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Doctoral Dissertation

Governance Structure, Firm
Performance, and Strategic
Change in Chinese Firms

August 2017

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Governance Structure, Firm Performance, and Strategic Change in Chinese Firms

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ABSTRACT

Governance Structure, Firm Performance, and Strategic Change in Chinese Firms

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Corporate governance has become a major research topic in modern strategic management research. Since the concept of 'corporate governance' emerged in the process of solving the agency problem caused by the special relationship between 'ownership' and 'management', it has created a wide and broad range of research areas: control mechanisms (e.g., agency theory and stewardship theory) based on the attitudes and characteristics of principal governance agents and the causal relationship with various corporate performance variables. In particular, since the proliferation of globalization and free trade began in the late 20th century, it has spurred the movement toward governance improvements by increasing the necessity for individual countries and enterprises to form their corporate governance to meet international standards.

China is no exception to this trend. As the influence of Chinese enterprises increases, the improvement of their governance in line with international standards has become their major challenge. The Chinese

government finalized the *"Equity Division Reform"* at the end of 2006, beginning with the amendment of the <Corporate Law> and the <Securities Law> at a *Plenary Session of the 15th Central Committee of the Communist Party of China (CPC)* in September 1999. As a result, the government-centered unitary structure, "ownership-management," has been separated, and an institutional basis close to international standards has been established.

Therefore, we have presumed that the *'Equity Division Reform'* has a great influence on the improvement of the governance of the listed enterprises in China. In the study, we have focused on verifying the causal relationship between corporate governance characteristics and firm performance and strategic variables in Chinese enterprises after the reform. First, in Study 1, we have explored the relationship between the characteristics of corporate principal 'management' agents and corporate financial performance. We have sampled listed state-owned enterprises (SOEs) and private-owned enterprises (POEs) in China in a period of corporate governance stabilization from 2007 to 2015. Among the corporate governance variables, we have postulated the characteristics of the principal 'management' agents (BOD and CEO) as independent variables to analyze their effects on the financial performance. The earlier studies on enterprises in China were not enough to identify the longitudinal relationship between principal 'management' agents in corporate governance and financial performance. Therefore, we have made an attempt to fill the gap. In addition, we have focused on enhancing the differentiation of research by considering 'political connections' as one of the main characteristics of

principal management agents and examining the causal relationship with the dependent variable.

In Study 2, only listed state-owned enterprises in China are subject to the study, and they are classified into the categories (state-owned share and state-owned legal person share) with legal and institutional grounds to identify the causal relationship between the characteristics of corporate governance and the strategic change. In the study, the following have been taken into account: So far, there has been very little research on the relationship between corporate governance and strategic change in Chinese enterprises. Even if the scope of this study is extended beyond China, there is a need for a study on the relationship between the 'ownership' holders and the strategic change to consider the characteristics of 'ownership' holders because the governance factors are concentrated on the principal management agents. Among the state-owned enterprises listed on the *Shanghai Stock Exchange (SSE)*, we have finally selected 270 firms observable for nine years from 2007 to 2015 and have used a fixed effect model to analyze them.

In Studies 1 and 2 mentioned above, there are the following implications. The causal relationship of each corporate governance factor with the corporate performance and strategies have been analyzed from the existing contractual viewpoint. In addition, the behavioral approach to principal governance agents and the institutional and environmental uniqueness embraced by Chinese enterprises have been considered.

Key words: Corporate Governance, Financial Performance, Strategic Change

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GENERAL INTRODUCTION

Since the reform and opening in 1978, China's economy has achieved remarkable growth. In this process, enterprises have been under constant pressure for institutional and environmental change. In particular, since China joined the World Trade Organization (WTO) in 2001, improving their corporate governance to meet global standards for capital market opening and global competitiveness has become their major challenge. In late 2006, these changes, which peaked through the "Equity Division Reform," led to investment from other countries by providing an institutional environment for abandoning the government-centered unified governance and forming corporate governance that conforms to international standards. (Dong Sik Chang, 2008). These changes in the times have also changed the major research trends on Chinese enterprises. That is, the research tended to focus on corporate governance factors and business performance (Xu et al., 1999; Xu & Wang, 1999; Qi et al., 2000, Wei et al., 2005) based on agency theory before the reform. However, its theoretical domain has expanded into the following fields: sociological and psychological theories propounded to interpret changed corporate governance, extended interpretation of governance factors and main governance agents, and exploration of outcome variables influenced by governance factors.

However, despite the changes in the theoretical field, there are still various limitations in the studies on corporate governance after the reform. Therefore, there are the following representative arguments: There is a

need for a solid longitudinal study on corporate governance and corporate performance (Li & Zhang, 2010), and there is a need for a study reflecting the independent socialist system (See, 2009). In addition, studies on the relationship between corporate governance and corporate performance variables have mainly focused on certain principal agents (Dan Liu · Choelsoon Park · Sangsuk Lee, 2016), and there is a need for an extensive study on the various outcome variables which can be influenced by governance factors. (Marquis & Qian, 2014).

In this study, we have attempted to fill the academic gap raised, to suggest the variables reflecting the environmental uniqueness in China, and to classify the corporate groups. In Study 1, we have examined the relationship between corporate governance factors and corporate financial performance in the cases of listed state-owned and private-owned enterprises in China from 2007 to 2015. We have focused on the relationship between principal ‘management’ agents and the business performance, which has been relatively insufficient in the study of the relationship between corporate governance and financial performance in China. In addition, we have postulated the ‘political connection’ of principal ‘management’ agents as a variable considering the environmental uniqueness in China, and we have interpreted it from a behavioral and structural viewpoint to formulate hypotheses. In this process, the ownership type is used to define state-owned enterprises or private-owned enterprises from an operational aspect. and its moderation effect is checked.

In Study 2, we have focused on identifying the causal relationship between each corporate governance factor and strategic change. As

globalization and the development of information technology (IT) accelerate changes in the industrial environment, corporate strategy is attracting attention as a major factor for the survival and prosperity of enterprises. However, there have not been enough studies on Chinese enterprises. Therefore, we have set up and verified research models considering these points. In this case, it is important to note that the research subject is limited to state-owned enterprises typed to examine the moderation effect between each independent variable and the dependent variable. The assumption here is that the directions and purposes pursued by the types of state-owned enterprises are different. In this approach, we have extended the scope of research, which has been focused on principal 'management' agents to 'ownership' holders in the study of the relationship between corporate governance and strategic change. As a result, it would be an opportunity not only to understand the causal relationship between the overall governance factors in China and corporate strategic change but also to reveal the collective characteristics of the state-owned shares and state-owned legal person shares which have not been specifically verified in previous studies on state-owned enterprises. Here state-owned enterprises can be regarded as the core and root of the independent socialist economic system.

Study1: The Impact of Corporate
Governance on firm performance
in Chinese Enterprises

ABSTRACT

This study aims to investigate the effect of the corporate ownership type on the relationship between corporate governance and financial performance. Therefore, in this paper, we have conducted an empirical analysis of Chinese enterprises under increasing institutional and environmental pressure due to China's accession to the WTO in the late 1990s and the "Equity Division Reform" at the end of 2006. Among the enterprises listed on the Shanghai Stock Exchange (SSE), 405 enterprises observable for nine years from 2007 to 2015 have been sampled and analyzed with a fixed effect model. In the empirical analysis, the characteristics of BOD and CEO, which can be considered to be principal 'management' agents among the corporate governance variables, are postulated as an independent variable. We have studied the causal relationship of the following factors with corporate financial performance: the ratio of outside directors in the BOD, the ratio of directors with political connections in the BOD, the CEO's tenure and the CEO's political connection. In addition, the ownership type distinguishing between a state-owned enterprise and a private-owned enterprise is postulated as an independent variable. This factor is used to verify their interaction effect on the causal relationship between each independent variable and the dependent variable. The results of the empirical analysis are as follows. Given the four independent variables proposed in this study, all factors except for the BOD's political connection have a significant relationship with corporate financial performance. In

addition, it could be found that the interaction effect of the ownership type in the relationship between corporate governance and financial performance have a significant moderation effect on all hypotheses except for the hypothesis related to the BOD's political connection. Here the corporate governance is based on the environmental uniqueness in China and the rationale. These results have the following meaningful implications: we have made a longitudinal study on the significance between the characteristics of principal 'management' agents and the financial performance, which have not shown consistency in the study of enterprises in China with its own independent political and economic systems. In the study of Chinese enterprises, the political connections of principal 'management' agents and the corporate ownership type can be considered as important variables.

Keywords: Corporate Governance in China, Ratio of Outside Directors in the BOD, CEO's Tenure, Political Connection, Corporate Ownership Type, BOD Members' Political Connections, CEO's Political Connection, Financial Performance

I . Introduction

Corporate governance is still a major part of modern strategic management research. Since Berle and Means (1932) asserted the separation of 'ownership' and 'management', it has developed into theoretical studies based on agency theory from a contractual perspective (Jensen and Meckling, 1976; Fama and Jensen, 1983; Eisenhardt, 1989). Even until now, its domain has continued to expand in the study of its internal and external control mechanisms, various leading factors and the relationship with corporate performance variables.

Corporate governance can be broadly defined as the dynamics among corporate stakeholders (management executives including block holders, and minority shareholders, creditors, employees, etc) that influence decision-making in business management. It can be narrowly defined as a monitoring and controlling system in which corporate executives can fulfill their roles for the interests of stakeholders such as shareholders. It can be understood as a concept emerging from the process of solving the agency problem caused by the special relationship between ownership and management. Thus, an enterprise with good corporate governance can minimize the agency problem so that it can attain efficient and effective management and have a system in which the benefits of various stakeholders can be maximized (Dong Sik Chang, 2008). Therefore, national measures have been developed to establish rational corporate governance in the western developed countries, where capital markets have been liberalized and systematic legal systems have been established. The OECD

has played a leading role in establishing international norms for corporate governance, which is still a major concern in the field of practice.

This trend is no exception to the Chinese market, which has achieved rapid economic growth since its reform and opening in 1978. The 15th Central Committee of the CPC, held in September 1999, designated corporate governance as the core of the modern corporate system, and the China Securities Regulatory Commission (CSRC) has led the amendment of the <Corporate Law> and the <Securities Law>, the two main laws of the securities market, in order to improve corporate governance. Improving corporate governance in China was a key demand of the international community including developed countries for China's accession to the WTO. China has gone through the process of gradual improvement since its accession to the WTO in 2001. At the end of 2006, China eventually laid the groundwork for its corporate governance-related system close to international standards through the 'Equity Division Reform.' In other words, the reform plan, called the "Difference of the Stockholder's Rights," has led other countries advocating a market economy to their active investment in Chinese enterprises by separating ownership and management to deviate from the former government-centered unitary structure of ownership and management in China, which claims to have its own socialist economic system (Dong Sik Chang, 2008). This can be compatible with the management environment in which Korean enterprises have undergone dramatic changes in corporate governance through major restructuring and the enactment of related laws since the financial crisis mentioned by Park & Kim (2008).

Therefore, this case has also changed the trend of research on the corporate governance of listed enterprises in China. Before the reform, there were studies on the governance factors and business performance of listed enterprises in China, including the business performance of private-owned and state-owned enterprises in China (Xu & Wang, 1999; Myeong Kee Chung, 2006), the ratio of state-owned shares and the business performance (Xu & Wang, 1999; Qi et al., 2000; Cho · Li, 2006), the ownership structure and the corporate performance (Qi et al., 2000), and enterprise value (Wei et al., 2005). However, these studies have the following limitations: they did not include institutional changes related to the reform of corporate governance, and the scope of research on corporate governance was concentrated on 'ownership' holders. Since there are only short-term collected data related to studies after the reform, there is a need for a solid longitudinal study on the relationship with business performance (Li & Zhang, 2010). The claim that the study should reflect the uniqueness of China's own socialist system (See, 2009) is also convincing. Moreover, as suggested by Sun Hyun Park (2015), there is a need for studies on corporate governance to take a behavioral approach based on sociological and psychological aspects beyond the contractual viewpoint. It is necessary to study the relationship between the corporate governance and business performance of Chinese enterprises by considering such points in a balanced way. In this study, given the listed state-owned and private-owned enterprises in China from 2007 to 2015 when corporate governance has been stabilized since the reform of the Difference of the Stockholder's Rights, we have tried to identify the relationship between

their corporate governance factors and their financial performance.

It is expected that this study can make some theoretical contributions as well as fill the academic gap in the study of Chinese enterprises mentioned above regarding the relationship between their corporate governance and their financial performance. First, we focus on the relationship between the 'management' agents and the management performance by extending the scope of research which has been focused on the ownership structure in the study of corporate governance and financial performance in China. As discussed above, the majority of previous studies on the relationship between corporate governance and financial performance of Chinese enterprises focused on the causal relationship between ownership holders and financial performance, such as the ownership structure of the largest shareholder and block holders, ratio of foreign investors' shareholdings and ownership concentration (Jensen & Meckling, 1976; Hill & Snell, 1989; Shleifer & Vishny, 1997; Qi et al., 2000; Gunasekarage et al., 2007). On the other hand, there was a relative lack of research on the causal relationship between the characteristics of principal corporate decision makers (CEO and BOD) and the corporate performance. This was because the principal 'management' agents could not play an important role in corporate management under the following conditions: they could not be free from the influence of the government due to the unified structure of the ownership and management of Chinese enterprises before the reform of the "Difference of the Stockholder's Rights," and their discretion was also relatively limited (Dong Sik Chang, 2008). However, since the reform in 2006, majority of Chinese companies have separated ownership and

management and each of these functions has been actively controlled and interacted. Due to the Asian financial crisis hit after that, the importance of executives' decision-making to cope with environmental change has become an issue. Therefore, in this study, we have observed the causal relationship between the characteristics of executives and the management performance in this context.

Second, to define the characteristics of principal 'management' agents, it is necessary to use variables considering China's environmental uniqueness. Since China has its own political and economic system, enterprises in China also have institutional embeddedness different from those in other countries. As the assertion made by Liu et al. (2016), principal 'management' agents in Chinese enterprises have a dual position (the position in their corporate organizations and the political position in the Communist Party) and that it is called 'political connection'. This characteristic can be interpreted from a behavioral and structural viewpoint because it can ultimately affect the relationship between the CEO and the BOD, their relative power and their social influence. Therefore, in this study, we have postulated the political connection of the BOD and the political connection of the CEO as a variable considering the political connection to check the relationship with the financial performance.

Finally, in this study, we have used the ownership type as a moderating variable, which classifies enterprises into state-owned enterprises and private-owned enterprises, to examine the interaction effect of the characteristics of principal management agents on the financial performance. Myeong Kee Chung (2006) proved that private-owned enterprises have

higher business performance than state-owned enterprises among listed enterprises in China. This can be interpreted as a result of the different organizational goals and strategies pursued by each corporate group and their reflection on its business performance. By the same logic, we have analyzed panel data collected for nine years from 2007 to 2015 to verify the interaction effect depending on the ownership type. This is an attempt to see whether there is a difference in financial performance depending on the group characteristics even in an institutionally stabilized situation which has been improved since the reform.

II. Theoretical Background

2.1 Definition of Corporate Governance and its Relationship with the financial performance

In the early stages of the research, corporate governance was defined as a mechanism that could minimize the agent cost and transaction cost between stakeholders to maximize enterprise value (Williamson, 1985). However, its concept has been gradually expanded into systems governing laws, rules and factors which are used to control corporate operations (Gillan & Starks, 1998). In recent years, the research has focused on management activities caused by ownership and management structure rather than discussion on corporate governance itself (Seong-Keun Choi, 2006), thereby enhancing investor confidence and enterprises' economic efficiency. As these activities emerge as the engine that can ultimately drive business growth, their importance is being emphasized (OECD, 2004).

The start of discussions on 'ownership' and principal 'management' agents, which are regarded as the key to research on corporate governance, is based on agent theory claimed by Jensen & Meckling (1976). This becomes the logic in spreading the awareness that it is necessary to minimize agency costs (bonding costs, monitoring costs, residual losses, etc.) caused by the inconsistency of interests in the delegation relationship between the shareholders (the principal of an enterprise) and the CEO (the agent) and to have an efficient management

system. Therefore, there have been constant discussions about studies on the causal relationship of subdivided principal agents affecting the efficiency of corporate governance with variables such as corporate performance and strategies (e.g. Chaganti & Damanpour, 1991; Johnson & Greening, 1999). Here subdivided principal agents include chief executive officer (CEO), board of directors (BOD), top management team (TMT), inside directors, the largest shareholder, outside directors, and foreign or institutional investors.

