



Corporate Governance in China: A Study of the Interdependent Model

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Abstract

The article aims to develop a theoretical framework of interdependent model based on stated-owned enterprises and private enterprises. There are three steps of interdependence, that is subordination (before 1978), relaxation (from 1978 to 1992), and multiform interdependent (since 1993). During the progress of corporate governance, state-owned enterprises (SOEs) transfer from “danwei” (work unit society) to “enterprise”, however, private enterprises changes from “grass-root organization for making a living” to “enterprise”. In general, different enterprises gain different support from different government levels and different government levels rely on different types of enterprises to achieve their goals. SOEs internal management is concentrated within a single person who may have several titles. In private enterprise, power is often concentrated within a single owner. Private enterprise development necessarily depends upon this owner’s social network.

Key words: Interdependent model; State-Owned enterprises; Private enterprises

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INTRODUCTION

China has been undergoing a great transition since the end of 1970s. Governance is a hot topic, and many researchers from economics, political science and other disciplines have studied the transition from corporate governance to public governance. Certain economists first introduced the term of governance from foreign literatures, term such as “corporate governance” or “corporate governance structure” is widely used in the discussion of corporate restructuring and enterprise reform (WU, 1994; QIAN, 1995; ZHANG, 1997; YANG, 1997; LI, 2002). Subsequently, the concept “governance” was used in public administration studies by political scientists and other scholars (YU, 2002; XU, 2002). However, most economists in China focused on relationships between property rights, the capital market, and corporate governance. They paid little attention to relevant political factors.

Obviously, the clarity and definition of property rights is a prerequisite for an effective governance structure, but it does not automatically lead to an effective corporate governance and efficiency. Property rights, not just defined in laws and regulations, can be implemented effectively in the political system, social norms, and cultural practices. As Andrei Shleifer and Robert W. Vishny (1997) points out, “In the corporate governance process, the political pressure and economic pressure are equally important.” Stanford University political science professor Jean C. Oi (2004) also focused on analyzing the significance of the political constraints when she studied on Chinese enterprises restructuring.

As we all know, corporate governance model in a country is the result of choice by its political, economic, historical and cultural factors. With regard to corporate governance models worldwide, a well-known “dichotomy” is advanced. One is the competitive model as represented by countries such as the U.S., U.K., Canada and other countries. Another one is the cooperative model as

represented by German, Japan and other countries. Market-oriented reforms in China are far away from a market economy. How can property rights be implemented effectively within China’s real political, economic and cultural practices? Compared to the competitive model for corporate governance in the U.S. and U.K., and the cooperative model in Japan and Germany, what type of model or beginning of a model has arisen in China during the past 30 years? In China, it is not the market, but the state, as both the major shareholder and regulator of the firm, that is in more control of the development of corporate governance and its enforcement. As a result, the difference implies that for Chinese firms the best practice of corporate governance cannot be simply imported from the West without any adaptation to the local business and political environment. Chinese corporate governance in the future should be developed in line with legal development and ownership reform (LIU, 2005).

In response to these problems, we study in the literature and empirical research based on the following central proposition: (1) the corporate governance in China today is interdependent model, which is survival respond to the government and corporate pressure. (2) During the process of seeking its power legitimacy after 1992, the Chinese Communist Party sought to develop the economy by reforming state-owned enterprises and encouraging the development of the private sector. (3) Whether state-owned enterprises (called SOEs in the paper) or private enterprises (called PEs in the paper), their survival and development are all strongly dependent on the government, which control almost all of resource in society.

At present the main types of Chinese enterprises, including SOEs, PEs and foreign-invested enterprises and their mixed form. For ease of analysis, this paper just study SOEs and PEs. After the introduction, this paper comprises

other four parts: the second part discusses the theoretical framework and three steps of interdependence; the third and fourth part testified the interdependence model by data and cases of state-owned enterprises and the private sector respectively; and finally concluding remarks.

