioning organizing structure which proceeds performing of control environment the elements of internal control mechanism, risk evaluation of important corporate strategy and control activity, sharing the information of corporate top management team and board of directors with interactional communication, and supervising the top management teams, so the PSC of Baosteel could be understood it performs the role of internal control mechanism.

### **PSC and External Control Mechanism**

As discussed above the CCP organization of Baosteel, PSC performs as corporate internal control mechanism. According to previous study most desirable governance structure is combination of internal control mechanism and external control mechanism, and this structure could remove agency problem most effectively. Actually considering external control mechanism of Baosteel the SASAC positioned as an owner and external circumstances which Baosteel is faced with. Therefore, the government has more tendencies to involve and advise on corporate strategic decision making process through SASAC to supervise Baosteel. If governing administrators get much restriction and intervention from SASAC. It is getting difficult to establish optimal strategy for growth of the corporation. At this time the PSC motivated as internal control mechanism connect with the CCP organization of SASAC which as external control mechanism for the corporate in order to accomplish mutual understanding and communication between Baosteel top management and SASAC to provide pleasant development environment to prevent collision between corporate and government. And at the same time it transmits policy and principles of government to top management through the PSC, it could prevent management to establish strategy which are disagreement with State or CPCC.

## Human Resource Training as Basic Obligation of CCP Organization

It is true that China's SOEs is inferior to foreign enterprise on capital, technology, management know-how and etc. However one of the extraordinary superiority that they have CCP organization causes the human resources who have strong will. Party member could be described as excellent man power because they have definite confidence and excellent organization management ability. This excellent human resource is the characteristics that only China's SOEs could have. The fundamental reason Baosteel could achieve great progress as the world most competitive firm in such a short period of time by 30 years history can be found from the fact that they converted promotion and excellent organization management ability of party members into corporate competitive capability.

*“As difference of ‘Hard Capability’ among enterprises is getting reduced day by day, the role of ‘Soft Capability’ gets more important. Soft capability has been recognized as heart of corporate core competition, and leadership of top manager can be considered as the most important ‘soft capability’ among them. This could be established through performance of political priority of CCP organization which conceived man as basis.”*

*-By CCP's secretary Liu*

The CCP organization of Baosteel executed decisive role in leadership training for top management team. In details it did versatile roles including capability enhancement of TMT members of PSC, formulation of responsibility, and supervision of practice process. Theoretical study of the PSC center group (“PSC Center group studying” for short) which head of by CCP organization in Baosteel, established the theme as “discussing important corporate strategic issues based on progress theory of CCP, and implementing creative idea considering overall national economy”. Through the PSC center group studying, the PSC top administrators of Baosteel and staff members of board of directors not only enhance individual moral attainments but also promote acquiring capability on corporate strategy, management know-how, government policy regulations. Therefore, we see that the CCP organization provides positive influence on the concept of sustainable management of TMT members and training their leadership competence.

There are 3 major patterns among the PSC center group studying. First, it is held to deliver important document or conference spirit of CPCC and State Council. Second, it is held to report success stories of main company or subsidiaries in regular basis. Third, it is held to discuss some specific issues of corporate development regularly in seminar style. Among these three patterns, the last one “Specific issues discussion” is the most important. For example in 2009, the PSC center group studying discussed for specific issues of Baosteel was held 6 times in regular basis. In the conference active discussion was proceeded among board of directors, top managers and the PSC members in free atmosphere on the issue of future vision or facing structural problem. This has been a help for communication between board of directors and TMT to be in

accord each other, and became effective pattern for PSC to participate important strategic decision making process of corporation.

### ANALYSIS OF CASE STUDY AND PROPOSITION SETTING

As studied above the CCP organization of Baosteel has been concluded promoting as internal control mechanism in corporate governance structure which coordinates relationship between top management team and board of directors. Accordingly in governance structure of China's SOEs, the PSC which is the highest organization in CCP organization performed the role of right supervision and recommendation to strategic decision making of top management teams by complementing the role of imperfect board of directors in the process of corporate modernizing process for China's SOEs. Through this it is possible for SOEs to have more rational and long-term base decision making which promote corporate values. Through this case following proposition is available.