In particular, there have been active discussions about the relationship between corporate financial performance and corporate governance regarding the characteristics of BOD (e.g., Balack & Claessens, 2007; Dahya & McConnell, 2007; Bruno & Classens, 2010; Liu et al., 2015, Rashid et al., 2010; Garg, 2007; Hu et al., 2010) and the characteristics of CEO (e.g., Miller, 1991, Hambrick & Fukutomi, 1991; McClelland, Barket & Oh, 2012; Tsai et al., 2006), and ownership structure (e.g., Dong & Gou, 2010; Joh, 2003; Mak & Kusnadi, 2002; Morck & Vishiny, 1988; Xia and Walker, 2015; Ki Sung Park, 2002; Choi · Ham · Kim, 2003). However, an accepted agreement has yet to be reached. Therefore, the argument that the relationship between the two things is determined by situational factors is becoming convincing, and various studies have been carried out in consideration of these.

This trend is no exception to the study of Chinese enterprises in terms of the relationship between corporate governance and financial performance. There have been studies on the correlation between governance factors (ownership type (Xu et al., 1999)), ratio of state-owned shareholdings

(2006), ownership structure (Qi et al., 2000) and financial performance. However, many of these studies are limited to enterprises before 2006 in which they began to meet international standards in ownership and management structure (Dong Sik Chang, 2008). In addition, studies after the *'Equity Division Reform'* have not considered the environmental uniqueness that can affect the relationship between variables (See, 2009; Liu et al., 2016), and there is a need for a solid longitudinal study because the period of accumulated research data is too short (Li & Zhang, 2010).

Therefore, there is a need for a study overcoming these limitations. In response to this, two factors affecting corporate governance are reflected in the study.

2.2 Uniqueness of Corporate Governance in China

2.2.1 Political Connection

In order to understand enterprise activities in China properly, a background understanding of environmental uniqueness needs to be preceded. This means that the institutional environment to which each corporate group belongs is different needs to be taken into consideration in the study of China as well.

Chinese enterprises' typical characteristic in corporate governance is that stakeholders involved in corporate 'management' can have a dual position enabling them to belong to both the government and the enterprise. The

government policies, regulations and enforcement are the major external environmental factors that influence corporate management (Hillman, Zardkoohi, & Bierman, 1999; Mahon & Murray, 1981; Marsh, 1998; Shaffer, 1995). Among the CEO and members of BOD, those with political party status have direct interests with the government. Thus, they not only serve as a link between the government and the enterprise but also act as the catalyst for the diffusion of government policy. As a result, the embedded political and institutional factors of the Chinese government have enabled a system that can affect individual enterprises (Haveman et al., 2016).

Jia (2014) conducted a study of private-owned enterprises in China by dividing their political activities into individual and collective levels. Here the individual-level political activities are in line with the concept of the political connection defined by Li et al. (2006, 2008). They are those who not only act as decision makers in the enterprise but also play political roles such as a government official (mayor or vice-governor), a member of the Chinese People's Political Consultative Conference (CPPCC), a member of the National People's Congress (NPC), etc. Therefore, it is necessary to have a clear understanding of the following: the relationship with the government can vary according to their given situation, and the relative strength of the relationship with the government can also change.

The studies on political connections in other countries, except China, define the characteristics of political connections, including research subjects' social experiences (Yu & Lee, 2016) and their attitudes toward political parties supported (Goldman, Rocholl & So, 2008). On the other

hand, the political connections of Chinese enterprises indicate the following difference that research subjects have a direct relationship with the government and their position can be changed according to their situations. Therefore, it is necessary to comprehensively consider the power and relationship of those who have such a position in the study of corporate governance in China beyond the simple contractual viewpoint.

Many earlier studies on the political connections of principal management agents have focused on their positive effects such as increasing stability regarding regulations (Agrawal & Knoeber, 2001), enhancing access to external resources (Khwaja & Mian, 2005; Faccio, 2006), increasing enterprise value (Roberts, 1990; Fisman, 2001; Ramalho, 2007), and enhancing corporate performance ultimately (Johnson & Mitton, 2003). However, their negative effects (e.g., power abuse, lack of communication, and rigid organizational culture) have also emerged as other research topics in recent years (Cheung et al. 2010; Chen et al., 2011b; Fan et al., 2007; Wu et al., 2012).

Therefore, in this study, we have considered the clear difference between the political connection defined in the study of Chinese enterprises and that used in the study of other countries to identify the effect of each principal management agent's political connection on corporate financial performance.

2.2.2 Characteristics of Corporate Groups

One of the distinctive characteristics to be considered in the study of Chinese enterprises is the collective characteristics that appear according to

their ownership types. The People's Republic of China, founded on the basis of socialist ideology, had only state-owned enterprises of all types in the early days of its founding (Dong Sik Chang, 2008). However, since its reform and opening in 1978, private-owned firms have emerged and the characteristics of these groups have been divided. According to the National Bureau of Statistics of China, the number of private firms (only including non-listed enterprises in manufacturing industries) has rapidly increased since its reform and opening. Thus, by 2015, there were 216,506 private-owned enterprises, representing 11.2 times as many as 19,273 state-owned enterprises. On the other hand, the total assets of state-owned enterprises are about 397,403 billion yuan, which is 1.7 times as much as that of the private-owned enterprises, with about 229,006 million yuan¹). That is, there are absolutely many private-owned enterprises in terms of the number of enterprises, but the state-owned firm group has more stability in terms of management performance and asset size.

These characteristics can be reconfirmed if only the status of listed enterprises is considered. Li & Zhang (2010) said that the state-owned enterprises accounted for 63.15% of listed enterprises in China as of 2007. This result is significantly different from the results observed in the UK (1.4%), Germany (0.08%) and Japan (6.3%) during the same period, and the result is also higher than that of Singapore (23.50%), where the ratio of state-owned enterprises is relatively high. For this reason, listed enterprises and state-owned enterprises, which are considered to have performance, structural and institutional stability, have been the main research subjects

1) China Statistical Yearbook, 2006-2015

in business management studies in China.

On the one hand, the state-owned firm group and the private-owned firm group have organizational and historical differences in China. Until the reform and opening in 1978, the public enterprises (or state-owned enterprises) were the only corporate establishment structure. However, in 1978, there was an attempt to isolate the property and management of the state-owned enterprises through the experiment of expanding the independence of enterprises. From that time, the state-owned firms have attempted to change into a group pursuing their business performance beyond the meaning of public interest-oriented organizations. The introduction of the economic responsibility system from 1981 to 1982 and the reform of the taxation of profits in 1983 led to the completion of a system in which state-owned enterprises' revenue generation led to the growth of national financial revenues. After that, the generalization of management contract liability between 1989 and 1992 transformed into a structure that enhanced the productivity of enterprises by breaking the average distribution policy. From 1992 to 1997, state-owned enterprises attempted to gradually change into modern enterprises through their reforms. In 2006, the state-owned enterprise structure in which ownership and management were separated was completed through the reform of the Difference of the Stockholder's Rights (Shu, 2012). In summary, the characteristics of state-owned enterprises, which had been under the direct management of the government, changed through the mitigation of government control, the separation of corporate governance and the pursuit of profit.

On the other hand, the private-owned firm group has paid attention to the recovery and development of the individual economy since the reform and opening. It was incorporated into the legal trajectory in 1988 when the State Councils passed the <Ordinance for Incorporation of Private-Owned Firm Act>. The private-owned enterprises, which had made little progress compared to the state-owned enterprises, began to grow in earnest in 1995 when the government began to sell small or improperly-run state-owned enterprises to individuals for the purpose of reforming state-owned enterprises (Lin et al., 2001). From this point on, there has been an economic structure in which the large-scale state-owned enterprises are directly operated by the government and the rest of the firms are entrusted to individuals. This change eventually became the basis for establishing the <Sole Proprietorships Law> on Jan. 1, 2000. Finally, in May 2004, individual entrepreneurs whose personal assets and capital were protected by the National Constitution became free to establish and operate their own businesses for the purpose of revenue maximization (Ralston et al., 2006).

Thus, the state-owned and private-owned firm groups in China have differentiated characteristics in the process of development and institutionalization. There has been a shift towards greater autonomy for market participants than in the past; nonetheless, there is a clear distinction between groups regarding the characteristics of governance and the organizational purposes. Therefore, in this paper, these characteristics of each corporate group are defined as another distinct characteristic of Chinese enterprises and applied to the research.

III. Hypotheses

3.1 Principal 'Management' Agents and Financial Performance

3.1.1 Board of Directors (BOD) and Financial Performance

In this study, we have suggested outside directors as one of principal management agents of corporate governance. Outside directors can be factors influencing various BOD roles as a part of the BOD, the highest decision-making body in the enterprise, and they can function as a key mechanism for corporate governance, such as resolving agency problems and maximizing shareholder interests (Fama & Jensen, 1983; Pearce & Zahra, 1992). This is because of the following reason. Unlike inside directors directly involved in corporate influence due to their direct employment relationships, outside directors are characterized by independence from the enterprise or executives because of their different contractual relationships (Johnson et al., 1996). In general, the functions of outside directors are divided into three kinds of roles and functions: control, service, and resource dependence. The control function means the role of outside directors on behalf of shareholders to prevent management (including the CEO) from violating shareholder interests (Baysinger & Butler, 1985; Baysinger & Hoskisson, 1990; 1994b; Fama & Jensen, 1983; Goodstein & Boeker, 1991; Lorsch & MacIvor, 1989; Monks & Minow, 1995; Tushman & Romanelli, 1985). The service function means the role of outside directors to actively participate in establishing a corporate strategy

and offering advice on general management activities (Lorsch & MacIvor, 1989). Finally, the resource dependence function means the role of outside directors to facilitate the acquisition of resources that are essential for corporate survival and growth, using networks with other organizations (Boyd, 1990; Daily & Dalton, 1994a, 1994b; Johnson et al., 1996; Pfeffer, 1972; Pfeffer & Salancik, 1978; Zahra & Pearce, 1989). Among these functions, the control function is based on the agency theory, and the service and resource dependence functions are based on the resource dependence theory (Gales & Kesner, 1994; Liu & Lee, 2016; Pfeffer & Salancik, 1978; Gyeonghwan Lee·Jeongil Seo, 2015). In China, since the China Securities Regulatory Commission (CSRC) issued the "Guidance on the Construction of the Independent Director System of a Listed Enterprise" in August 2001, each listed enterprise should appoint one third or more of the BOD members as outside directors on the basis of the guidance, and at least one of the outside directors should be appointed as an accounting specialist.

On the other hand, there is some room to argue about the causal relationship between the effect of outside directors and the financial performance of the enterprise due to the following reasons. Some studies showed that outside directors increased the efficiency of corporate governance by controlling arbitrary management and ultimately had a positive (+) effect on the financial performance (Balack & Claessens, 2007; Dahya & McConnell, 2007; Bruno & Classens, 2010; Liu et al., 2015). In contrast, others showed that there was no significant difference in the relationship between the effect of outside directors and the financial

performance (Rashid et al., 2010; Garg, 2007; Hu et al. 2010). However, one-year cross-sectional data were used in the study conducted by Rashid et al. (2010). In the study of Hu et al. (2010), it could be predicted that the effect of outside directors would not be verified due to the ownership concentration of block holders. Outside directors tended to focus on the economic responsibilities of the enterprise (Ibrahim and Angelidis, 1995). As a result of the above studies, the higher the ratio of outside directors in the BOD becomes, the more likely it is that their control function will help form the corporate governance effectively. In addition, they can be used for corporate service and resource functions, and it can be expected that they can have a positive effect on the financial performance. Therefore, the following hypothesis can be derived.

Hypothesis 1: The higher the ratio of outside directors in the BOD becomes, the higher the financial performance of the enterprise gets.

The 'Board of Directors (BOD)' represents the shareholders as a principal management agent of an enterprise. The BOD is the highest decision-making body with the following powers as an institutional apparatus for checking and supervising the executives: approval of major strategies and investments of the enterprise, protection of assets in the enterprise, appointment and dismissal of the executives including the CEO, and evaluation of management performance (Pearce & Zahra, 1992). The BOD functions as a core mechanism of corporate governance (Fama & Jensen, 1983; Pearce & Zahra, 1992). The BOD also plays the following

roles: control, service, and resource dependence (Johnson et al., 1996). In recent years, there is a growing emphasis on the role of actively responding to the environment as various control measures for corporate governance are developed, such as strengthening shareholder activism (Golden & Zajac, 2001; Goodstein & Boeker, 1991; Jeong · Moon · Kim, 2016). In particular, in China, there is a social atmosphere in which the role of the BOD is emphasized as a means to check the excessive influence of the CEO in the enterprise (See, 2009). As stated in the Theoretical Background section, there are a large number of directors with dual positions related to the enterprise and the government, regardless of whether they are outside directors or outside directors. Therefore, their political connections, relative power relations and social capital can directly or indirectly influence the performance of the enterprise.

In the upper echelon theory, an individual's experience affects his/her propensity and values and ultimately generates a bias that influences his/her final decision-making. (Hambrick & Mason, 1984; Hambrick, 2007). If this theory is applied to a Chinese enterprise's BOD members with political connections, their personal values are likely to influence corporate decision-making (Liu et al., 2016). The effect of the BOD's political connection can be explained in more detail through the resource dependence theory. In other words, the BOD plays a role in absorbing and stabilizing major environmental uncertainties in the enterprise (Boyd, 1990; Hillman, Cannella, & Peatzold, 2000; Pfeffer, 1972). In this way, it can enhance corporate survival and corporate performance (Singh, House, & Tucker, 1986).

The effect of the BOD members with political connections on various corporate management activities and performance has been actively studied in China (e.g., Cull & Xu, 2005; Chizema et al, 2015; Faccio, 2006; Faccio, 2010; Hillman, 2005; Johnson & Mitton, 2003), but these studies are still unable to draw a coherent consensus on their effectiveness. However, in this study, we have focused on the fact that there is a social atmosphere in which the BODs of Chinese enterprises should play a role in checking the excessive power concentration of the CEOs. The political connections of BOD members can help stabilize their organization from the government's policy, regulation, and enforcement (Agrawal & Knoeber, 2001). It has been assumed that they are possible to increase the accessibility of external resources (Khwaja & Mian, 2005; Faccio, 2006), to increase the enterprise value (Roberts, 1990; Fisman, 2001; Ramalho, 2007), and to improve performance eventually (Johnson & Mitton, 2003). In addition, we have assumed the following possibilities. They can raise the efficiency of corporate governance within their organization by controlling and monitoring the power that may be concentrated mainly on the block holders or CEO. In the end, they can be used as a strategic asset to enhance organizational performance (Hillman, 2005; Siegel, 2007). Therefore, the following hypothesis can be derived on the basis of the discussion.

Hypothesis 2: The higher the ratio of BOD members with political connections becomes, the higher the financial performance of the enterprise gets.

3.1.2 CEO and Financial Performance

Another corporate governance-related principal management agent proposed in this study is the 'Chief Executive Officer (CEO)'. A CEO is of great interest not only as an object of surveillance and control in corporate governance but also as an important doer in maximizing shareholder value (Jong-Hun Park · Yun-Dal Sung · Mu-Goan Jeong, 2010). The CEO also acts as a key decision-maker (Finkelstein et al., 2009; Andrews, 1971; Barnard, 1938; Mintzberg, 1973; Selznick, 1957; Thompson, 1967) with overall responsibility for management activities and performance. The CEO has been a major concern of business administration in the study of corporate governance since He/she represents the executives within his/her organization.

There are various related research areas such as *internal · external control mechanisms to prevent the CEO's self-interest pursuit and to control the CEO's inefficient management activities* (Agrawal & Knoeber, 1996; Hall & Liebman, 1998; Peng, 2004; Walsh & Seward, 1990; Wagner III et al., 1998; Dong Ryung Shin, 2003; Seonghoon Kim · Choelsoon Park, 2000; Joo Tae Kim, 2007), *the CEO replacement* (Finkelstein et al., 2009; Hambrick, 1989; Lafuenta & Salas, 1989; Jee Hyun Park · Yang Min, Kim, 2010) *and effect* (Brady & Helmich, 1984; Kesner & Sebor, 1994; Dalton & Dalton, 2005) and *the CEO's tenure* (Hambrick & Fukutomi, 1991; Musteen, Barket & Baeten, 2006; McClelland, Barket & Oh, 2012; Wu, Levitas & Priem, 2005). We have identified relationships with various variables using the agency theory, the upper echelon theory and the organization politics theory (Jong-Hun Park · Yun-Dal Sung · Mu-Goan Jeong, 2010). One of

the noteworthy points is as follows. In the past, the CEO's role tended to be analyzed from a structural viewpoint of ownership and management based on the contractual aspects. On the other hand, in recent years, there are active studies considering the CEO's environment and personal characteristics as the assertion made by Hambrick & Fukutomi (1991).