1. INTERDEPENDENT MODEL

1.1 Theoretical Framework

This research proposes an interdependent model in transitional China. In this model, the government is divided into different levels – Central Government, Middle Government, and Local Government. The government has four overall goals – Ideology (G1), Social integration (G2), Economic development (G3) and Official utilities (G4). Of course, these targets vary depending on time period and government level.

At the same time, enterprises in China can be divided into four kinds – Central SOEs and Local SOEs, Big PEs and Small PEs. Enterprise also has four targets – Institutional adaption (E1), Making a living (E2), Making profits (E3) and Enterpriser utilities (E4).

When we look at government and enterprise together, we find there are three steps of interdependence (as shown in Figure 1). The period before 1978, we call “subordination”, which means everything and everyone was controlled by the central government. From 1978 to 1992, there is deregulation. And, from 1993 to the present, we see multiform interdependence. This interdependent model has a strong theoretical foundation in China’s social and cultural philosophies, political and economic systems, and historical traditions. This is the theoretical framework for the interdependent model. We will analyze its three steps in detail in succession.

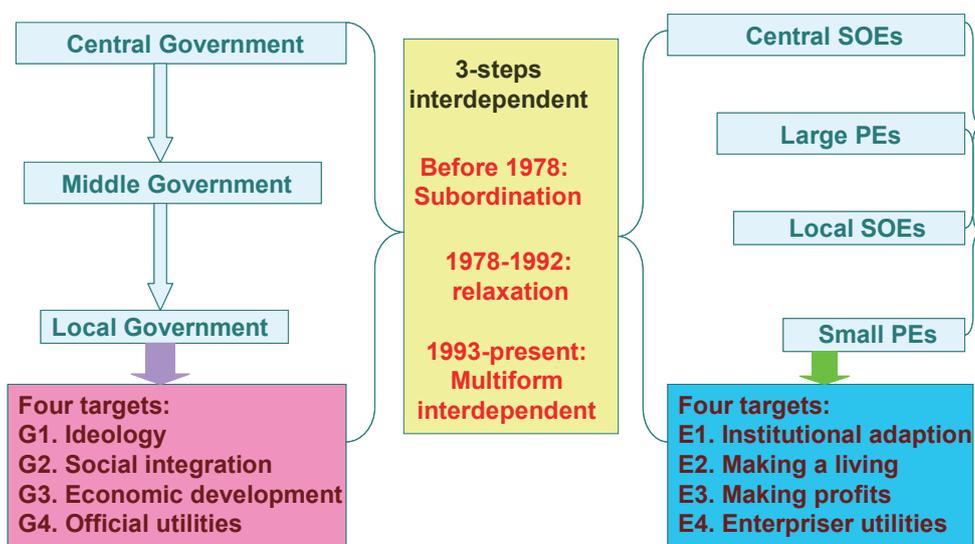


Figure 1
The Theoretical Framework of Interdependent Model

1.2 Before 1978: Subordination

Chinese enterprises have never left the political influence from ancient to this day. In ancient China, the “stressing agriculture and suppressing business” traditional culture had rooted in society at all level deeply. For example, the famous businessmen in Chinese history such as Shanxi gang and Anhui gang, were all dependent on the imperial way of doing business directly or indirectly, to accept the dominant imperial power, and willing to serve as a vassal to obtain huge profits. Early industrial enterprises in China had been maintained close and complex relationship with the official.

The establishment of The People’s Republic of China means that the vision of “people are the masters” had become a reality. Though in the beginning of New China foundation, all kinds of economy sectors were encouraged to compete and cooperate equally. However, the governance system will soon appear on a new basis of power and authority to configure a more focused top-down one-way operation characteristics. Furthermore, central government struggled to restructure the whole society and aimed to social integration by “people community” system and education of socialistic ideology. As Deng Xiaoping said, “Excessive concentration of power”, “sharing everything between party and government”, “enterprises belong to government totally”, “political tendency of social affairs”, “a serious bureaucratic problems”.

