AN INSTITUTIONAL ANALYSIS OF MANAGEMENT PROBLEMS
IN CHINESE STATE-OWNED ENTERPRISES

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This thesis analyzes the corporate governance of Chinese State-Owned Enterprises (SOEs), with a particular focus on the institutional arrangements by which SOEs discipline their managers. I ask: Which types of institutional arrangements explain the inadequate discipline of SOE managers? This article reveals that Chinese asset diversion is caused not only by transitional features such as expansion of managerial autonomy, but also by more inherent features rooted in Chinese socialism, localism, and Confucianism.

Although a number of studies, including some by the World Bank, have been made on Chinese corporate governance, only a few attempts have thus far been made at mapping the inherent institutional arrangements of Chinese SOEs. Despite the concentrated state ownership in large SOEs, why can the state not prevent rampant managerial wrongdoing including asset stripping? To answer this question, the article employs a comparative institutional analysis to shed light on Chinese distinctiveness, thereby contextualizing the problems of Chinese SOEs.

The argument begins with a brief overview of asset diversion in SOEs, and then explores Chinese SOE reform efforts to examine how the ownership structure of SOEs has been changed or not changed, and how reforms have provided managers with new opportunities to steal assets. In addition to such historical analysis, this article explores in great depth whether there is a causal mechanism that links state ownership and asset diversion from an institutional perspective. Comparison of SOEs in developed and transitional countries with those in China reveals that Chinese management problems
have been caused mainly by its fundamental institutional features, including a legacy of socialism, localism, and culture, many of which also exist in Russia. The thesis also examines the inability of Chinese large creditors to monitor SOEs, in comparison with creditors in developed countries.

Finally, a comparative institutional analysis points to the difficulties that Chinese corporate governance will continue to face. One cannot expect a quantum leap in SOE management problems in the short-term; Chinese corporate governance evolves gradually, and is largely shaped by a strong path dependency reflecting its historical legacy.
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