In this study, we have postulated the characteristics of a CEO as the "CEO's tenure" based on contractual aspects and the 'CEO with political connections' based on behavioral aspects to identify the causal relationship with the financial performance. First, the CEO's tenure is a reliable variable that shows the demographic characteristics of the CEO (Choelsoon Park, Jin Tak Yoo, 1999), which can have a significant impact on the financial performance of the enterprise. The fact that the CEO has not been replaced or has succeeded in succession can be taken as a signal that he has not lost his/her trust in the overall management of the enterprise from principal agents (e.g. block holders and BOD) monitoring and controlling him/her. The above fact can also be regarded as an act of informing the outside parties of the corporate stability since the CEO has more symbolic significance than an individual in the organization (Brady & Helmich, 1984).

Discussions on the CEO's tenure cover its various affecting areas, including corporate governance and strategy (Miller, 1991), innovation (Wu, Levitas & Priem, 2005), board composition (Cook & Burrell, 2013) (Hambrick & Fukutomi, 1991; McClelland, Barkett & Oh, 2012; Tsai et al., 2006), R & D investment (Chen, 2013), etc. There are also various areas related to corporate financial performance (Hambrick & Fukutomi, 1991; McClelland, Barkett & Oh, 2012; Tsai et al., 2006). In particular, Hambrick

& Fukutomi (1991) suggested the proposition that the relationship between the CEO's tenure and corporate performance would show an inverted U-shape rather than a linear regression relationship. After that, the following assumption is gaining momentum: the CEO's tenure will have a negative (-) relationship with corporate performance as the tenure gets longer (McClelland, Barket & Oh, 2012; Kroll et al., 2000; Miller, 1990, 1993). However, there is still no consensus. This is no exception to the CEOs of Chinese enterprises that have separated ownership and management since the reform of the Difference of the Stockholder's Rights. It is possible to infer the following situation. As the CEO's tenure gets longer, the motivation for growth and development (Audia et al., 2000; Hambrick and Fukutomi, 1991) and the commitment to learning fall (Finkelstein and Hambrick, 1996). It is possible to infer that it will ultimately have a negative impact on the enterprise' financial performance. Therefore, the following hypothesis can be derived on the basis of this logic.

Hypothesis 3: The longer the CEO's tenure becomes, the lower the financial performance of the enterprise gets.

The 'political connection of the CEO', which is assumed to be another CEO's characteristic, is a variable considering the 'dual position' that principal management agents mentioned above can have in China. The research on the political connection focuses on executives' specific social background and relationship, social capital and network. On the other hand, a dual position is different in that it enjoys not only the position of a

member of the *Communist Party*, which advocates an independent socialist line, but also the position of the executive in the enterprise. For example, *Yu & Lee (2016)* defined the CEOs' experience in officialdom as their political connections in the case of state-owned enterprises in Korea, and examined the effects of these political connections on financial support acquisition and financial performance. *Goldman, Rocholl & So (2008)* defined the relationship with a BOD member, who had a network with the victorious political party in the US presidential election, as his/her political connection and analyzed the effect of the political connection on the stock price of his/her enterprise. It can be said that this is a clear distinction from the study of Chinese enterprises regarding political connections.

CEOs are generally considered to take overall responsibility (Finkelstein et al., 2009; Andrews, 1971; Barnard, 1938; Mintzberg, 1973; Selznick, 1957; Thompson, 1967) for management activities and performance with symbolic significance (Brady & Helmich, 1984) within their organizations. Therefore, there remains room for debate over their political connections. That is, the roles related to organizational stabilization (Agrawal & Knoeber, 2001) and resource dependence (Khwaja & Mian, 2005; Faccio, 2006) can be raised like the positive effects of the political connections of the BOD, and there may be negative effects of their power abuse (Cheung et al., 2010; Chen et al., 2011b; Wu et al., 2012).

In this study, it has been pointed out that there is an atmosphere of restraining the power concentration of the CEOs of the Communist Party-oriented enterprises in the environment of Chinese enterprises with government-led environmental uniqueness (See, 2009). We have come to

the conclusion that the political connections of CEOs will eventually have a negative effect on the financial performance. The reason for this logic is as follows. If a CEO who has a symbolic significance beyond an individual has a special relationship with the government, his commitment to the enterprise's performance will be reduced due to his/her dual position (See, 2009). Excessive power concentrated in the CEO can result in the CEO's arbitrary action since the function of the block holders and BOD that control the CEO's power becomes subordinate to the CEO (Pearce and Zahra, 1991). In the end, performance will be degraded. The following hypothesis can be derived on the basis of this logic.

Hypothesis 4: The CEO's political connection will reduce corporate financial performance.

3.2 Ownership Types and Interaction Effect

3.2.1 Ownership Types and Financial Performance

Ownership has been expanded into the following research areas: the core of research on corporate governance and corporate ownership holders, their shareholdings, the various ownership-based relations and management strategy. This implies that these broad research areas deal with the ownership structure and the ownership type. The ownership structure is related to the mutual relations arising from the ownership and

concentration of corporate ownership holders. The ownership type is related to the characteristics of groups categorized through the categorization of the major block holders' ownership characteristics such as firm size, firm ownership type (state-owned enterprise or private-owned enterprise) and family business status.

There have been many active studies on the causal relationship between ownership and management performance and value in the field of finance and management strategy as follows. There have been studies on the relationship of the ownership structure and concentration with the financial performance and enterprise value. Here the ownership structure and concentration has to do with CEOs, block holders, institutional investors and foreign investors (Dong & Gou, 2010; Joh, 2003; Mak & Kusnadi, 2002; Morck & Vishiny, 1988; Xia and Walker, 2015; Ki Sung Park , 2002; Jeong Pyo Choi · Ki Chang Ham · Hee Tak Kim, 2003). There are also studies on the causal relationship of the ownership type with the financial performance and enterprise value. Here the ownership type has to do with the conglomerate status (Kyung-Seo Park · Jae Seung Park, 2001) and the state-owned · private-owned enterprise status (Li & Zhang, 2010; Wei et al., 2005).

In this study, we have classified listed Chinese enterprises into state-owned enterprises and private-owned enterprises to study the relationship between the ownership type and financial performance. The background of setting up such research models is as follows. As of 2007 the state-owned enterprises accounted for 63.15% of total listed enterprises in China. Therefore, there is a marked difference compared to Britain

(1.4%), Germany (0.08%) and Japan (6.3%) as well as Singapore (23.50%), known for a high ratio of state-owned enterprises (Li & Zhang, 2010). Since the current situation is not so different, it is assumed that the collective tendencies of state-owned and private-owned enterprises in China may be different from those of enterprises in other countries. In addition, as stated above, state-owned and private-owned enterprises in China have undergone different birth backgrounds and legal development processes in their own socialist economic system. In order to identify the causal relationship between the ownership type and the financial performance, it is reasonable to distinguish between state-owned enterprises and private-owned enterprises.

There have been studies on listed Chinese enterprises as follows. There have been studies examining the relationship between performance and state-owned enterprises only (Hu, et al., 2010; Liu et al., 2016; Xiong, Li & Wang, 2008). There have also been studies comparing the management performance by distinguishing state-owned enterprises and private-owned enterprises in terms of the ownership type (Wei et al., 2005; Xu & Wang, 1999; Yu & Zheng, 2014). It is generally accepted that state-owned enterprises have lower financial performance than private-owned enterprises aiming at revenue maximization (Wei et al., 2005; Yu & Zheng, 2014; Song, Wang & Cavusgil, 2014) due to their organizational nature of pursuing both public interest and profits (Aharoni, 1981; Dong Sik Chang, 2008). Therefore, the following hypothesis can be derived on the basis of this logic.

Hypothesis 5: The private-owned firm group will have higher financial performance than the state-owned firm group.

3.2.2 Interaction Effect and Financial Performance

In this study, we have postulated the ownership type as a variable that moderates the relationship between the independent variables and the dependent variable. Here, independent variables are related to the characteristics of principal 'management' agents in corporate governance. This is based on the following reasons. The characteristics of the BOD and that of the CEO have a significant relationship with the financial performance of the enterprise, and the relationship may be different depending on the state-owned · private-owned enterprise status. The logic in the interaction effect of each independent variable and moderating variable is as follows.

First, outside directors tend to play the following roles: service and resource (Fama, 1980; Monks & Minow, 1995) while also functioning as surveillance and control within the enterprise, and they tend to focus on the economic responsibility of the enterprise (Ibrahim & Angelidis, 1995). In particular, in the past, the function of monitoring and control was emphasized in the ownership structure. Recently, they are likely to have a positive (+) causal relationship with an enterprise's financial performance by playing a role in the provision of new services and resources within their organizations on the basis of resource dependent theory (Pfeffer and Salancik, 1978). However, as the assertion made by *Li & Zhang (2010)*, these effects may vary with organizational suitability. Since the

characteristics of governance and executives in listed Chinese public-owned and private-owned enterprises are different (Dong Sik Chang, 2008), the interaction effect can be changed with the given ownership type.

In China, state-owned enterprises are owned either directly or indirectly by the government in their ownership structure. While state-owned firms perform both public interest and profit-seeking behavior, private-owned firms aim to maximize enterprise value. Therefore, they are distinguished from private-owned firms (Song, Wang & Cavusgil, 2014; Dong Sik Chang, 2008). In addition, even if the government owns listed enterprises, it is unlikely that the listed enterprises have the necessary expertise because they have a wide range of industries. Therefore, it is highly probable that the outside directors' service and resource functions will play an important role in the management of state-owned enterprises. On the other hand, the role of outside directors may be limited in private-owned enterprises since executives' expertise in the industry is high and the nature of the organization is to maximize profits. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 6: The effect of the positive (+) relationship between the ratio of outside directors and the financial performance in the state-owned firm group will be stronger than that of the relationship in the private-owned firm group.

The ratio of 'directors with political connections' is another proxy variable that is assumed to be a characteristic of the BOD in this study. In China, there are a large number of BOD members with a dual position

indicating their belonging to both the enterprise and the government. They act as a channel to monitor the arbitrary power within the organization on behalf of the government and propagate the government's guidance within their enterprises while using the network to supply external resources within their enterprises (Liu et al., 2016). Therefore, the political connections of BOD members are likely to have a positive effect on their enterprises' financial performance.

However, this effect is also likely to vary depending on the firm ownership type (state-owned enterprise or private-owned enterprise). Private-owned enterprises in China are still less stable than state-owned enterprises due to their late emergence and relatively poor institutional completeness (Aldrich & Fiol, 1994). In addition, compared to state-owned enterprises, they have difficulties in lending money for investment, and there is a disadvantage of paying high interest rates (Dong Sik Chang, 2008). Therefore, BOD members with political connections are likely to contribute to the improvement of financial performance by improving their financial circulation and financial transaction conditions through their social capital. In a state-owned enterprise, the organization itself has a direct or indirect relationship with the government, as well as the possibility of being transferred to other government agencies. Therefore, there is a possibility that the degree of involvement in the role of the organization falls relatively. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 7: The effect of the positive (+) relationship between the ratio of directors with political connections and the financial performance in the private-owned firm group will be stronger than that of the relationship in the state-owned firm group.

On the one hand, as noted above, many research results show that the CEO, a principal management agent in corporate governance, has less financial performance as the tenure becomes longer (McClelland, Barket & Oh, 2012; Kroll et al., 2000; Miller, 1990, 1993). This is because the motivation for new attempts and growth (Audia et al., 2000; Hambrick and Fukutomi, 1991) and the commitment to learning (Finkelstein and Hambrick, 1996) fall as the CEO's tenure lengthens. In this context, what difference does public-owned and private-owned enterprises have in relation to the CEO's tenure and its financial performance? First, the CEOs of the state-owned enterprises are likely to be appointed by the government because they are directly or indirectly owned by the government. In addition, the corporate budgeting and the compensation for management performance are not handled at the CEO's discretion, but they are led by the government. Therefore, the CEOs of state-owned enterprises are less motivated to improve performance than the CEOs of private-owned enterprises (Jenson and Meckling, 1976). Conversely, the CEOs of the private-owned firm group are more likely to continue their activities in order to enhance financial performance even if their tenure is long since feedback on management performance is clear and their management failure can lead to their dismissal. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 8: The effect of the negative (-) relationship between the CEO's tenure and the financial performance in the private-owned firm group will be weaker than that of the relationship in the state-owned firm group.

A CEO may have "political connection" like BOD members. However, when the CEO, core decision maker and the executives' representative (Andrews, 1971; Barnard, 1938; Finkelstein et al., 2009; Mintzberg, 1973; Selznick, 1957; Thompson, 1967) who takes overall responsibility for management activities, have political connection, there may be the following problems: his/her commitment to management activities can be reduced due to his/her decision-making considering the government and corporate stakeholders (See, 2009), and his/her power concentration can lead to their overconfidence or hubris which may eventually deteriorate the financial performance.

Nonetheless, we have come to the conclusion that the effect of this relationship will vary depending on the public-owned • private-owned enterprise status. In private-owned enterprise organizations, there is a possibility that CEOs with political connections may play a role in weakening the negative (-) relationship between each independent variable and the dependent variable by enhancing the legitimacy of enterprises (Peng, 1997; Xin & Pearce, 1996) because institutional fulfillment is lacking. In fact, *Peng & Luo (2000)* found a positive (+) relationship between the executives's political connections and the corporate financial performance in a private-owned firm in China. This is consistent with our hypothesis logic. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 9: The effect of the negative (-) relationship between the CEO's political connection and the financial performance in the private-owned firm group will be weaker than that of the relationship in the state-owned firm group.

IV. Research Methods

4.1 Data Collection

In this study, in order to verify the hypothesis, we have used the secondary data of state-owned and private-owned enterprises listed on the SSE as of 2007. Nine-year panel data collected from 2007 to 2014 and from 2008 to 2015 have been used for the independent variables and the dependent variable respectively in the analysis process. Among a total of 532 samples, enterprises listed after 2007 have been excluded from the study to make a longitudinal data analysis over time. Only listed manufacturing enterprises have been used because corporate financial performance could depend upon the industries used for analysis. At that time, the manufacturing sectors have been classified into 14 business codes because each manufacturing sector may have a different effect on the dependent variable. In addition, there are enterprises with additional financial problems (ST enterprise and *ST enterprise)²⁾ which may also have

an effect on the causal relationship between each independent and the dependent variable. The corresponding samples have also been excluded from the study. We could finally sample 405 enterprises satisfying all of the conditions. 216 state-owned enterprises account for 53.3% of the total samples, and 189 private-owned enterprises account for 46.7% of the total samples.

The variables used in this study are based on the input data sequentially searched from the annual business reports (from 2007 to 2015) of the state-owned and private-owned firms sequentially reported on the SSE. Independent variables have been collected on the basis of the ownership structure and executive information in the equity change and shareholder status of the business report. The dependent variable has been produced on the basis of the financial statements in the financial and accounting reports.

4.2 Operational Definition of Variables

4.2.1 Dependent Variable

The dependent variable used in this study is the 'Return On Assets (ROA)' that shows the financial performance of an enterprise. As the assertion made by *Peng & Luo (2000)*, 'ROA' is the most appropriate variable to measure the financial performance of enterprises in China.

2) When a listed enterprise has financial problems for two consecutive years (ST enterprise) or three years (*ST enterprise), the stock exchange treats the stocks for the enterprise in question.

Marquis & Qian (2014) used the ROA as a proxy variable for financial performance in explaining the political factors affecting the activities of enterprises in China through a 'Political Response Model'.

The annual business reports (from 2008 to 2015) of the target enterprise reported on the SSE have been sequentially searched, and the ROA for the relevant year has been calculated by dividing the enterprise's net profit by the total assets and then multiplying by 100.

4.2.2 Independent Variables and Moderating Variables

In this study, we have focused on examining the relationship between each corporate governance factor and the financial performance of state-owned • private-owned enterprises in China. In particular, among corporate governance factors, variables related to principal management agents, which have been considered to be a somewhat lacking research area in the study of enterprises in China, are used as a key point in modeling in the study. Although there have been a number of previous studies that have identified a significant relationship between principal management agents and financial performance, they have yet to reach a consensus and the measurement of the characteristics of these principal 'management' agents is also limited.