Therefore, before 1978, China had chosen the path of the planned economy and ideology and social integration were emphasized turgidly. Enterprise had been replaced by Danwei, which had to conform to the planned economic system. To establish a nationwide unified state-owned economy, people were only able to make a living and lacked of motivation to energize the economy.

1.3 1978-1992: Relaxation

From 1978 to 1992, exploration and experiments in deregulation were carried out in some areas far from Beijing and other major cities. The motivation for these changes came from entrepreneurs (including farmers) and local governments.

In 1978, Anhui Province suffered a rare drought. Eighteen farmers in Xiaogang village, Fengyang County, signed in a contract spontaneously with local government which was the first one contract about production allocation between government and farmer of that time in China. This approach spread rapidly in the province. As a result, the total grain output in the hundred-year drought years still overpassed the level of 29.6 billion jin in the normal time. The household contract, which means “the surplus production belong to household except for handing in to the central government and local government enough”, had attracted the attention of the main officials in central government. Personal consciousness of private property had recognized and supported in some ways after reforming from countryside.

Hereafter, relaxation reform spread to towns and cities rapidly. At that time, thirty million educated youth gradually returned to the city, they could only fend for themselves since government at all level, public enterprises and institutions could not accommodate them at that moment. So that a lot of individual industrial, commercial households and small business started-up in some areas far from major cities such as Wenzhou in Zhejiang province.

Without the support of local government, it was difficult for businesses that were not SOEs to germinate and develop. Under these new conditions, the central government had to relax control and prioritize economic development as a target. But it was not very easy for the central government to forget ideology.

1.4 1993-Present: Multiform Interdependent

After the Tiananmen event in 1989, the Chinese Communist Party sought to legitimize its power by developing the economy, and the goals of local governments were very different from those of the central government.

Through over 10 years of economic reform and development, we can see the gradual emergence of multiform interdependence among different levels of government and different kinds of enterprise. SOEs can be divided into Central SOEs and Local SOEs. Central SOEs belong to the central government. Local SOEs belong to local government.

PEs can be divided into big PEs and small PEs. Only a small portion of PEs are very big; most are small or medium sized. The big PEs have an interdependent relationship with the central government. At the same time, local governments also want to maintain good relationships with these famous companies. Some small PEs have relationships with local governments. These multiform interdependencies are very complicated since they change depending on the people and period involved.

In the context of economic globalization, all levels of government, as the center of economic development, responded positively to increasingly fierce international and national competition. All kinds of resources, departments at all level, SOEs, PEs and other economic sector were integrated through the power of government. Under this circumstance, the interdependent model of corporate governance was strengthened continuously. It demonstrated the following characteristics: First, the government at all level and enterprises shared the same objective – to develop the economy and to increase wealth, but to some content, personal goals, organizational goals and national goals were confused fallibly and easily. Second, property rights including corporate ownership and control right are still ambiguous inevitably between government and enterprises. Third, since lack of independence of the government and enterprises, decision-makers in most of organizations could not responsible for

the results of their decisions. To a large extent, these above characteristics were displayed by corporate governance of SOEs and PEs in nature.

2. STATE-OWNED ENTERPRISES: FROM “DANWEI” TO “ENTERPRISE”

In the former planned economy, China had no enterprises, but there were many Danwei, which was a political, economic, social, and cultural unit. Therefore, the reform of SOEs from “Danwei” to “enterprise” is the central task of the transition from the planned economy to a market economy system. From the date of the birth of SOEs, the reform has never stopped, but the progress was limited, until in 1988, SOEs were regarded as “corporate” in the law. Until in the end of the 20th century, the property rights reform of SOEs was only put in practice.

