I. INTRODUCTION

China’s once-dilapidated state-owned enterprises (SOEs) have grown into powerful giants. After three decades of reform, China’s SOEs now comprise over sixty percent of the largest 500 companies in China\(^1\) and more than ten percent of Fortune Global 500 companies in the world.\(^2\) Pervasive state ownership has continued with no sign of vanishing as a salient feature of Chinese corporate governance.

When analyzing China’s SOEs, scholars have typically measured their governance attributes against international standards of corporate governance and have generally concluded that Chinese governance institutions are lacking or dysfunctional.\(^3\) This typical approach tends to focus on the function of things (i.e., rules and structures) and often overlooks the character of humans. This approach seeks corporate governance by the rule of law in lieu of the rule of man and promises functional corporate governance that can minimize arbitrariness exercised by human agents. The converse of this underlying philosophy, however, suggests that the personal attributes of corporate leaders significantly affect the quality of corporate governance—especially when legal institutions are weak, as in China. As a result, simply focusing on rules or structures without probing into leadership insufficiently grasps the full picture of the governance of China’s SOEs.

The political institutions in China further complicate the importance of leadership attributes in SOE governance. A Chinese state-owner is not an ordinary controlling shareholder. The Chinese Communist Party (“CCP” or the “Party”) is the real hand in the glove of state ownership in China. As the single ruling party, it controls all the important institutions in politics, business, media, academia, and effectively every sphere of public life in China. The Party’s chief control mechanism is its sophisticated but opaque personnel management over key positions in important institutions, including SOEs.\(^4\) As one commentator notes, “[t]he Party’s control over personnel was at the heart of its ability to overhaul state companies, without losing leverage over them at the same time.”\(^5\) By directly managing executives’ careers, the Party shapes managerial incentives and in turn influences the corporate behavior of China’s SOEs.

Recent studies have insightfully suggested that the Party’s executive career management fundamentally explains why many Chinese SOEs’ practices diverge from traditional principles of corporate law or securities regulation. For example, scholars have found that, in addition to


monetary compensation, political promotion acts as another important incentive mechanism. Moreover, empirical evidence shows that stock options granted to SOE executives are forged to fool foreign investors because such a compensation scheme is incompatible with China’s indigenous executive career management system. The institutionalized personnel rotations between China’s SOEs and other government units restrict the exercise of stock options, which can drastically enlarge the pay gap between SOEs and the civil servant system. Relatedly, Professor Katharina Pistor has argued that in China’s financial industry, the Party’s tight control over the financial cadre’s careers appears to be the dominant governance mechanism over ownership ties and legal rules.

Although scholarship to date has recognized that the Party’s control over executive careers has significantly shaped the governance of China’s SOEs, its control over personnel management remains obscure to outsiders. Several fundamental questions regarding the Party’s executive management still remain: Who are the top managers? What career pathways have guided the top managers of China’s SOEs? What kinds of attributes are advantageous and desired in the executive labor market of China’s SOEs? How cohesive is the elite at the highest echelon of China’s largest companies? How has executive recruitment evolved over time? Have corporate governance reforms, such as the introduction of boards of directors, changed executive composition? From a perspective of comparative corporate governance, how do Chinese executives differ from their international counterparts? Is the composition of the Chinese business elite moving toward that of the shareholder-oriented model or the stakeholder-oriented model?

Answering these questions requires a method for tracing the backgrounds and career paths of executives, termed an “executive-career approach” in this Article. Using this approach, this Article systematically investigates the biographies of the CEOs of China’s large non-financial SOEs between 2002 and 2010. The emphasis on CEOs assumes that the managerial culture of Chinese companies is highly hierarchical and paternalist, with decision-making power concentrated in the highest echelon of the corporate hierarchy. Moreover, many large Chinese SOEs have not yet established a board of directors and the management power remains concentrated in the top leader (“yibashou”) of the corporate entity. The period of investigation (2002–2010) in this Article was chosen to evaluate the evolving dynamics in executive composition during a period of recent institutional reform.

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7 See Zhihong Chen et al., Are Stock Option Grants to Directors of State-Controlled Chinese Firms Listed in Hong Kong Genuine Compensation?, 88 ACCT. REV. 1547.