In this study, a principal management agent type used as an independent variable is classified into a BOD and a CEO. 'Political Connection', which is another factor showing the characteristics of these independent variables, is used as a new proxy variable. We have postulated the 'ratio of outside

directors in the BOD' and the 'ratio of directors with political connections among the BOD members' as the characteristics of the BOD. To consider the characteristics of CEO, the 'CEO's tenure' and the 'CEO's political connections' are used as independent variables. As the assertion made by *Chizema et al. (2014)*, BOD members and CEOs meeting the following conditions are considered to have political connections: 1. a government official (mayor or vice-governor) or 2. a member of the *Chinese People's Political Consultative Conference (CPPCC)* or 3. a member of the *National People's Congress (NPC)*. Accordingly, the annual business reports (from 2007 to 2015) of the relevant enterprise reported on the SSE have been searched sequentially and the status of officers have been confirmed. Thereafter, we have calculated the 'political connections of the BOD' by dividing the number of directors meeting the above criteria by the total number of directors in the year and then the figure is to be expressed as a percentage. We have measured the 'political connections of the CEO'; that is, '1' if the CEO meets above conditions; otherwise, '0'.

In this study, in addition to the above four corporate governance-related variables among corporate governance factors, we have postulated the 'ownership type' as the fifth independent and moderating variable to determine whether the target enterprise is a state-owned enterprise or a private-owned enterprise. Ownership type has been studied by various criteria such as state-owned · private-owned enterprise status and classification by shareholder and ratio difference. However, we have used the ownership type as a criterion to classify enterprises into state-owned enterprises and private-owned enterprises, considering the purpose of this

study and hypothesis logic. It is because various corporate governance variable factors appearing in both a state-owned enterprise and a private-owned enterprise are expected to have different causal relationships with corporate financial performance. Therefore, we have measured the ownership type variable by classifying and coding the private-owned enterprise as '1' and the state-owned enterprise as '0'.

4.2.3 Control Variables

In this study, we have used the following control variables: *firm age, firm size, sales, debt-equity ratio and previous year's financial performance, the largest shareholder ratio, board size, CEO duality, industry and year*. These figures have also been measured by sequentially searching the annual business reports (from 2007 to 2015) reported on the SSE.

First, the firm age should be considered as a control variable because it can affect the financial performance of the enterprise (Peng, 2004). Aging enterprises can have a negative (-) impact on corporate performance because they are slow to respond to environmental changes due to inertia formed within their organizations and can be passive about strategic change. On the other hand, as the assertion made by *Peng (2004)*, enterprises with higher firm age in China have close ties with the government and their legitimacy is also likely to be recognized. As a result, such enterprises are more likely to have a positive effect on corporate performance. In this study, it shows the possibility that the firm

age affects the financial performance of the enterprise. Thus, we have used the firm age measured from the establishment of an enterprise to the publication of the report as a control variable. As the firm size grows with similar logic, it is more likely to engage with more stakeholders and the influence can be expanded (Waddock & Grave, 1997). This can ultimately have a direct impact on business activities, and it can exert direct or indirect influence on the financial performance (Kimberly, 1976). As a result, firm size measured by logarithm of total assets has been used as a control variable. The gross sales set in the study is also another proxy variable indicating the firm size and the total financial performance of the enterprise. Therefore, the enterprise's gross sales for the previous year are controlled.

Since the dependent variable used in the study is financial performance, financial factors and figures should also be controlled. In the case of a high debt-to-equity ratio, the enterprise can be restricted from various activities (Chaganti & Damanpuur, 1991). In addition, the financial performance for the year is highly likely to be affected by the financial performance for the previous year. The process of reinvestment through asset accumulation is ultimately the enterprise's activity. Therefore, the return on assets (ROA) for the previous year have been measured and assumed as a control variable. On the other hand, the largest shareholder is a corporate governance factor and his/her influence can also be considered as a control variable. This is because the largest shareholder ratio in China is a key indicator of corporate governance and can have a significant impact on the enterprise's activities and performance (Li &

Zhang, 2010). Therefore, we have used the largest shareholder ratio by calculating the ratio of the shares owned by the largest shareholder among the total shares issued in the enterprise, and use it as a control variable. In addition, we have postulated 'board size' as a proxy variable measuring the influence of the BOD, a main management body in corporate governance, and add the total number of directors as a control variable.

For reference, the samples have been collected around manufacturing enterprises. Since each sub-sector may have a different effect on the dependent variable, we have divided them into 14 areas which have been postulated as control variables: textile · clothing · fur (C1), petroleum · chemical · plastics (C4), electronics (C5), metals · nonmetals (C6), pharmaceutical · bio products (C8). The year is also used as a control variable by treating it as a dummy variable.

4.3 Analysis Methods

In order to test the hypotheses, we have first postulated the following independent variables to examine their significance: ratio of outside directors in the BOD, the BOD's political connections, the CEO's tenure, the CEO's political connections, and the ownership type. Second, we have used the ownership type as a moderating variable to verify the interaction effect.

In analyzing panel data, it is necessary to first verify the validity of the heteroscedasticity and autocorrelation problem. First of all, there is a possibility that the target enterprises in this study cause heteroscedasticity due to factors such as business philosophy, group culture, and social

identity. At this time, a fixed effect model is suitable for effectively controlling such a characteristic. If the heteroscedasticity is not statistically related to the covariance in the population, a random effect model is suitable. As a result of the Hausman test, the estimator of the random effect model is not a coincident estimator at the significance level of $p < .01$. Therefore, we can conclude that it is appropriate to select a fixed effect model.

On the other hand, the autocorrelation problem, which is another verification subject, refers to the case where the standard error value is biased in the fixed effect model. We have verified this by inputting the "xtserial" command of STATA 13. As a result of the analysis, no problem of autocorrelation has been found. However, we have proposed a robust standard error value to control heteroscedasticity in the process (Baltagi, 2008; Greene, 2008; Wooldridge, 2002). In addition, the mean centering process has been used as a method to reduce the possibility of multicollinearity between variables and to increase the ease of regression coefficients in performing a series of processes.

V. Empirical Analysis Results

5.1 Basic Statistics and Correlation

In this study, we have sampled a total of 405 state-owned and private-owned enterprises. In particular, they are divided into 189 private-owned firms and 216 state-owned enterprises. The purpose of this study is to examine the difference between the generalities and the tendencies of each group. Table A1 shows the descriptive statistics of the samples used in the study. It is possible to confirm the mean and standard deviation of the variables obtained from 405 samples over a period of 9 years. It is also possible to identify the variable-specific group differences on the basis of the average and standardization index of each variable in the state-owned and private-owned enterprises. As shown in the table, all variables except firm size have a collective difference at the significance level of $p < .01$ or $p < .05$.

Table A2 shows the Pearson correlation values for the 405 total samples. The results show that corporate financial performance, the dependent variable in this study, has a significant correlation with all independent variables except the political connections of the BOD. In addition, multicollinearity verification is needed in the correlation analysis process to see whether there is a high correlation between independent variables. As a result, there are no problems in multicollinearity because the VIF values of all variables are lower than 10 (Kennedy, 1998). Therefore, hypothesis testing has been conducted with these variables.

Table A1 is about here

Table A2 is about here

Table A3 is about here

5.2 Hypothesis Verification Results

The empirical analysis results of each variable affecting corporate performance are shown in Table A3.

Model 1 shows the significance between each control variable and the dependent variable postulated in this study. The firm size and the CEO duality do not have a significant relationship with the dependent variables. However, the gross sales and board size have shown a significant negative (-) relationship with the dependent variable at the level of $p < .01$. The debt-equity ratio and the largest shareholder ratio have also shown a significant negative (-) relationship with the dependent variables at the level of $p < .05$. In addition, the financial performance for the previous year also shows a significant relationship at $p < 0.1$.

Model 2 shows the result of analyzing the relationship between each independent variable and the dependent variable by adding control variables

and independent variables in this study. From this, it is possible to confirm the results of Hypothesis 1 to Hypothesis 5 derived in the study. As suggested in Hypothesis 1, it has been found that the positive (+) relationship between the ratio of outside directors in the BOD and the financial performance of the enterprise have a significant causal relationship at the level of $p < .01$. However, it has been observed that there is no significant relationship between the ratio of directors with political connections and the dependent variable. Therefore, Hypothesis 1 has been adopted, whereas Hypothesis 2 has been rejected. Furthermore, Hypothesis 3 on a negative (-) relationship between the CEO's tenure and the financial performance of the enterprise and Hypothesis 4 on a negative (-) relationship between the CEO's political connection and the enterprise's financial performance have been verified to have significance at $p < .01$ level. Finally, it is assumed that enterprises are divided into state-owned enterprises and private-owned firms. Hypothesis 5 on a positive (+) relationship between the enterprise (coded: private-owned enterprise = 1) and its financial performance have been verified to have a significant relationship at $p < .05$ level. As a result, we can come to the conclusion that all our logic has been adopted except Hypothesis 2.

On the other hand, Models 3, 4, 5 and 6 show the significance of the interaction effect of the ownership type in the relationship between each independent variable and the dependent variable. First, Model 3 shows the interaction effect of the ownership type (state-owned enterprise or private-owned enterprise) on a positive (+) effect between the ratio of outside directors among directors and the financial performance of the

enterprise. It is possible to confirm that Hypothesis 6 is supported ($\beta = -0.115$, at $p < .01$ level). There is a still positive relationship between each independent variable and the dependent variables regarding state-owned firms while ($\beta = 0.078$, $p < .01$), the interaction effect has changed the regression coefficient sign of the main effect of the private-owned firm. In Figure A1, the effect of outside directors, which have a positive effect on the firm's financial performance, is clearly kept in the state-owned firm group but tends to decline in the private-owned firm group.

On the other hand, Model 5 shows the verification result of the interaction effect of the ownership type on the negative (-) relationship between the CEO's tenure and the financial performance of the enterprise, which is also significant at the level of $p < .01$ ($B = 0.120$). The main effect relationship in the state-owned enterprise type still has a significant negative (-) effect ($\beta = -0.134$, at $p < .05$ level) while the regression coefficient of the main effect has a positive (-) direction in the private-owned firm group. Therefore, Hypothesis 8 as well as Hypothesis 6 is supported. The interaction effect between these variables can also be visualized as shown in Figure A2. In the case of the state-owned firm group, the direction of the main effect is maintained in the situation where it is assumed that there a negative (-) effect between each independent variable and the dependent variable. However, the direction of the main effect is reversed in the private-owned firm group.

Finally, in Model 6, we have examined the interaction effect of the firm ownership type on the negative (-) relationship between the CEO's political connection and the financial performance of the enterprise. As a result, we

could confirm the interaction effect of the ownership type variable factor on the relationship between two variables ($\beta = 0.154$, at $p < .01$ level). In the direct state-owned firm group, it can be seen that there is a negative (-) relationship between each independent variable and the dependent variable ($\beta = -0.087$), at the level of $p < .01$. In contrast, it can be observed that the private-owned firm group has the opposite direction. This result shows that Hypothesis 9 is also adopted. This can be understood more clearly in Figure A3. That is, the hypothesis about the negative (-) relationship that the financial performance of the enterprise gets lower as the political connection of the CEO becomes higher are valid for the state-owned firm group. On the other hand, it can be seen that the private-owned firm group takes an opposite direction based on the logic claimed.

Figure A1 is about here

Figure A2 is about here

Figure A3 is about here

VI. Discussions and Conclusions

In this study, we have empirically analyzed the relationship between the characteristics of principal ‘management’ agents and financial performance concerning ‘corporate governance’ which has not achieved consistent results through previous research. We have also focused on the interaction effect of the ownership type in the relationship of the two. This is consistent with the recent assertion that the studies on the relationship between each corporate governance factor in China and the financial performance should practically reflect the specific environment and background in China (See, 2009).

The findings of the study have the following implications.

First, it has been proven that the characteristics of principal ‘management’ agents which have not shown a unified result in relation to financial performance have significant meaning in a relationship with all the variables and the dependent variable except for the ratio of the directors with political connections.

The study on enterprises listed on the SSE focuses on identifying the longitudinal flow between variables by collecting and verifying nine-year panel data with reference to their annual business reports from 2007 to 2015.

As shown in the results of Model 2 in Table A3, it can be known that the ratio of outside directors in the BOD has a positive (+) relationship with the financial performance of the enterprise. This result contests the non-relevance between the two variables raised in the previous studies

(Rashid et al., 2010; Garg, 2007; Hu et al., 2010) and supports the claim that there is a positive (+) relationship between the two variables (Liu et al., 2015). Outside directors play the following roles: control, service and resource dependence. Outside directors have been granted institutional legitimacy since the enforcement of the <<Guidance on the Establishment of a Listed Enterprise Independent Director System>> in 2001, and since the reform of “*Difference of the Stockholder’s Rights*,” corporate governance has improved. As a result, their influence has expanded. They could eventually have a positive (+) relationship with the financial performance.

The relationship between the characteristics of the CEO, another principal management agent, and the financial performance is also interesting. First, as suggested by McClelland et al. (2012), Kroll et al. (2000) and Miller (1990, 1993), it can be seen that the negative (-) relationship between the ‘tenure’ of the CEO and the financial performance is also applied to listed enterprises. This result supports the following logic: the longer the CEO’s tenure becomes, the less the motivation for growth and development and commitment to learning gets (Audia et al., 2000; Hambrick & Fukutomi, 1991; Finkelstein & Hambrick, 1996); thus, the longer CEO tenure has a negative (-) impact on the financial performance. Furthermore, the following hypothesis has also been proven: the effect of CEOs having a symbolic presence in the organization has a negative effect on the financial performance when they have political connections. This result supports the following hypothesis: their dual position can reduce the intensity of their involvement only in corporate performance (See, 2009) and weaken the

corporate governance control system as a result of their power concentration more than necessary (Pearce & Zahra, 1991). They eventually have a negative impact on the financial performance. There have been studies of 'political connections' in other countries except China (Yu & Lee, 2016; Goldman et al., 2008). However, there is a clear difference between the political connections defined in those studies and that assumed in the study of China. There are few papers that have examined the longitudinal relationship between the BOD and CEO's political connections and the financial performance by separating the characteristics of the BOD from those of the CEO. Therefore, it can be said that we have made a theoretical contribution to such a study. One interesting point is that there has been no significant relationship between the 'political connections' of the BOD and the financial performance. Compare this to the results of studies proving that such characteristics have a positive (+) relationship with corporate social responsibility activities (CSR) (Liu et al., 2016; Liu & Lee, 2016). It is possible to speculate that the political connections of the BOD can be concentrated not on direct resources to enhance the financial performance but rather on the role of disseminating government-initiated systems and promoting corporate reciprocal activities.

The second implication of this study is that the significance of the independent and moderating variable of the ownership type is verified. As mentioned in the research background, the state-owned and private-owned enterprises in China have evolved with different birth backgrounds and legal bases. For this reason, we have thought that there would be organizational differences between them. As shown in Model 2 of Table

A3, there is a significant difference between the financial performance of state-owned firms and that of private-owned firms in China. The result supports the claim that the financial performance of the private-owned firm group pursuing its clear organizational goal (revenue maximization) is higher than that of the state-owned firm group (Song et al., 2015; Wei et al., 2005; Yu & Zheng, 2014).

These collective characteristics show a significant difference in relation to financial performance through the interaction effect with the characteristics of ownership. Table A3 shows the interaction effect between the ratio of outside directors and the ownership type in the relationship with the financial performance as shown graphically in Figure A1. In the analysis, there is a positive (+) relationship with the main effect. However, the higher the ratio of outside directors in the private-owned firm group becomes, the lower the financial performance gets. On the other hand, the higher the ratio of outside directors in the state-owned firm group becomes, the higher the financial performance gets. This result shows that the positive effect of outside directors on the organization is more effective in state-owned enterprise organizations. This indicates that the service and resource functions of outside directors can practically be more effective in state-owned enterprise organizations regarding the operation of enterprises in China.

Similarly, Model 5 and Figure A2 in Table A3 illustrate the interaction effect between the CEO's tenure and the ownership type in the relationship with the financial performance. It is assumed that there is a negative (-) relationship between the CEO's tenure and the financial performance. As

the CEO's tenure gets longer, the financial performance of the private-owned firm group increases but that of the state-owned firm group decreases. That is, the private-owned firm group has a relatively more performance-oriented organizational culture than the state-owned firm group, since the previous performance of the CEO can have a significant influence on the CEO's tenure. It can be assumed that the level of motivation of the CEO is relatively high in order to improve management performance even though the tenure gets extended. On the other hand, in the state-owned firm group, the CEO is led by the government and the non-performance-based incentive schemes constitute the majority (Bai and Xu, 2005; Dong Sik Chang, 2008). Therefore, the longer the CEO's tenure becomes, the less motivating factors to improve financial performance get.