The reform process of SOEs could be called “seizing the big ones, abnegating the small ones”, that is “Zhua da fang xiao”. It included strengthening the big SOEs and selling the small and less profitable ones. The so-called “seizing the big ones” means to cultivate strong and competitive large enterprises and enterprise groups so that they can become a trans-regional, cross-sectoral, cross-ownership business conglomerates. As of 2008, the large state-owned enterprises belonged to the central government directly are still 141, their industry distributed extremely broad from the resource, monopolistic industries to general trading, consulting, manufacturing and other industries. The so-called “abnegating the small ones” refers to rent, sell and other forms of non-nationalization. In short, the Government’s aim is to reform the original “Danwei” nature of SOEs to become real enterprise. However, Tam (1999) contends that the Chinese attempt to impose adequate governance on large SOEs has so far been a failure, because of the absence of competitive markets for corporate control and managerial manpower that are the institutional anchors of the Anglo-American model.

2.1 The Reform Process of SOEs Led by Government

Over the past decade or so, China has progressed in developing the institutional foundations of a modern corporate governance system from the Danwei system. A basic legal framework including corporate, contract, accounting, and securities laws has been established. The government called its strategy for restructuring SOEs “Zhua da fang xiao”. Generally, the government has used 3 approaches. (1) Allow the profitable parts of SOEs to become publicly listed companies; (2) Four special companies originating from state banks pay off debts for SOEs in exchange for a majority of company shares; (3) Government arbitrarily defines company value for sale or gift.

2.1.1 Allow the Profitable Parts of SOEs to Become Publicly Listed Companies

The pre-reform China’s SOEs were not only the production units, but also social service units. Generally, large SOEs had schools, hospitals, nurseries and other non-productive parts. So that, SOEs were operated ineffectually in a high-cost condition in long term. In the end of last century, non-productive sectors could be separated from SOEs step by step.

At the same time, for the most valuable large-scale enterprises, the country’s strategy is to provide incentives to get the best opportunities for development. The government chooses a limited number of enterprises to allow the profitable parts of SOEs to become publicly listed companies. In such companies, incremental reform and radical reform can take place simultaneously, for example, the state allows an important state-wholly-owned enterprise divide up some state-owned assets as a new efficient business, which is a private enterprise. This kind of practice of setting up a subsidiary, approved by the official acquiescently, enables large enterprises to maintain vitality and avoid the entire state-owned enterprises for privatization.

2.1.2 Four Special Companies Originating from State Banks Pay off Debts for SOEs in Exchange for a Majority of Company Shares

Another important way to reform SOEs is debt-equity swap. Some of large-scale SOEs were selected by government and allowed them to exchange a certain percentage of old debts into shares with the newly established four asset management corporation, which as four special companies, originated from four state-owned specialized banks backed by the Ministry of Finance. This policy aimed to clean up some percentage of debt of large SOEs. In theory, when the profitable conditions of the above SOEs had improved, the asset management companies could buy out theirs some ratios of stock exchanged from debts.

2.1.3 Government Arbitrarily Defines Company Value for Sale or Gift

Among all kind of enterprises, the number of large enterprises is minority. Most of SOEs are viewed as small businesses, which are in charge by government at provincial, municipal and county levels. Like large enterprises, small businesses also face the same financial and debt issues. How to solve the problems faces by small businesses means heavy burden to local government. Since the reform policies such as becoming publicly listed companies and debt-equity swap are far from small businesses, local government has to explore effective choice including ownership reform and bankruptcy. Since 1997, many provinces have declared that “they will no longer engage in SOEs.” The measures used are neither “selling”, not “dividing”, the property was not distributed to the citizens, but “jie ding”! The so-called “jie ding”,

means that government arbitrarily defines company value for sale or gift. Taking a enterprise — Xiang jiang dope for example, 80 percent of corporate stated-owned assets have been given to corporate insiders as gift, who control the whole company totally in exchange with small percentage of ransom money.

2.2 The Characteristics Typical of SOE Corporate Governance

Since government played an important role during the starting-up, reforming and developing process of SOEs, it was not equivalent to the government, but also different from the ordinary enterprise. The main features of its interdependent governance are in the following aspects.