*Proposition 1 As relationship among the PSC, board of directors and top managers get closer, interest of corporate board of directors and top management team is in accord with each other and it will give productive influence to corporate performance.*

*Prop. 1-1 If communication among the PSC, board of directors and top managers get increased, collision of opinion will be reduced, and diminishing conflict shall result positive influence to corporate performance.*

*Prop. 1-2 If cross-overlapping members are increased among the PSC, board of directors and management, top managers will consider corporate interest than individual profit, and agency problems of management will reduce which will cause positive influence for corporate performance.*

In the case of Baosteel, China's SOEs once exposed to external environment, the supervision and intervention of State Council or SASAC, in this circumstance SOEs could not only overcome restrictions of external environment by extending the connection of CCP organization but also could establish strategy to face the change of external situation. Ultimately there has positive influence to corporate performance. Therefore, the relationship between the PSC and CCP organization of SASAC as external state organization of supervision provides important element for corporate success. Upon this agenda following proposition could be drawn.

*Proposition 2 The relationship between the PSC and CCP organization of SASAC is getting intimate, external uncertainty of corporation will be reduced and shall give positive influence for corporate performance.*

- Prop. 2-1*      *If official communication between PSC and CCP organization of SASAC gets increased, intervention of external supervision agency will reduce and that will bring positive influence to corporate performance.*
- Prop. 2-2*      *If non-official communication among between PSC and CCP organization of SASAC gets increased, interest of the corporation and external supervision agency shall be in accord and will bring positive influence to corporate performance.*

## CONCLUSION

This study investigated CCP organization the characteristics of Chinese State-owned corporate governance structure compared to governance structure of advanced Western Corporation not dealt with previous studies by focusing on the Chinese State-owned corporate governance structure. Specifically through the case of Baosteel we've discussed what kind of role does CCP organization in the SOEs. Looking at the case study result, PSC, the highest CCP organization of China's SOEs promote complementary role for imperfect board of directors in corporate which induced modern enterprise system, and provide supervision and assistance role to corporate top management as internal control mechanism, and also connected to SASAC, the external environment supervising the corporation as the external control mechanism. Through this it has been known that providing unified internal/external circumstance toward management of SOEs, it coordinates corporate strategy and surrounding circumstance for State and CPCC and purpose of corporation to be in accord each other. Through the case study of Baosteel on the issue of reforming governance structure of China's SOEs, the answer has been found why corporate CCP organization should be kept although modern enterprise system induced, and we could affirm the importance of role of CCP organization in the China's SOEs.

To discuss with implications of this study, first, this study is an investigative research by strategy management perspective to the role of CCP organization and it suggests we must consider the role of CCP organization of the China's SOEs when investigating their success. Second, among our study on the governance structure of China's SOEs, it could be a meaning of this study which suggested internal control mechanism the party organization performs for which previous study didn't treat much CCP organization in the SOEs has been analyzed as doing the role of internal control mechanism in the stage of present state of board of directors not mature yet. Finally it provided analysis of the role of CCP organization of China's SOEs as external circumstance coordinate mechanism. This investigated the CCP organization gave positive influence to corporate success by make it possible to respond external environment in a fast and active way. In overall sense, this study has the meaning through making comprehensive pioneer research on governance structure of China's SOEs.

To summarize limitations of this study, it is less persuading for this study to suggest Baosteel the only one case due to versatile administrative environment, industrial environment,

regional circumstance and internal situation faced with China's SOEs, so it is necessary to provide empirical study by collecting more cases of China's SOEs in the future. Also there are many difficulties to generalize the role of corporate CCP organization in Socialist country because of the shortage of previous study on the role of corporate CCP organization of other Socialist state other than China. Therefore, in the future we could proceed comparative study on governance structure of China's SOEs with that of other countries by taking SOEs of other Socialist countries as a research target and find some difference among them.

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