Finally, Model 6 of Table A3 and Figure A3 illustrate the interaction effect between the CEO's political connection and the ownership type in the relationship with the financial performance. In detail, in the private-owned firm group, there is a positive (+) relationship between the CEO's political connection and the firm's financial performance. On the other hand, in the state-owned firm group, there is a negative (-) relationship maintained with the main effects. This is because the CEOs' political connections in the private-owned firm group can be used as social capital leading to various activities for enhancing the financial performance of their enterprises. In addition, it can be found that political connections play the role of enhancing the legitimacy of private-owned firms which relatively lack institutional perfection (Peng, 1997; Xin & Pearce, 1996). On the other hand, if the CEOs in the state-owned firm group have political

connections, their interests with the government become more intense and the negative psychological factors (e.g., overconfidence or hubris impacts) caused by their power concentration lead to their management activities.

In addition, we have not postulated the ownership type as an independent and moderating variable. However, in order to investigate more specifically the causal relationship in each group, the significance of the independent and dependent variables is further verified in the private-owned firm group and in the state-owned firm group respectively as shown in Table A4. Models 2 and 3 can be used to determine the significance of directionality and the relationship between the independent variables and the dependent variables in each group. The ratio of outside directors (+), the CEO's tenure (-) and the CEO's political connections (-) have been verified where the whole groups are at the level of $p < .01$. In the private-owned firm group, all the variables have a significant opposite directional relationship. On the contrary, in the state-owned firm group, all the variables except for the political connections of the BOD, which have not been verified for significance, have shown the same directivity as the hypotheses with respect to the whole groups, and the relationship also turns out to be significant. The different effects and directivity of each group support the moderation effect of the ownership type on the relationship between corporate governance and financial performance shown in Figures A1, A2 and A3.

Table A4 is about here

The implications discussed above may be regarded as the differentiating characteristics of this study, but they also contain some limitations. First, there are limitations in the data collection and analysis process. In the study, the independent variables from 2007 to 2014 and the dependent variables from 2008 to 2015 have been collected for nine years. However, only 405 enterprises have finally selected to analyze the balance panel data due to the process of excluding enterprises on which we could not carry out a follow-up study for 9 years. In the future, there is a need for a study on more enterprises. In addition, since only manufacturing enterprises that have all variable values required for research are targeted, the samples are limited. Since only listed enterprises are sampled, the question of whether these characteristics represent all Chinese enterprises may be raised. In the future, studies on Chinese enterprises need to resolve such problems.

Second, in this study, various variables have been used as control variables for more accurate research. However, there are still limitations in not controlling the additional factors that may affect the dependent variables in addition to the set control variables. For example, the demographic and statistical characteristics of CEOs and BODs can affect corporate performance (Gul & Leung, 2004; Lattemann et al., 2008). Therefore, more precise research reflecting this point should be conducted in the future.

Finally, in this study, we have used the following as proxy variables: the ratio of outside directors in the BOD, the ratio of directors with political connections, the tenure of the CEO and the state-owned · private-owned

enterprise status. However, there are limitations even though there may be various proxy variables (e.g., characteristics of the BOD and CEO, the ownership type, etc.) to show the concept, they have not been used more widely.

[Table A1] Descriptive Statistics

Variables	Mean	Std. Dev.	private-owned enterprise	state-owned enterprise	Rank-sum Z for the difference
1. ROA	0.223	0.741	0.266	0.194	8.208***
2. firm age	15.092	4.823	13.842	17.217	4.219***
3. firm size	23.702	2.442	23.920	25.592	1.204
4. sales	18.795	2.312	19.795	17.795	17.432***
5. debt ratio	0.554	0.665	0.535	0.603	0.893***
6. performance	0.201	1.012	0.269	0.168	5.135***
7. largest shareholder	0.448	0.181	0.361	0.443	5.020***
8. board size	9.813	2.455	10.432	9.790	-13.773***
9. CEO duality	0.118	0.391	0.117	0.194	5.172***
10. outside director	0.370	0.059	0.369	0.371	-2.437***
11. politically connected board	0.164	0.150	0.180	0.147	2.075**
12. CEO tenure	4.439	3.157	4.461	5.728	6.054***
13. politically connected CEO	0.081	0.213	0.075	0.105	1.307**

a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

[Table A2] Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13
ROA	1												
firm age	0.026	1											
firm size	0.024	0.067***	1										
sales	0.257***	0.039**	0.030*	1									
debt ratio	0.013*	0.023*	0.009*	-0.028*	1								
performance	0.025	-0.020	0.080***	0.118***	0.003	1							
largest shareholder	-0.051***	0.153***	0.071***	0.049***	0.057***	-0.045***	1						
board size	-0.051***	-0.091***	-0.004	0.228***	-0.026	0.044**	-0.011	1					
CEO duality	0.023	0.011	0.051***	-0.072***	0.015	0.030**	-0.055***	-0.067***	1				
ownership type	0.113***	-0.083***	-0.023	0.228***	-0.057***	0.015	-0.080***	-0.124***	-0.086***	1			
outside director	0.042**	-0.037**	-0.017	0.055***	0.008	0.023**	0.038**	-0.162***	-0.004	0.011	1		
politically connected board	0.007	-0.063***	0.108***	0.042**	-0.014	0.034*	-0.098***	-0.058***	0.095***	-0.002	0.051***	1	
CEO tenure	-0.034**	0.115***	-0.004	0.079***	-0.010	-0.064**	-0.069***	0.012	0.023	-0.143***	0.061***	0.023	1
politically connected CEO	-0.043**	0.022	-0.049	-0.053***	-0.084	-0.045**	0.033	-0.079***	0.015	-0.012	0.075***	0.102***	0.101***

[Table A3] The fixed-effects panel estimates for governance factors towards financial performance

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
firm age t-1	0.029 (0.043)	0.049 (0.043)	0.049 (0.043)	0.049 (0.043)	0.052 (0.043)	0.043 (0.043)
firm size t-1	0.051 (0.032)	0.059* (0.031)	0.060* (0.032)	0.059* (0.068)	0.048 (0.032)	0.061* (0.031)
sales t-1	0.705*** (0.040)	0.705*** (0.040)	0.702*** (0.040)	0.706*** (0.040)	0.696*** (0.040)	0.714*** (0.040)
debt ratio t-1	-0.058** (0.026)	-0.064** (0.026)	-0.065** (0.026)	-0.063** (0.026)	0.067** (0.026)	-0.064** (0.026)
performance t-1	0.045* (0.032)	0.055** (0.032)	0.059** (0.032)	0.055** (0.032)	0.069** (0.032)	0.061** (0.032)
the largest shareholder ratio t-1	-0.088** (0.039)	-0.089** (0.026)	-0.090** (0.036)	-0.090** (0.039)	-0.084** (0.039)	-0.089** (0.039)
board size t-1	-0.103*** (0.036)	-0.095*** (0.036)	-0.090** (0.036)	-0.090*** (0.036)	-0.087** (0.036)	-0.096** (0.036)
CEO duality	-0.075 (0.079)	-0.066 (0.078)	-0.055 (0.078)	-0.067 (0.078)	-0.078 (0.078)	-0.057 (0.078)
outside directors		0.074*** (0.024)	0.078*** (0.039)	0.077*** (0.025)	0.076*** (0.024)	0.080*** (0.024)
PC of BOD		0.031 (0.025)	0.025 (0.025)	0.025 (0.039)	0.024 (0.025)	0.026 (0.025)
CEO tenure		-0.163*** (0.034)	-0.125*** (0.034)	-0.124*** (0.034)	-0.134*** (0.048)	-0.122*** (0.034)
PC of CEO		-0.095*** (0.030)	-0.094*** (0.030)	-0.095*** (0.030)	-0.086*** (0.030)	-0.087*** (0.039)
ownership type (private firm=1)		0.318** (0.325)	0.261*** (0.325)	0.259** (0.325)	0.351 (0.327)	0.274*** (0.325)
H5 X H1			-0.115*** (0.049)			
H5 X H2				-0.014 (0.050)		
H5 X H3					0.120*** (0.055)	
H5 X H4						0.154*** (0.060)
Constants	-0.265*** (0.053)	-0.800*** (0.207)	-0.744*** (0.206)	-0.794*** (0.207)	-0.915*** (0.208)	-0.814*** (0.207)
Observations	3645	3645	3645	3645	3645	3645
Number of firms	405	405	405	405	405	405
R-squared	0.117	0.139	0.187	0.139	0.174	0.198
F statistic	24.970	18.060	19.840	17.390	18.750	18.820

a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

b. years, industry, dummies are included but not reported

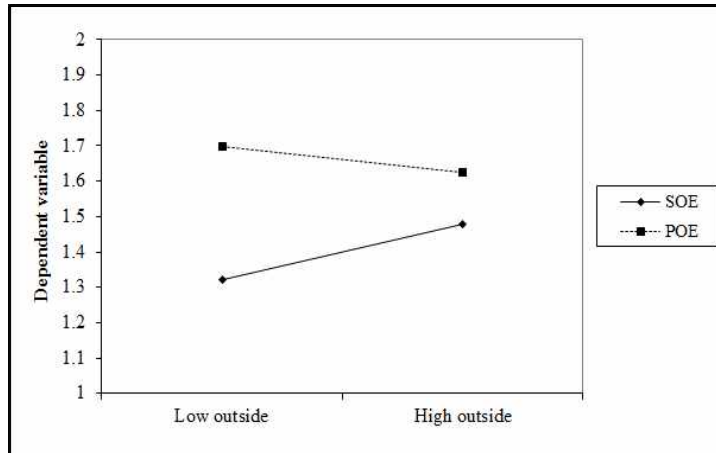
[Table A4] The fixed-effects panel estimates for governance factors toward financial performance each group

	Model 1 full sample	Model 2 POE	Model 3 SOE
firm age t-1	0.049 (0.043)	0.049 (0.013)	0.078 (0.016)
firm size t-1	0.059* (0.031)	0.182*** (0.031)	-0.007 (0.014)
sales t-1	0.705*** (0.040)	0.144** (0.060)	0.482*** (0.038)
debt ratio t-1	-0.064** (0.026)	0.068 (0.088)	-0.201*** (0.054)
performance t-1	0.055** (0.032)	0.072** (0.032)	0.045* (0.010)
the largest shareholder ratio t-1	-0.089** (0.026)	0.122*** (0.287)	-0.242*** (0.282)
board size t-1	-0.095*** (0.036)	0.049* (0.027)	-0.134** (0.018)
CEO duality	-0.066 (0.078)	-0.075 (0.120)	-0.064 (0.074)
outside directors	0.074*** (0.024)	-0.084** (0.026)	0.156*** (0.019)
PC of BOD	0.031 (0.025)	0.021* (0.028)	0.300 (0.022)
CEO tenure	-0.163*** (0.034)	0.077*** (0.017)	-0.104** (0.011)
PC of CEO	-0.095*** (0.030)	0.052** (0.151)	-0.113*** (0.167)
Constants	-0.658*** (0.716)	2.160** (1.537)	11.744*** (1.008)
Observations	3645	1701	1944
Number of firms	405	189	216
R-squared	0.129	0.116	0.142
F statistic	17.390	15.130	12.250

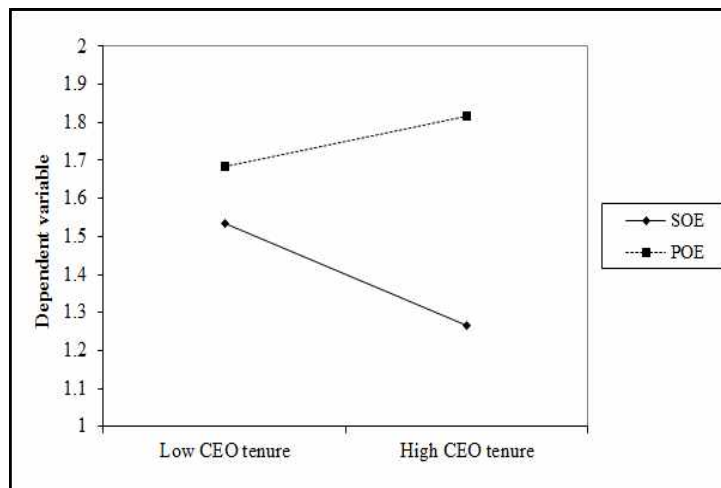
a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

b. years, industry, dummies are included but not reported

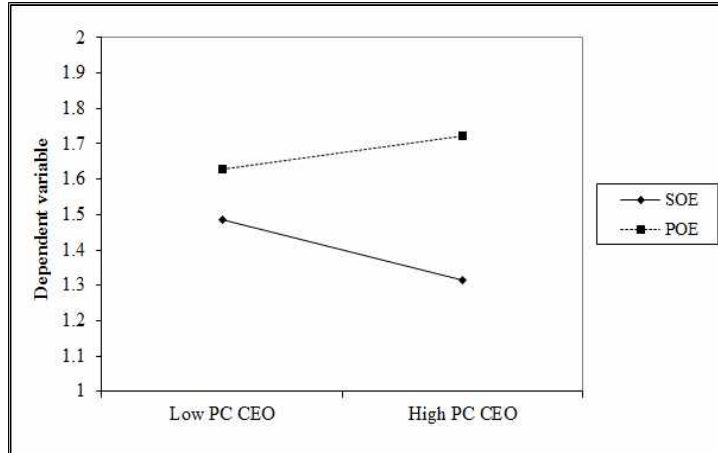
[Figure A1] The moderating effect of ownership type on the link between outside BOD ratio and financial performance



[Figure A2] The moderating effect of ownership type on the link between CEO tenure and financial performance



[Figure A3] The moderating effect of ownership type on the link between political connection of CEO and financial performance



Study 2: The Impact of Corporate
Governance on Strategic Change
of State-Owned Enterprises in
China

ABSTRACT

Although the Chinese government is making efforts to improve corporate governance by attempting to separate ownership and management through the reform of *Difference of the Stockholder's Rights* at the end of 2006, There are still many state-owned enterprises among listed enterprises. Since state-owned enterprises have differentiated governance and organizational characteristics, there is a need for a more systematic approach to the study of management strategies. In this study, based on the legal and theoretical grounds, we have divided state-owned enterprises into *State-Owned Shares* and *State-Owned Legal Person Shares* in terms of ownership type, and we have also focused on identifying the effects of these on the relationship between corporate governance and strategic change. In particular, there has been a great deal of research on the relationship of the characteristics related to principal 'management' agents among the corporate governance factors and strategic change. Therefore, we have included not only the characteristics of principal 'management' agents but also the characteristics of 'ownership' holders in corporate governance factors to examine the causal relationship with the dependent variable. Among the state-owned enterprises listed on the *Shanghai Stock Exchange (SSE)*, we have finalized 270 enterprises observable for nine years from 2007 to 2015, and we have analyzed

them as a fixed effect model. First, we have considered the ratio of outside directors in the BOD and the CEO's tenure as the characteristics of principal 'management' agents, and we have considered the ownership concentration and the ownership type as the characteristics of 'ownership' holders. We have postulated such characteristics as independent variables and have revealed the causal relationship of them with strategic change.

In addition, we have redefined the ownership type of a state-owned enterprise as a moderating variable and have examined its interaction effect on the causal relationship between each independent and dependent variable. According to the results of the empirical analysis, all four independent variables proposed in the study have a significant relationship with dependent variables, and all the hypotheses also support the interaction effect depending on the ownership type of each state-owned enterprise. Recently, there have been rapidly increasing studies on management strategy targeting Chinese enterprises. For this reason, this study is aimed not only at raising awareness of the need for a theoretical approach to Chinese enterprises considering environment uniqueness but also at verifying the effect of corporate governance factors as leading variables affecting strategic change in Chinese enterprises in various aspects.

Keywords: Governance of State-Owned Enterprises in China, Ratio of Outside Directors in the BOD, CEO's Tenure, Concentration, Ownership, Ownership type, Strategic Change

I . Introduction

As globalization and the development of IT technology accelerate changes in the industrial environment, corporate strategy is attracting attention as a major factor for corporate survival and prosperity. This is because the choice of a flexible and appropriate strategy, which takes into account the internal and external conditions of the organization, can change the success or failure of the organization (Andrew, 1997; Kisfalvi, 2000). The strategic choice theory is used as the basis for the view that the open position on the environment should be taken and competitive advantage should be secured through active and situational coping of the organization. This is different from the previous positions that have viewed the environmental factors surrounding the organization as structural and static.