2.2.1 Leaders of SOEs Are Often Promoted to Government Office

In 1987 the Eleventh National People’s Congress representatives, the two significant groups on behalf of the nation are government officials and entrepreneurs, the former proportion of above 50%, the latter accounts

for about 20%, which to some extent, bring forth to China’s “government-led market economy” in nature. The tendency which leaders of SOEs are promoted to government office is increasing in these days.

2.2.2 The Communist Party Is Exploring Ways to Effectively Manage SOEs

The Communist Party of China (CPC) is exploring ways to more effectively manage SOEs. Before the middle of the 1980s, SOEs were completely controlled by the CPC, but unfortunately, many were not profitable. More recently, some successful entrepreneurs have been hired to manage SOEs in hopes of changing this situation. Many of them have subsequently become party secretaries. Taking Anhui Wanwei Group Co., Ltd. for example, the company, subject to Anhui Provincial State-owned Assets Supervision and Administration Commission, its predecessor Anhui vinylon Factory, was founded in 1969. The Principal Leaders and Leadership System of this Company can be shown in Table 1.

Table 1
The Principal Leaders and Leadership System of This Company

Period of time	Principal leaders		Leadership system
	Administration	Party committee	
1969.10 - 1974.12	Xiong Yukun		Party team
1975.05 - 1977.09	Yan Changjiu	Yan Changjiu	Party team
1977.10 - 1980.07	Zhang Yanxiu	Yu Ping	Party committee
1980.08 - 1983.07	Cai Shoumo	Yang zhe	Party committee
1984.02 - 1985.04	Xuan Jiabing	Zhu Dianxiu	Administration
1985.05 - 1990.03	Zhang Kaihui	Ren Zhaoxiang	Administration
1990.04 - 1992.08	Ren Zhaoxiang	Ren Zhaoxiang	Administration
1992.09 - 2005.08	Cheng Xingsheng	Yang Kezhang	Administration
2005.09 - 2008.05	Yang Kezhang	Yang Kezhang	Administration
2008.06 -	Wu Fusheng	Wu Fusheng	Administration

2.2.3 Having “One Center” Is Typical in SOEs

In SOEs, leadership positions have a specific sequence. It is very clear which position has higher status. That is, having “one center” is typical in most SOEs. Sometimes the center is the general manager. Sometimes the center is party secretary. Sometimes the center is chairman of the board. At the same time, this person often has additional titles in enterprise and society.

The relationships between parent company leaders and spinoff or subsidiary company leaders are “two-way entry, cross-serving”. Most SOEs are parent companies that produce many spinoffs and subsidiaries. Typically, the board chairman in the parent company and the board chairman in the main spin off or subsidiary are the same person. This person usually is the party committee member in the parent company.

2.2.4 Most Central SOEs Have No Board

China’s State-owned Assets Supervision and Administration Commission of the State Council,

established in 2003 as the investor deputy of central SOEs, is responsibility for earning profit by state-owned capital, promoting corporate restructuring and establishing modern enterprise system. Until 2006, China’s State-owned Assets Supervision and Administration Commission of the State Council permitted only about a dozen central SOEs to experiment with board governance. That is, most central SOEs have no board up to the present, which imitated the administration system to manage tremendous state-owned assets.

The previously discussed interdependent characteristics of SOE corporate governance reminds us that SOEs are still indivisible from the government and party. There is a long chain of principal-agent in SOEs. Taking the China Huaneng Group Company as example, at the end of 2008, it had produced 340 subsidiaries and spin offs, making it very difficult to supervise publicly held assets. Most publicly listed companies originated from SOEs. In this situation, it is difficult to protect the rights of minority stockholders. Internal corporate governance bodies have limited function.