9 A number of prominent sociologists have noted that the composition of the business elite remains an important yet absent area of scholarship on Chinese corporate governance and the national economy. See Andrew G. Walder, From Control to Ownership: China’s Managerial Revolution, 7 MGMT. & ORG. REV. 19 (2011); Neil Fligstein & Jianjun Zhang, A New Agenda for Research on the Trajectory of Chinese Capitalism, 7 MGMT. & ORG. REV. 39 (2011).

10 Financial and non-financial SOEs are governed by different regulatory regimes in China. This Article focuses on non-financial SOEs.

Over the past decade, the Chinese government has introduced a variety of rules and guidelines intended to professionalize and marketize executive recruitment. These rules and guidelines help shed light on Chinese corporate governance, but they remain unexplored in the existing literature. The executive recruitment guidelines provide a roadmap for identifying potential changes in executives’ attributes, including educational credentials, political qualities, and career experience. In addition to using these regulatory schemes as a basic analytical framework, this Article draws upon three sources of knowledge to analyze the empirical findings on executives’ educational, political, and career attributes. The first source comes from China’s political and business organization history, which aims to contextualize these findings. Because climbing to the top echelon of the corporate hierarchy usually takes decades, the composition of the contemporary elite is largely a consequence of institutional changes accumulated in the past. The second source derives from sociological theories that have been frequently used to explain career patterns and achievements. In particular, this Article applies sociologist Ronald Burt’s idea of “brokerage and closure” in network theory to explain the comparative advantages of certain executive career pathways and their implications for Chinese corporate governance and the national economy.\(^{12}\) The third source is executive career studies in the comparative corporate governance field. This literature illustrates how Chinese executives differ from those in other corporate governance regimes, and helps solve the puzzle of how China fits within the taxonomy of comparative corporate capitalism.\(^ {13}\)

Using this analytical framework, this Article shows that China’s executive composition over the past decade reveals indications of both stability and change under institutional reforms. This combination of effects indicates mixed signals for Chinese corporate governance development. Generally, executive recruitment is oriented toward politically-bounded and firm-specific-knowledge professionalism, and indicates a potential trend of bottom-up and competition-pressure-driven marketization. It is a system that strongly favors insiders over outsiders and generates a high degree of closeness and cohesion. While cohesion among the elite may facilitate national policy implementation, it poses challenges to corporate governance improvement due to an increased tendency for groupthink and the perpetuation of old practices, which tend to undermine the implementation of governance reforms. Moreover, through the comparative analysis of the business elite, this Article finds that China looks similar to countries in the stakeholder-oriented model, and obviously different from those in the shareholder-oriented model. However, the apparent similarities in the elite composition between China and countries in the stakeholder-oriented model are most likely formed by different underlying causes that vary by country.

This Article proceeds as follows. Part II briefly describes the ownership and governance structure of China’s large non-financial SOEs. It provides an organizational blueprint to contextualize executive recruitment practices and to construct the executive career pathways discussed in the following Parts. Part III discusses the executive recruitment reform rules over the past decade and the implied changes in executive attributes. Part IV explores how executives may have come to power by constructing six types of career pathways based on organizational structure and relational distance. This Article hypothesizes the potential development patterns of each career pathway under institutional reforms and discusses the implications of each career pathway for corporate governance and individual career attainment. Part V empirically examines the evolution of executive attributes under formal institutional reforms. It draws upon the

\(^{12}\) See generally Ronald S. Burt, Brokerage and Closure: An Introduction to Social Capital (2005) (explaining that brokerage, which concerns the activity of people exposed to broad social networks, intersects with closure, which describes coordinated interactions within a closed network).

\(^{13}\) See, e.g., Redding & Witt, supra note 11 (analyzing how China’s norms fit into the standard comparative capitalism paradigms); Lin & Milhaupt, infra note 14.
specific institutional setting, social network theory, and comparative corporate governance literature to analyze these empirical findings. Part VI concludes with the legal implications for international regulators, as well as the challenges for and the future research of executive recruitment and corporate governance in China.