In this respect, research on corporate strategy has been actively pursued in line with such trends, such as *the viewpoint of strategic change* (e.g., Tushman & Romannelli, 1985; Ansoff, 1965; Porter, 1985; Wiersema & Bantel, 1992), *the definition of strategic change* (e.g., Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992; Haynes & Hillman, 2010), *the leading factors of corporate strategic change* (e.g., Golden & Zajac, 2001; Nadkarni & Narayanan, 2007, Datta, Rajagopalan & Yan, 2003) and *the causal relationship between corporate strategic change and corporate performance* (e.g., Zhang & Rajagopalan, 2010; Boeker, 1997). In the practical area, there is high interest in corporate strategy. This is not only because the importance of short-term and

emergent strategic change meeting a rapidly changing environment is growing, but also because securing competitive advantage beyond the meaning of countermeasures can guarantee the sustainable growth of the enterprise.

Defining what an enterprise's strategy is should be preceded. However, it is noteworthy that there is a difference in assumptions about what motivates the enterprise to choose strategic change. In corporate turnaround theory, the enterprise feels the necessity of strategic change if its performance is poor or if it does not make enough profit. On the other hand, in expansion theory, sufficient funds and high performance in the enterprise lead to its strategic change. This implies that the research subjects and the scope also differed from each other by presupposing conflicting assumptions. For example, the representative research subjects based on corporate turnaround theory are corporate governance factors such as the tenure and dismissal of principal 'management' agents and other characteristic dynamics. Studies on the relationship between these and strategic change assume that strategic change is caused by low performance (e.g., Boeker, 1997; Tushman & Romanelli, 1985; Kraatz & Zajac, 2001). On the contrary, studies based on expansion theory presuppose the abundant financial resources of the enterprise to examine strategic change such as diversification, new business and technology investment (Kelly & Amburgey, 1991; Haveman, 1992; Herrmann & Nadkarni, 2014; Klarner & Raisch, 2013). However, these prerequisites have the limitation that they cannot account for the strategic change selected by the enterprise

or the internal factors of the enterprise in a situation where financial change is not significant but consider only the strategic change selected in the specific financial situation of the enterprise. In fact, it is not difficult to find an enterprise that does not replace its executives even in its worst financial performance situation or does not show any strategic change such as investing in abundant financial condition.

Therefore, in this study, we have focused on these points and find motivation of corporate strategic change from other internal characteristics of organization. According to the assertion made by *Child (1972)*, factors such as environment, size, and technology can be the constraints of strategic choice but cannot determine corporate governance. The absolute factors determining the organizational structure are the interests and power of the dominant coalitions. This means that corporate governance is determined by the dominant coalition, organizational ownership and management, leading to strategic choice. This makes it possible to draw the inference that the relationship between principal agents (CEO and BOD) of corporate strategic change and the ownership holder (block holder) having a 'consignment-agency' relationship with principal 'management' agents will determine the organizational structure and lead to strategic change fitting the situation of the enterprise. There have been attempts to identify the relationship between governance factors and strategic change (e.g., Hambrick & Fukutomi, 1991; Barker & Duhaime, 1997), but the research subjects tend to focus on the CEO (e.g., Kim & Kim, 2015; Henderson, Miller & Hambrick, 2006; Chen, 2013). This is

because the CEO plays a leading role as a decision maker in the enterprise (Barker & Duhaime, 1997), and his/her cognitive base and characteristics can have a significant impact on strategic change (Hambrick & Mason, 1984). However, there is still a lack of research on the BOD, another major subject of strategy selection. The 'ownership' holder can be regarded as another axis of corporate governance, but there are not enough studies on the relationship between the characteristics of the 'ownership' holder and strategic change.

Despite the rapid growth of listed enterprises in China, there have been no studies examining the relationship between corporate governance factors and strategic change (This is the result of searching keywords such as 'strategic change' through major academic databases). Therefore, it is necessary to make an attempt to fill this academic gap. At that time, the most important thing to study in Chinese enterprises is to understand the special corporate governance form that is derived from the socialist economic system. This is because of the following. Since its reform and opening in 1978, the establishment of private-owned enterprises has been allowed. It succeeded in separating ownership and management by reforming the "*Difference of the Stockholder's Rights*" at the end of 2006 (Dong Sik Chang, 2008). However, the majority of listed enterprises are still state-owned enterprises. These state-owned enterprises are classified into state-owned shares and state-owned legal person shares in terms of the ownership type. The corporate governance of Chinese enterprises

is also differentiated from the general structure in the capitalist market economy system. Despite these facts, studies on listed enterprises in China have mainly focused on identifying the ownership type of either state-owned firm or a private-owned firm (e.g., Delios, Zhou & Xu, 2008; Hu, Tam & Tan, 2010; Song, Wang & Cavusgil, 2014; Li et al., 2015). There is a limit to the ownership type of a state-owned enterprise since it uses relatively simple classification criteria such as area (Xia & Walker, 2015), central · local state-owned enterprise status (Li et al., 2015) without considering the purpose or the management style of each enterprise. Therefore, in this study, state-owned enterprises are classified into state-owned shares and state-owned legal person shares, reflecting the characteristics of historical and institutional differentiation processes and governance structures to identify the causal relationship between the corporate governance characteristics of two these groups and the outcome variables.

This process will be able to provide the following two theoretical contributions at the same time as filling the academic gap presented above. First, we have extended the scope of research that has been concentrated on principal ‘management’ agents to ‘ownership’ holders in the relationship between corporate governance and strategic change to understand the causal relationships between the overall factors of corporate governance and corporate strategic change. As mentioned, there are a number of studies on the dismissal, tenure, and personal characteristics of the CEO among principal ‘management’ agents. On the other hand, there is a lack of research on the relationship between

the characteristics of the BOD and strategic change even though the BOD can play an important role in the CEO's decision making. Moreover, ownership holders are regarded as a major axis of corporate governance research, and there are many different studies on the relationship between their characteristics and management performance (e.g., Dahya & McConnell, 2007; Garg, 2007; Bruno & Classens, 2010; Rashid et al., 2010; Li & Zhang, 2010; Liu et al., 2015) so that they have reached the maturity stage. On the other hand, research on the effect of their characteristics on strategic decision making in the enterprise is in its early stage, and it is even more insufficient if the research target is restricted to listed enterprises in China. Therefore, we have examined the relationship between the various characteristics of corporate governance factors and strategic change in view of this trend.

Second, the collective characteristics of state-owned shares and state-owned legal person shares have not been specifically classified in the previous studies on Chinese state-owned firms which can be considered as the core and root of China's independent socialist economic system. We have classified these collective characteristics to verify the differences in the effects between corporate governance variables and strategic change in these two groups. Although there have been many studies on state-owned firm groups (e.g., Xu & Wang, 1999; Qi et al., 2000; Gunasekarage et al., 2007), there has been no systematic study of the historical, institutional and structural differences between the two groups. Therefore, as we have identified

the differences between the two groups, it is expected that this study can contribute to expanding the academic field of Chinese state-owned enterprises in the future and to enhancing the understanding of various interests related to these two groups in the field of practice.

II. Theoretical Background

2.1 Level of strategic change and Corporate Governance

2.1.1 Definitions: Strategic Change and Level of Strategic Change

The dramatic changes in the environment surrounding enterprises brought about by globalization have increased the importance of corporate strategy selection according to the situation. This is because the enterprise needs to respond flexibly to the environment for its survival and continuous prosperity (Andrews, 1997; Kisfalvi, 2000). This trend has left enterprises with the task of creating a short-term, unintended, or emergent strategy for the situation and thereby ensuring a competitive advantage in the marketplace (Yun-Dal Sung, Jong-Hun Park, 2014).

In order to establish a clear corporate strategy, it is necessary to precede the definition of 'strategic change' which is used in various meanings. This is because the definition of strategic change can be further refined to provide realistic implications for strategic change (Snow & Hambrick, 1980). In general, there is a broad sense of strategic change as a change in the overall characteristics of the organization, such as organizational structure and culture (Tushman & Romannelli, 1985). There is also a narrow sense of strategic change that is recognized as a change in corporate strategy or competitive strategy.

In the case of the former, it recognizes changes in organizational characteristics, including internal and external factors such as organizational culture, organizational culture and environment as strategic change (Ansoff, 1965). On the other hand, the latter accepts only changes in the business portfolio of the enterprise or actions taken to create competitive advantage in ongoing projects as strategic change (Porter, 1985; Wiersema & Bantel, 1992). In the field of management strategy, strategic change in the meaning of consultation is generally used, which also shows different applications of corporate strategy or competitive strategy depending on the research subject and method (Yun-Dal Sung · Jong-Hun Park, 2014). For example, in the case of business diversification research, the target enterprises are not limited to specific industries, so the level of strategic change should be understood as a change in corporate strategy. On the other hand, when researching enterprises in a specific industry, it is reasonable to define strategic change as a competitive strategy perspective as a part of short-term resource allocation and response to secure competitive advantage.

In this study, we have defined strategic change as a change in competitive strategy and define the change of resource allocation method in order to compete in the current business area (Finkelstein and Hambrick, 1990). In addition, we have defined the level or degree of strategic change over a period of time as the level of strategic change (Haynes & Hillman, 2010) and examine the causal relationship with the affecting governance factors.

2.1.2 Leading Factors of Strategic Change: Corporate Governance

On the other hand, the leading factors influencing the level of strategic change have been discussed in various ways. There are the following representative studies: *the relationship between organizational situations and strategic change related to previous performance* (e.g., Boeker, 1997), *the relationship between structural inertia and the level of strategic change according to firm size and firm age* (e.g., Haveman, 1993) and *the causal relationship of industry dynamics and firm flexibility with the level of strategic change* (e.g., Dess & Beard, 1984; Haleblan & Finkelstein, 1993; Nadkarni & Narayanan, 2007). It is presupposed that the characteristics of the organization itself or the environmental factors appearing within the industry affect the level of strategic change of the firm.

On the other hand, there have been steadily continued studies on the causal relationship between the characteristics of ownership and management, which are characteristics of corporate governance factors, and the level of strategic change. There are many studies focusing on the CEO and the BOD, which are regarded as principal strategic change agents, and on the relationship between them (e.g., Datta, Rajagopalan & Yan, 2003; Haynes & Hillman, 2010). In particular, there are a number of studies involving the CEO (e.g., Kim & Kim, 2015; Henderson, Miller & Hambrick, 2006; Chen, 2013). In detail, there are studies on the relationship between the period of executives' industrial

experience and the level of strategic change (e.g., Finkelstein et al., 2009), the relationship between the CEO's tenure and the level of strategic change (e.g., Boeker, 1997; Wiersema & Bantel, 1992). However, the effects of corporate governance on the level of strategic change still do not lead to consistent consensus on the results of the study. In addition, research has concentrated on principal 'management' agents among governance factors. This academic gap is similarly shown in studies on listed Chinese enterprises. In 2006, the reform of the "*Difference of the Stockholder's Rights*" led to the separation of ownership and management of listed enterprises. However, due to the lack of understanding of the Chinese economic system and the specific environment, there is a lack of research on the causal relationship of ownership and management characteristics with corporate strategic change. Therefore, we have intended to conduct a study to improve these points.

2.2 Ownership Type Classification of State-Owned Enterprises (SOEs) in China

2.2.1 State-Owned Firms and State-Owned Legal Person Firms

So far, the majority of studies on Chinese listed enterprises have focused on only state-owned firms regarding the relationship between management performance and strategy (e.g., Hu, Tam & Tan, 2010; Xiong, Li & Wang, 2008; Liu et al., 2016). This is because a number of enterprises

listed on the *Shanghai Stock Exchange (SSE)* and *Shenzhen Stock Exchange (SZSE)* are in the form of state-owned enterprises. However, the listed Chinese enterprises are divided into state-owned firms, state-owned legal person firms and private-owned legal person firms (Zhou, 2012). Since the historical background and organizational characteristics of each corporate group are different, there is a need for a study on the ownership type in detail. In general, a state-owned enterprise is used as a concept that includes a state-owned firm and a state-owned legal person firm. A private-owned legal person firm can be accepted as a private owned enterprise. Here, from the viewpoint of the existing market economy system, the subject that does not have clear conceptualization is related to state-owned legal person firms. A state-owned legal person firm belongs to the state-owned firm group because its ownership holder is the state when the ownership type is classified into a state-owned enterprise and a private-owned enterprise. However, a state-owned legal person firm belongs to the legal person firm group when the ownership type is classified into a state-owned firm and a legal person firm. Therefore, it is necessary to pay attention to studying the ownership types of listed enterprises in China.

The dictionary definition of a state-owned firm and a state-owned legal person firm is as follows. First, a state-owned firm means an entity that can make investments on behalf of the state or an enterprise formed by a government agency investing in a corporation. On the other hand, a state-owned enterprise or business unit, which has a corporate qualification, is regarded as a state-owned legal person firm formed by

investing in a corporation with its own corporate assets (Shu, 2012). All state-owned enterprises (SOE) in China were originally in the form of a state-owned firm. However, the plan for the reform of state-owned enterprises was discussed at the 3rd *Plenary Session* of the 14th *Central Committee of the CPC*. Since 1992, the differentiation of state-owned firms into state-owned legal person firms has begun. The transition to a state-owned legal person firm was limited to the following cases: the distinction of rights and responsibilities and property rights between the government and the enterprise should be clearly defined, and the business area where assets can be increased through scientific management. For these reasons, the state-owned legal person firm group has a tendency to focus on maximizing profits. The management of the state-owned firm and the state-owned legal person firm was unified since the establishment of the *State-owned Assets Supervision and Administration Commission (SASAC)* under the State Council in 2004. The corporate governance of listed state-owned firms and legal person firms has improved since the reform of *Difference of the Stockholder's Rights* in 2006.

Understanding the governance characteristics of state-owned firms and state-owned legal person firms can be enhanced by identifying the characteristics of investment and share relationships. Figure 1 shows the investment and share relationship of *Sinopec*, which represents a state-owned firm, and *Tsingtao*, which represents state-owned legal person firms. SASAC, the entity that is responsible for the unified management of state-owned assets, is called the 'actual manager³⁾'. There are differences

3) It is a formal term to explain the relationship with share-holdings the business reports of state-owned firms and state-owned legal person firms.

between SASAC (central) directly under the State Council and SASAC (local) under the Qingdao city have a difference. However, in the broader sense, they share the common point that their actual owner and investor is the Chinese government. An important factor differentiating the group characteristics of state-owned firms from that of state-owned legal person firms lies in the role of the 'Controlling Shareholder' located at the center of the investment structure. In the figure 1B, *Sinopec Group* holds a 70.86% share as the controlling shareholder of *Sinopec*, a listed enterprise. It can be seen that *Tsingtao Brewery Group*, a state-owned legal person firm, owns a 30.83% share as a controlling shareholder of *Tsingtao Brewery Company Limited*, a listed enterprise. The difference between state-owned firms and state-owned legal person firms reside in the structure of profit distribution of their listed enterprises, not in the difference of shareholding ratio.

In the case of a state-owned firm, the state-owned asset management body (e.g., SASAC under the State Council) which is the 'actual manager' of the dividend income of listed enterprises (e.g., Sinopec) controls supply and demand, incorporates it into the state-owned asset management budget, and uses it in accordance with national regulations. However, in the case of a state-owned legal person firm, the dividend income of a listed firm (*Tsingtao Brewery Company Limited*) is transferred to and managed by its state-owned legal person firm which acts as the 'controlling shareholder (e.g., *Tsingtao Brewery Group*).' That is, both state-owned firms and state-owned legal person firms have a government-owned outward structure. In the case of a state-owned firm,

the 'actual manager' reclaims the profits of the firm, and its 'controlling shareholder' plays an intermediate role. In contrast, in the case of a state-owned legal person firm, the 'actual manager' only serves as its ownership holder and its 'controlling shareholder' has authority over its management and performances. In the case of state-owned firms with public interest, such a collective characteristic can increase the effect of limiting the role of the controlling shareholder and directly controlling corporate activities which pursue only their performance. On the other hand, in the case of state-owned legal person firms, the discretionary power of the controlling shareholder, a state-owned legal person firm, will increase since the government does not intervene directly. As a result, this can be an incentive to increase corporate productivity.