3. PRIVATE ENTERPRISES: FROM “GRASS-ROOT ORGANIZATION FOR MAKING A LIVING” TO “ENTERPRISE”

3.1 Private Enterprise Depends on the Policy

In the early days of new China, private enterprises had experienced a period of equal competition and development period with state-owned sectors. However, in 1953, the policy to private sectors of central government had switched from “to reconstruct, to limit” to “to make use of, to restrict, to reconstruct”; in 1954, the People’s Republic of China Constitution prescribe that “stated-owned replacing capitalist ownership” have substituted “to make use of, to restrict, to reconstruct”. As a result, in 1956, the private sectors had been depleted when the reconstruction of 123,000 industrial households and 402 million business households was completed. After the period of time, public-owned is the pronoun of socialism. Private economies, regarded as alien sector to socialism, had been exterminated in a long period.

Unfortunately, the dream of socialism was challenged

by many difficulties including famine, unemployment social turbulence and political conflict quickly, so that central government had no choice. Initially, private enterprises required the secret support of local government. After farmers in countryside and worker in cities had carried out all kinds of exploration and experiments in order to make a living secretly and voluntarily for several years, central government began to recompose the regulations.

In July 1981, a paper, issued by the State Council, says clearly that, “when necessary, self-employed households can hire one or two employees, the owner of small business with special skill can recruit two or three or less than five apprentices.” In 1982, Deng Xiaoping, the keyman of Chinese reform era, put forward “not to prohibit private sectors immediately, and observe how to manage them stage by stage”. Private enterprises are dependent upon relaxation of government restrictions. As we know, it is difficult for grass to grow out of stone. Figure 2 shows the evolution of private enterprises in China from 1949 to 2007.

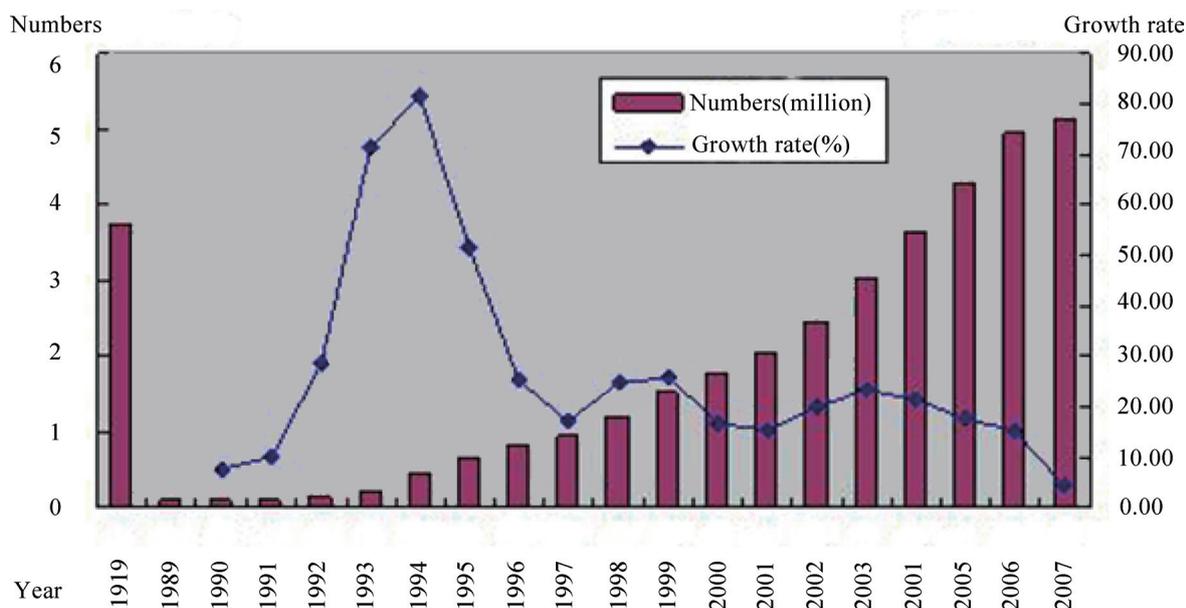


Figure 2
The Evolution of Private Enterprises in China from 1949 to 2007

3.2 Private Enterprise Depends on the Owners

Some owners were originally government officials, some were military officials, some came from academic, and some were peasants. In private enterprises, rights of

ownership and control are concentrated in the owner.