Figure B1 is about here

As presented above, in addition to the historical background of state-owned and state-owned legal firms, the characteristics of the investment and share relationship in corporate governance, legal and institutional differences in principal management agents are the factors that determine the differentiated characteristics of the two groups' corporate governance. In particular, the powers and responsibilities of the 'actual manager' and 'controlling shareholders' in the personnel management system of listed enterprises have distinct differences. First, in the case of a

state-owned firm, the *Organization Department of the CPC* and *SASAC*, the 'actual manager', not only have authority to recommend and appoint the executives of listed enterprises but also have authority over the executives of the 'controlling shareholders', under the <Chinese Communist Party Code> and the <Corporate Law>. Therefore, the CEO and BOD of the 'controlling shareholders' appointed by the 'actual manager' have only the authority to nominate candidates for the executives of listed enterprises and do not have the right to appoint the final executive. Thus, it can be inferred that the government-centered management is actually handled by the 'actual manager'.

On the other hand, a state-owned legal person firm has a structure in which the personnel authority is clearly distinguished between the 'actual manager' and the 'controlling shareholders', compared to the state-owned firm. In other words, it is not the fact that all the personnel rights and responsibilities to listed enterprises are concentrated on the 'actual manager' like a state-owned firm. However, its 'controlling shareholders' have the right to recommend and appoint personnel for the CEO and the BOD composition of its listed enterprise, and the 'actual manager' have the authority to form the executives of its 'controlling shareholder'. Since the difference in the personnel systems and authority for the executives are directly related to the issue related to the independence of listed enterprises' management from the 'actual shareholders', it can cause a significant difference in the establishment and execution of corporate strategy.

In this study, it is assumed that there are differences between the

characteristics of the state-owned firm group and that of the state-owned legal person firm group for the above reasons. We argue that there is a need for such ownership classification in the future study of state-owned firms in China.

III. Hypotheses

3.1 Principal 'Management' Agents in Corporate Governance and Level of Strategic Change

3.1.1 BOD and Level of Strategic Change

Outside directors play an important role in corporate decision making as a part of the BOD, and compared to inside directors, they can stick to the role of protecting shareholders' rights from an objective standpoint since they have relatively little personal interest in the CEO (Hillman and Dalziel, 2003). This means that they can enhance the efficiency of corporate governance and improve corporate performance by monitoring and controlling the CEO's opportunistic behavior among outside directors' functions discussed in previous research (Walters et al., 2008). Furthermore, they also play a role in representing the interests of the shareholders, who are the ownership holders of the enterprise, (Kim & Yoo, 2015) by evaluating whether the CEO makes

the right decision to improve the performance (Brudney, 1982; Fama & Jensen, 1983; Zahra & Pearce, 1992).

In this way, outside directors act as assistants rather than as independent decision makers by monitoring and cooperating with the CEO in decision making to represent the position of the shareholders. In addition, agency theory and stewardship theory, which presuppose contradictory assumptions in the past, describe the different functions and mechanisms of outside directors. However, it is also gaining momentum from the perspective that it is necessary to view their roles from a dynamic viewpoint considering the context and composition with stakeholders, rather than from a static viewpoint (Hendry, 2002; Davis et al., 1997; Shen, 2003). At the beginning of the CEO's term, they are to concentrate on providing services and resources to the CEO who are not accustomed to organizational culture, operating methods, and resource acquisition. In the latter half of the CEO's term, there is a need for a situational and dynamic approach to focus on monitoring and controlling the CEO, who has accumulated knowledge about the enterprise's operations and has strengthened his/her authority within the organization (Il Kyoung Kim · Houk Lee, 2013; Henderson et al., 2006; Kim & Yoo, 2015).

On the other hand, if we look at the functions of the BOD in terms of corporate strategic change, the expertise and specific background of outside directors are likely to be important factors in corporate strategic decision making. In a given competitive environment and limited financial situation, an enterprise must effectively and efficiently

allocate the resources in the organization to a wide range of areas and activities. In this process, if there are outside directors with expertise in each field, it is possible to increase the justification and credibility of strategic change. Therefore, as the ratio of outside directors in the BOD rises, it is more likely that their professional advice and social capital act as core competencies of the enterprise and positively affect strategic change within the organization. In particular, in the case of a state-owned firm, the appointment and dismissal of the CEO is often determined by the government; therefore, it is not difficult to see that there is a divergence from the assigned organization's industrial area and the CEO's background. In such a case, the role of outside directors may play a greater role in making decisions about the strategy establishment and change in the organization. Therefore, the following hypothesis can be derived on the basis of this logic.

Hypothesis 1: The higher the ratio of outside directors in the BOD becomes, the higher the level of strategic change gets.

3.1.2 CEO and Level of Strategic Change

Another principal governance 'management' agent postulate in this study is 'Chief of Executive Officer (CEO)'. In corporate governance, there has been great interest in the CEO because he/she not only becomes the target of surveillance and control but also serves as a

doer to maximize shareholder value (Jong-Hun Park · Yun-Dal Sung · Mu-Goan Jeong, 2010). The CEO has been a major concern of business administration in corporate governance research because he/she plays a role of key decision maker with overall responsibility for management activities and performance (Andrews, 1971; Barnard, 1938; Mintzberg, 1973; Selznick, 1957; Thompson, 1967).

In particular, there have been many active studies on the impact of the CEO's characteristics on strategic change, such as the relationship of tenure with the level of strategic change (e.g., Boeker, 1997; Hambrick & Fukutomi, 1991; Finkelstein et al., 2009), the relationship of dismissal with the level of strategic change (e.g., Kim & Kim, 2015; Finkelstein et al., 2009; Weng & Lin, 2012), the relationship between the type of succession and the level of strategic change (e.g., Karaevli & Zajac, 2013; Shen & Cannella, 2002; Fredrickson et al., 1988), and the relationship between the CEO's demographic characteristics and the level of strategic change (e.g., Herrmann & Nadkarni, 2014; Musteen, Barket & Baeten, 2006; McClelland, Barket & Oh, 2012; Barker & Mueller, 2002).

A CEO is the chief executive of corporate management activities. Apart from his/her succession type and personal characteristics, he/she is involved in a strategic decision-making process that considers the external environment and organizational reality. This process will lead to the development of leadership competencies, the accumulation of professional business processing capabilities and technologies (Harris & Helfat, 1997; Kotter, 1982), and the establishment of cooperative

working relationships with internal and external stakeholders (Vancil, 1987). The following points should be noted in this process. In the early stages of this process, the CEO tends to evaluate and try to improve existing corporate strategy and try different strategies to find the best solution (Finkelstein et al., 2009; Henderson Et al., 2006). On the other hand, in the latter half of the term, his/her power and discretion increases in the organization and his resistance to the pressure of strategic change from stakeholders becomes possible. Therefore, he/she shows a passive attitude toward strategic change (Shen, 2003; Staw el al., 1981). This implies that his/her decision-making and attitudes regarding time-specific strategy choices can be changed depending on his/her duration, regardless of whether the CEO is dismissed due to an event such as low management performance. For this reason, we have used 'tenure', which is considered to reflect the characteristics of the CEO, as a proxy variable for the causal relationship with the level of strategic change. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 2: The longer the CEO's tenure becomes, the lower the level of strategic change gets.

3.2 'Ownership' Holders in Corporate Governance and Level of Strategic Change

3.2.1 Ownership Concentration and Level of Strategic Change

Ownership concentration refers to the concept of the stock ownership concentration tendency of the following 'ownership' holders in corporate governance, such as the largest shareholder, block holders and foreign or institutional investors. There have been many studies focusing on how the characteristics of ownership holders (e.g., structure, relation and concentration) influence business performance variables (e.g., Joh, 2003; Mak & Kusnadi, 2005).

There are two positions on the concentrated ownership structure. First, like the assertion made by Shleifer & Vishny (1986), there is a hypothesis that ownership holders will prevent arbitrary management by raising interest in management performance. On the contrary, like the assertion made by Burkart et al. (1997), there is also a conflicting assumption that centralized ownership structure can reduce the discretion of principal management agents and create a pressurized environment, so that ultimately generates potential costs. Thus, there is no consensus on the results of the research on the relationship between the ownership concentration of various principal agents and various outcome variables. Here various principal agents include block holders (e.g., Agrawal & Mandelker, 1990), CEOs (e.g., Jensen & Meckling, 1976; Morck et al., 1988) and institutional investors (e.g., Agrawal &

Mandelker, 1990). For example, there have been studies on the relationship between the financial performance regarded as a typical corporate performance variable and the ownership concentration. Some study results have shown a positive (+) relationship (e.g., Agrawal & Mandelker, 1990), but others have shown a negative (-) relationship (Modigliani & Perotti, 1997; Filatotchev et al., 1999) or no relationship (Chen et al., 2005; Demsetz & Lehn, 1985; McConnell & Servaes, 1990). The results of this study are as follows. In this way, scholars attempt to identify the relationship between ownership concentration and outcome variables (Deng et al., 2013; Hautz et al., 2013; Leung et al., 2014), and focuses on the effects of situational factors (e.g., institutional environment, ownership type, and organizational structure) rather than the effects of ownership concentration itself.

Given such a situation, we have tried to identify the relationship between ownership concentration and level of strategic change in this study. As noted above, the block holders of a Chinese state-owned firm are divided into 1) government-related shares or 2) non-government-related shares. The majority of non-government-related block holders are foreign or institutional investors who aim to earn money through investment. Therefore, as the ratio of non-government-related block holders gets higher, it is more likely that there will be higher pressure to exercise shareholder rights throughout management and that the need for strategic change will be emphasized to improve performance. The relationship between government-related shares and non-government-related shares is

inversely related. Thus, the following hypothesis can be derived on the basis of the ownership concentration of the government.

Hypothesis 3: The lower the ownership concentration of government-related shares becomes, the higher the level of strategic change gets.

3.2.2 Ownership Type and Level of Strategic Change

The ownership type refers to a characteristic produced by grouping and typing the structural characteristics of an enterprise's ownership holders. There have been active studies on the relationship of the characteristics of corporate governance with the outcome variable and on the relationship between independent variables and dependent variables through their interaction (Li et al., 2015). Here, the characteristics of corporate governance can be produced through classification based on ownership holders (Andrew, Zhou & Xu, 2008; Gunasekarage, Hess & Hu, 2007) and classification based on specific relations (Adams, Taschian & Shore, 1996; Daily & Dollinger, 1992; Deng et al., 2009).

Given the studies on listed Chinese enterprises, the majority of studies have focused on state-owned enterprises regarding the relationship with corporate performance (Hu, Tam & Tan, 2010; Xiong, Li & Liu et al., 2016; Qi, Wu & Zhang, 2000). However, the enterprises have been classified into the following categories in terms of the ownership type: state-owned enterprises (SOE) and private-owned

enterprises (POE) (Wei et al., 2005; Xu & Wang, 1999; Yu & Zheng, 2014), central SOEs and local SOEs (Li & Zhang, 2009; Li et al., 2015), and state-owned enterprises and legal person enterprises (Hu et al., 2010). Therefore, there are growing attempts to identify various relationships between the ownership type characteristic and management performance in these days. On the other hand, listed Chinese enterprises can be divided into state-owned firms, state-owned legal person firms, and private-owned legal person firms (Zhou, 2012). The concept of state-owned enterprises (SOEs) is usually understood to include state-owned firms and state-owned legal person firms. Private-owned legal person firms can be regarded as private-owned enterprises in the capitalist market economy. State-owned legal person firms have some characteristics of both SOEs and POEs; thus, it can cause confusion in the ownership type classification. That is, a state-owned legal person firm will belong to the state-owned firm group because its ownership holder is the state when the ownership type is classified into a state-owned enterprise or a private-owned enterprise. However, it will belong to the legal person firm group like other private-owned firms in case of classifying whether its ownership is state-owned firm or legal person firm. Therefore, it is necessary to pay attention to studying the ownership types of listed Chinese enterprises.

In this study, we have postulated the ownership type as another characteristic of 'ownership' holders to study the state-owned enterprises in China, and we have identified the relationship of the

ownership type with the level of strategic change. In other words, it is assumed that the organizational characteristics with respect to strategic change will be different depending on whether the ownership type of an enterprise is a state-owned firm or a state-owned legal person firm. This hypothesis is based on the differences in organizational characteristics between state-owned firms and state-owned legal person firms. First, state-owned firms strongly tend to pursue public interest rather than profitability as their organizational goal, while state-owned legal person firms tend to pursue asset growth as their main goal. Thus, state-owned legal person firms' attitudes are likely to be more aggressive in strategy establishment to cope with environmental changes. Second, state-owned enterprises (SOEs) are a form of enterprise that have existed since the establishment of the People's Republic of China. Their structural inertia can be higher than that of the state-owned legal person firms born to be reformed to have modern corporate governance. *Hannan and Freeman (1984)* defined structural inertia as the inertia of organizational structures and activities that resisted environmental change, and they argued that an organization with a higher level of organizational inertia had a passive attitude toward strategic change. Given the situation of Chinese state-owned enterprises in terms of structural inertia, state-owned firms are likely to show a more passive attitude toward strategic change. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 4: The state-owned legal person firm group will show a higher level of strategic change than the state-owned firm group.

3.3 Interaction effect of the "Ownership" Type

We have concluded that the impact of the characteristics of corporate governance on level of strategic change in the state-owned legal firm and state-owned legal person firm groups will be different. Therefore, we have tried to derive the hypothesis that the ownership type can be used as a moderating variable.

First, outside directors, principal management agents in corporate governance, have an independent relationship with the CEO as a group with expert knowledge (Hillman & Dalziel, 2003). It has been hypothesized that the level of strategic change gets higher as their ratio gets higher. This is because the outside director's service and resource functions could increase the justification and credibility of corporate strategic change to allocate resources effectively in a given competitive environment and limited financial situation. If so, what difference is there in the effect of the positive (+) relationship between the ratio of outside directors and the level of strategic change depending on the ownership type of each state-owned firm?

First, many state-owned firms are involved in industries related to public interest and social infrastructure construction so that the government is directly involved in the appointment and dismissal of the CEOs (See, 2009). At that time, new CEOs who have been appointed to a relevant institution are often transferred from other state-owned firms or government agencies according to traditional personnel transfers (Liu et al., 2016). Therefore, there are a number of CEOs whose backgrounds are not related to the industries to which they belong. For this reason, the influence of directors with expertise in the relevant industry is bound to play a significant role in corporate management, rather than relying on the personal characteristics and knowledge of the CEOs. In particular, it is expected that outside directors will be able to simultaneously monitor and control the CEO's arbitrary management, which has a direct relationship with the government, in addition to the role of providing services and resources in the strategic change of a state-owned firm. On the other hand, in a state-owned legal person firm, its ownership holder is the government, but it has an independent corporate structure, which ensures independence from the government in executive composition. In other words, only the largest shareholder of the enterprise is the government, and the way of operating the enterprise is no different from that of a private-owned legal person firm (private-owned enterprise). Therefore, the influence of the government on corporate management in private-owned legal person firms can be relatively low, compared to the state-owned firm. Since the executive composition is also subject

to the independent decision of the enterprise, it is very likely that the executives are human resources with expertise and experience in the relevant industry. In this case, the effectiveness of the services and resources provided by outside directors to the organization in private-owned legal person firms may be relatively weak compared to the state-owned firms. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 5: The effect of the positive (+) relationship between the ratio of outside directors in the BOD and the level of strategic change in the state-owned firm group will be stronger than that of the relationship in the state-owned legal person firm group.

A CEO is a symbolic principal management agent of an enterprise and a decision maker with overall responsibility for management activities and performance (Andrew, 1971; Barnard, 1938; Mintzberg, 1973; Selznick, 1957; Thompson, 1967). For this reason, there have been various studies on the relationship between the CEO's characteristics and the level of strategic change (e.g., Boeker, 1997; Hambrick & Fukutomi, 1991; Finkelstein et al., 2009). Tenure and dismissal have been considered as reliable variables for identifying the relational characteristics between the CEO's characteristics and the level of strategic change (Su Jung Kim · Chang Su Kim, 2015). In this study, we have hypothesized that there is a negative (-) relationship between the CEO's tenure and the level of strategic change. In the early stage of the CEO's tenure, he/she makes efforts to evaluate and improve

existing corporate strategy (Finkelstein et al., 2009; Henderson et al., 2006). However, his power within the organization increases as his/her tenure becomes longer, and his resistance to the pressure of strategic change becomes possible. As a result, he/she shows a passive attitude toward strategic change (Shen, 2003; Staw et al., 1981).