Table 2 shows us the capital structure of private enterprises. Both in the beginning and in 2005, the founder has more than 50 percent ownership.

Table 2
The Capital Structure of Private Enterprises

		Normal enterprise	Typical enterprise	Reconstructed enterprise	Non-reconstructed enterprise
The beginning ratio of the quantity of owner's capital	mean value	67.78	52	59.83	69.52
	Median	70	51	60	70
	Standard deviation	27.16	39.35	30.34	25.7
In 2005, the ratio of owner's ownership	mean value	68.56	48.13	59.65	70
	Median	70	51	60	70
	Standard deviation	26.59	36.47	29.56	25.8
The beginning ratio of the quantity of other personal capital	mean value	26.89	37.47	32.5	24.8
	Median	20	25	30	20
	Standard deviation	25.74	36.92	29.24	24.7
In 2005, the ratio of other personal ownership	mean value	26.04	37	32.64	24
	Median	20	33	30	20
	Standard deviation	25.01	32.8	28.37	24

Table 3 depicts the decision-makers in private enterprises. In more than 90% of private enterprises, the owner serves as chairman of board and general manager.

About 40% of the owners were responsible for all decisions in their companies.

Table 3
The Making-Decision System of Private Enterprises

		Publicly listed company	Company of having been public	Company of wanting to public	Company of having no public idea	Sum
Are you chairman, general manager in your enterprise	Yes	38 (84.4%)	19 (73.1%)	309 (89.8%)	2673 (90.4%)	3039 (90.2%)
	No	7 (15.6%)	7 (26.9%)	35 (10.2%)	283 (9.6%)	332 (9.8%)
	Sum	45 (100%)	26 (100%)	344 (100%)	2956 (100%)	3371 (100%)
The main decision-maker in your enterprise	Yourself	21 (50%)	2 (8.7%)	66 (19.6%)	1134 (38.9%)	1223 (36.9%)
	Shareholders' meeting	10 (23.8%)	5 (21.7%)	60 (17.9%)	521 (17.9%)	596 (18%)
	Board	6 (14.3%)	14 (60.9%)	151 (44.9%)	674 (23.1%)	845 (25.5%)
	You and other principal managers	3 (7.1%)	2 (8.7%)	58 (17.3%)	554 (19%)	617 (18.6%)
	You and party organization	2 (4.8%)	0	0	11 (0.4%)	13 (0.4%)
	You and labour union	2 (4.8%)	0	0	11 (0.4%)	13 (0.4%)
	Other	0	0	1 (0.3%)	5 (0.2%)	6 (0.2%)
Sum	42 (100%)	23 (100%)	336 (100%)	2912 (100%)	3313 (100%)	
Manager in your enterprise	Yourself	18 (39.1%)	5 (20%)	80 (23.3%)	1222 (41.1%)	1325 (39.1%)
	You and other principal managers	23 (50%)	15 (60%)	225 (65.4%)	1534 (51.6%)	1797 (53.1%)
	You and party organization	1 (2.2%)	0	0	1 (0.3%)	12 (0.4%)
	You and labour union	0	0	1 (0.3%)	10 (0.3%)	11 (0.3%)
	Professional manager	4 (8.7%)	5 (20%)	36 (10.5%)	189 (6.4%)	234 (6.9%)
	Other	0	0	0	6 (0.2%)	6 (0.2%)
	Sum	(100%)	(100%)	(100%)	(100%)	3385 (100%)

3.3 Private Enterprise Depends on the Initial Network of Owner

There are many types of private enterprise. A small portion of enterprises are very big, but most are small and medium sized. Some private enterprises were originally SOEs or collective enterprises. Private enterprises have developed throughout many industries and regions.

Various organizations within private enterprise can help to improve the governance structure. But corporate governance of publicly listed companies does not take advantage of the benefits of capital markets. From Table 4, we see that boards and other governance organizations within private enterprises became increasingly popular from 1993 to 2006.

Table 4
The Inner Organization of Private Enterprise

	Share-holders' meeting	Board	Supervisory board	Party organization	Labour union	Employee representative committee
1993	—	26.0	—	4.0	8.0	11.8
1995	—	15.8	—	6.5	5.9	6.2
2000	27.8	44.5	23.5	17.4	34.4	26.3
2002	33.9	47.5	26.6	27.4	49.7	27.4
2004	56.7	74.3	35.1	30.7	50.5	31.0
2006	58.1	63.5	36.5	34.8	53.3	35.9

In private enterprises, family members make up a relatively high proportion of company personnel. And professional management and guanxi management co-

exist. Table 5 shows that 50% of private enterprises are family businesses.

Table 5
The Human Capital of Private Enterprises

		Publicly listed company	Company of having been public	Company of wanting to public	Company of having no public idea	Sum
How many parents, spouse, brothers and sisters are stockholder?	0	9(29%)	10(58.8%)	110(41.8%)	1145(50.8%)	1274(49.7%)
	1	15(48.4%)	6(35.3%)	98(37.3%)	797(35.4%)	916(35.7%)
	2	3(9.7%)	1(5.9%)	32(12.2%)	216(9.6%)	252(9.8%)
	3	1(3.2%)	0	14(4%)	54(2.4%)	69(2.7%)
	More than 3	3(9.7%)	0	9(3.4%)	40(1.8%)	52(2%)
	Sum	31(100%)	17(100%)	263(100%)	2252(100%)	2563(100%)
How many parents, spouse, brothers and sisters are in board?	0	10(38.5%)	10(66.7%)	116(46.4%)	1292(62.3%)	1428(60.4%)
	1	13(50%)	4(26.7%)	87(34.8%)	560(27%)	664(28.1%)
	2	1(3.8%)	1(6.7%)	30(12%)	154(7.4%)	186(7.9%)
	3	2(7.7%)	0	8(3.2%)	37(1.8%)	47(2%)
	More than 3	0	0	9(3.6%)	30(1.4%)	39(1.6%)
	Sum	26(100%)	15(100%)	250(100%)	2073(100%)	2364(100%)
How many parents, spouse, brothers and sisters are principal manager?	0	11(45.8%)	11(78.6%)	118(45%)	1146(53.5%)	1286(52.6%)
	1	10(41.7%)	3(21.4%)	88(33.6%)	678(31.7%)	779(31.9%)
	2	1(4.2%)	0(0%)	35(13.4%)	229(10.7%)	265(10.9%)
	3	2(8.3%)	0(0%)	9(3.4%)	52(2.4%)	63(2.6%)
	More than 3	0	0(0%)	12(4.6%)	37(1.7%)	49(2%)
	Sum	24(100%)	14(100%)	262(100%)	2142(100%)	2442(100%)

CONCLUSIONS

In Chinese transition from a planned economy to a market system economy, corporate governance model is hot and challenged topic. Indeed, the successful implementation of corporate governance reforms may mark the final stages of China's evolution into a market economy (Ewing, 2005). This paper has put forward the interdependent model based on stated-owned enterprises and private enterprises. The transformation of the interdependent model is different from competitive and cooperative models: (1) Different enterprises gain different support from different government levels; (2) Different government levels rely on different types of enterprises to achieve their goals; (3) SOEs internal management is concentrated within a single person who may have several titles. This leader is often promoted to the public sector; (4) In private enterprise, power is often concentrated within a single owner. Because government support is limited, private enterprise development necessarily depends upon this owner's social network.

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