Given this effect to state-owned firms, their structural inertia can be significant since the establishment period of state-owned firms is relatively longer than that of the state-owned legal person firms. Since the main objective of these organizations focuses on public interest rather than profitability, it is highly likely that their management tends to be stable and thus to avoid frequent strategic change. Therefore, their CEOs are also likely to take a passive attitude toward strategic change. On the other hand, state-owned legal person firms are more likely to be exposed to an environment in which the relevant industries are fast-changing and highly competitive, while asset growth and revenue maximization are the top priorities of the organization. Therefore, it is inevitable to change their strategy according to the given situation. The CEOs of state-owned legal person firms are more likely to try various strategic changes to adapt to market conditions during their tenure. Thus, the following hypothesis can be derived on the basis of this logic.

Hypothesis 6: The effect of the negative (-) relationship between the CEO's tenure and the level of strategic change in the state-owned firm group will be stronger than that of the relationship in the state-owned legal person firm group.

This study focuses on the characteristics of the 'ownership' holders in addition to the variables related to principal 'management' agents, on which there have been relatively active studies as leading factors influencing the level of strategic change. This is because major shareholders such as the largest shareholder and block holders with the ownership of an enterprise have a direct or indirect relationship with the management performance variables (e.g., Joh, 2003; Mak & Kusnadi, 2005). In addition, the results of this study are as follows. In this study, we have postulated the ownership concentration as a characteristic of ownership holders that affect the level of strategic change, and we have also derived the assumption that there is a negative (-) relationship between the ownership concentration and the level of strategic change. This is because previous studies on Chinese enterprises have not tried to identify the relationship between the ownership holders and the level of strategic change but have used the logic based on Chinese state-owned firms' governance characteristics.

The ownership structure of Chinese state-owned firms can be broadly divided into government-related shares and non-government-related shares. It can be known that the largest shareholder of state-owned firms is a direct or indirect organization of the government (Dong Sik Chang, 2008). It is worth noting here that foreign investors and institutional investors account for the majority of non-government-related shares held by block holders. They tend to seek a return on investment relative to government-related shares and to demand strategic change to maximize performance in corporate

management, which is likely to put pressure on the enterprise (Dharwadkar et al. 2000; Gedajlovic, 1993; Thomsen & Pedersen, 2000)

Therefore, the lower the ownership concentration of government-related shares gets (meaning that the ownership concentration of non-government-related shares is higher), the more likely the enterprise is to be aggressive toward strategic change.

If this logic is applied to state-owned and state-owned legal person firms, the following can be observed. That is, the organizational characteristics of state-owned firms tend to pursue both profitability and public interest. On the other hand, since state-owned legal person firms aim to increase their assets and to maximize their profits, non-government-related shares are likely to stimulate their growth motives more effectively from a fit perspective. In addition, a state-owned firm's non-government-related shares are highly likely to be a strategic investment considering relationships rather than short-term investment trends because it is highly possible that the investment decision has been made after understanding the organizational characteristics of the state-owned firm in advance. Thus, the following hypothesis can be derived on the basis of this discussion.

Hypothesis 7: The effect of the negative (-) relationship between the ownership concentration of government-related shares and the level of strategic change in the state-owned firm group will be stronger than that of the relationship in the state-owned legal person firm group.

III. Research Methods

3.1 Data Collection

In this study, we have used the secondary data of state-owned firms listed on the SSE for data collection as of 2007. Nine-year panel data collected from 2007 to 2014 and from 2008 to 2015 have been used for the independent variables and the dependent variable respectively in the empirical analysis process. Among the total of 317 samples, enterprises listed after 2007 have been excluded from the study to make a longitudinal data analysis over time. Only listed manufacturing enterprises have been used because corporate strategic change could depend upon the industries used for analysis. At that time, the manufacturing sectors have been classified into 14 business codes because each manufacturing sector may have a different effect on the dependent variable. In addition, there are enterprises with additional financial problems (ST and * ST enterprise)⁴⁾ which may influence the causality of each research model. The corresponding samples have also been excluded from the study. We could sample 270 state-owned enterprises satisfying all of the conditions finally presented. There are 106 state-owned firms in the form of state-owned shares (39.2% of the total samples) and 164 state-owned legal person firms (60.8% of the total samples) in the form of

4) When a listed enterprise has financial problems for two consecutive years (ST enterprise) or three years (*ST enterprise), the stock exchange treats the stocks for the enterprise in question.

state-owned legal person share under the state-owned firm classification presented in this study.

The variables used in this study are based on the input data sequentially searched from the annual business reports (from 2007 to 2015) of the state-owned firms reported on the SSE. Independent variables have been collected on the basis of the ownership structure and executive information in the equity change and shareholder status of the business report. The dependent variable has been produced on the basis of the financial statements in the financial and accounting reports.

3.2 Operational Definition of Variables

3.2.1 Dependent Variable

The dependent variable used in this study is the level of strategic change. Research on the level of strategic change has been developed with two major approaches (Weng & Lin, 2012). The first approach refers to the corporate strategic change as a resource allocation decision within an enterprise over time to analyze it through financial indicators. On the other hand, there is also an approach to recognize a direct change in corporate structure and strategy as an act of strategic change (Gordon et al., 2000; Tushman & Romanelli, 1985). This study corresponds to the former case based on the measurement

tool, the *Strategic Resource Allocation Profile (SRAP)* used by Carpenter (2000) and Finkelstein & Hambrick (1990). The strategic resource allocation profile includes the following values: (1) advertising intensity, (2) research and development intensity, (3) plant and equipment newness ratio, (4) non-production overhead ratio (5) inventory levels, (6) financial leverage, and standardized values. The arithmetic mean, which is defined as being equal to the sum of the standardized numerical values of each and every observation divided by the total number of observations, is obtained. The values obtained through this process mean changes in corporate strategy and resource input method over time. In addition, the standard deviation obtained through standardization means the difference from the industry average value in which the external competitors' variables are considered.

3.2.2 Independent Variables and Moderating Variables

This study focuses on 'corporate governance' as a leading factor affecting the level of corporate strategic change of state-owned firms in China. First, we have focused on outside directors and CEOs as principal 'management' agents. These two principal agents have been used to identify the relationship between various performance variables as corporate governance factors, including financial performance and corporate social responsibility (CSR) performance (Peng, 1997; Rashid et al., 2010; Xin & Pearce, 1996; Yu (Barker & Duhaime, 1997; Karaevli &

Zajac, 2013; Herrmann & Nadkarni, 2014). It has also been known that these two principal agents have a significant causal relationship with corporate strategic change (Barker & Duhaime, 1997; Karaevli & Zajac, 2013; Herrmann & Nadkarni, 2014). Therefore, there can be the extended logic that the principal agents of state-owned firms in China can affect corporate strategic change. In order to verify this logic, the 'ratio of outside directors in the BOD' and the "tenure of CEO's" have been used as proxy variables.

Next, we have focused on the "ownership" holders in corporate governance. First of all, variables should be postulated by considering the dynamics between major block holders including the largest shareholder who has core voting rights. This is because of the following reasons. The largest shareholder of a state-owned firm directly or indirectly becomes a government. Another block holder, another government agency, can participate in the management of the enterprise and exert their influence in addition to the largest shareholder. For this reason, in order to grasp the real ownership structure of a Chinese state-owned firm, there is a need for a variable to consider their relationships. Therefore, we have measured the ownership concentration by calculating the percentage of the total share of the block holder owned by the government in the total number of shares held by the ten largest block holders.

On the other hand, the ownership type can also be an important characteristic to distinguish the governance characteristics of state-owned firms. As noted in the introduction, there have been few

attempts to typifying state-owned firms in earlier studies of state-owned firms. However, in this study, we have analyzed the characteristics of the shares owned by the Chinese government and identified the relationship with the dependent variable according to each different ownership type. This type of distinction is also used as an interaction variable in this study. This is because there is a significant difference in the main effect relationship seen in the reclassified group according to the ownership type, not in the effect of the state-owned firms. Therefore, the ownership type variable has been measured by dividing the state-owned enterprises as follows. That is, a state-owned enterprise directly owned by the government in the form of state-owned shares is set to '0', and a state-owned enterprise indirectly owned by the government through investment in the form of state-owned legal person shares is set to '1'

3.2.3 Control Variables

In this study, we have used the following factors as control variables: firm age, firm size, sales, previous year's financial performance, board size, CEO succession, CEO age, industry and year. These figures have also been measured by sequentially searching the annual business reports (2007 to 2015) reported on the SSE.

Let us look at the above factors in order. Firm age should be postulated as a control variable because it can affect the level of strategic change. Enterprises with a higher firm age are more likely to

perceive that their current strategies are stable from the perspective of corporate survival. Therefore, they are less inclined to change their inertia as time changes. Therefore, the firm age, which is measured as the period from the establishment date of an enterprise to the publication date of its reports, has been used as a control variable, assuming that it will have a negative (-) relationship with the level of corporate strategic change (Miller & Chen, 1994). In a similar vein, we can also assume that an enterprise will have a more passive attitude toward corporate strategic change as its firm size gets larger. This is because large enterprises tend to be less interested in changing their past strategies resulted from their quantitative growth and to be insensitive to strategy formulation and implementation (Haveman, 1993). Therefore, the logarithm of the total asset value has been used as a control variable. Since the gross sales have also been used as a proxy variable indicating the firm size, the gross sales of the enterprise in the previous year have been measured and used as a control variable.

On the other hand, it can be inferred that the financial performance for the previous year will also have a negative (-) relationship with strategic change. This is because of the following reasons. Enterprises with poor financial performance are more likely to try strategic change as a way to improve their performance, while those with better financial performance are more likely to opt against a particular strategic change since there is no abnormality in the current strategy pursued (Boeker, 1997; Kraatz & Zajac, 2001). Therefore, we have assumed that the return on assets (ROA) for the previous year is a

control variable as a financial performance variable that can affect the dependent variable (Cannella & Shen, 2001; Huson et al., 2001). The size of the board can also have a meaningful relationship with changes in corporate strategy. That is, according to the assertion made by Golden & Zajac, 2001; Finkelstein et al., 2009, the complexity of the decision-making process increases as the board size increases. Therefore, the total number of directors in the BOD can be measured and assumed as a control variable.

The nature of the CEO can also affect corporate strategic change. First, when the CEO is appointed from outside, '1' or '0' is assigned to the CEO. It is possible to measure the succession type of the CEO and to use it as a control variable by distinguishing between the case ('1') where the CEO is externally appointed and the case ('0') where the CEO is internally appointed. In general, CEOs from the outside of the enterprise have a positive attitude toward corporate strategic change since they show a strong tendency to establish their own position by establishing new strategic change (Hambrick & Fukutomi, 1991; Miller & Shamsie, 2001). In addition, age, a personal characteristic of the CEO, can be considered a control variable. This is because older CEOs tend to show a passive attitude toward changes in their management style (Datta et al., 2003).

For reference, the samples have been collected around manufacturing enterprises in this study. Since each sub-sector may have a different effect on the dependent variable, we have divided them into 14 areas which have been postulated as control variables: textile · clothing · fur

(C1), petroleum · chemical · plastics (C4), electronics (C5), metals · nonmetals (C6), pharmaceutical · bio products (C8). The year is also used as a control variable by treating it as a dummy variable.

3.3 Analysis Methods

In this study, we have first postulated the corporate governance-related factors (ratio of outside directors in the BOD, CEO's tenure, ownership concentration and ownership type) as the independent variables and the level of corporate strategic change as the dependent variable. Second, the interaction effect has been verified by assuming the ownership type as a moderating variable.

In the analysis of the panel data, it is necessary to verify the validity of the heteroscedasticity and autocorrelation problem first. First, there is a possibility that the collective organization-specific characteristics and factors of state-owned firms, which are the subject of this study, can cause the heterogeneity. Here, a fixed effect model is suitable for controlling these characteristics effectively. If the heterogeneity is not statistically related to the covariance in the population, the random effect model is suitable. However, as a result of the Hausman test, it could be concluded that it is appropriate to select the fixed effect model because the estimator of the random effect model is not a coincident estimator at the significance level of $p < .01$.

On the other hand, the autocorrelation problem, which is another verification subject, refers to the case where the standard error value is

biased in the fixed effect model. We have verified this by inputting the "xtserial" command of STATA 13. As a result of the analysis, no problem of autocorrelation was found. However, we have proposed a robust standard error value to control heteroscedasticity in the process (Baltagi, 2008; Greene, 2008; Wooldridge, 2002). In addition, the mean centering process has been used as a method to reduce the possibility of multicollinearity between variables and to increase the ease of regression coefficients in performing a series of processes.

IV. Empirical Analysis Results

4.1 Basic Statistics and Correlation

This study covers a total of 270 state-owned enterprises. In particular, the research hypothesis is based on the ownership type classification of the state-owned enterprises which are classified into 106 state-owned share firms and 164 state-owned legal person share firms. We have studied the relationship between each independent variable and the dependent variable in the ownership type of each state-owned enterprise. Table B1 shows the descriptive statistics of the samples used in the study. With this information, it is possible to identify the mean and standard deviation of each of the 270 total samples over the nine years. It is possible to identify the group differences between the direct state-owned firm group and the indirect

state-owned firm group on the basis of the average value and the standardization index of each variable. As shown in the table, all variables except for the CEO succession type have a group difference at the significance level of $p < .01$ or $p < .05$.

Table B2 shows the Pearson correlation values for the entire 270 state-owned enterprise samples. The results show that the level of corporate strategic change, which is the dependent variable in this study, has a significant correlation with the independent variables. In addition, a multicollinearity test has been conducted to check whether there is a high correlation between independent variables. As a result, there is no problem with multicollinearity since the VIF values of all variables are lower than 10 (Kennedy, 1998). Therefore, hypothesis testing has been conducted with these variables.

Table B1 is about here

Table B2 is about here

Table B3 is about here

4.2 Hypothesis Verification Results

Table B3 shows the empirical results of each variable affecting the level of corporate strategic change. Model 1 shows the significance between the control variables and the dependent variable assumed in this study. First, variables such as the firm age, gross sales, the size of the BOD and the age of the CEO have a significant relationship with the level of corporate strategic change at the level of $p < .01$, and the CEO's succession type also have a significant relationship with the level of corporate strategic change at the level of $p < .05$. On the other hand, Model 2 shows the relationship with the dependent variable as a result of adding each independent variable to the control variables input in Model 1. Model 2 can be used to confirm the results of Hypothesis 1 to Hypothesis 4 derived in the study. First, as suggested in Hypothesis 1, it could be found that the positive (+) relationship between the ratio of outside directors in the BOD and the level of strategic change has a significant causal relationship at the level of $P < .01$. In addition, as suggested in Hypothesis 2, it could also be proven that the negative (-) relationship between the CEO's tenure and the corporate strategic change has a significant causal relationship at the level of $p < .05$. As suggested in Hypothesis 3, the negative (-) relationship between ownership concentration and the dependent variable could also be adopted at the level of $p < .01$. Finally, as suggested in Hypothesis 4, it could also be found that the positive (+) relationship of state-owned shares and state-owned legal person shares

(coded: indirect ownership type = 1) with the level of corporate strategic change has a significant causal relationship at the level of $p < .05$. As a result, all hypotheses postulating the relationship between each independent variable and the dependent variable have been accepted.

Models 3, 4, and 5 show the interaction effect of the ownership type in the relationship between each independent variable and the dependent variable. First, in Model 3, we have verified the interaction effect of the ownership type of each state-owned firm in the positive (+) relationship between the ratio of outside directors in the BOD and the strategic change. We have confirmed that the assertion of Hypothesis 5 can be supported ($B = -0.203$, $p < .01$). If we look closely, the relationship between independent and dependent variables of a direct state-owned firm is still positive (+) ($\beta = 0.159$, $p < .01$). In contrast, the regression coefficient sign of the main effect is changed by the interaction effect in the relationship between the independent and dependent variables of an indirect state-owned firm. As shown in Figure 2, the effect of outside directors is clearly observed in the direct state-owned firm group while the effect in the indirect state-owned firm group tends to decrease. Here, outside directors has a positive (+) effect on the level of strategic change,

On the other hand, in Model 4, we have verified the interaction effect of the ownership type of each state-owned enterprise in the negative (-) relationship between the CEO's tenure and the level of strategic change. The interaction effect has also been found to have a significant

causal relationship at the level of $p < .01$ ($\beta = 0.206$). Likewise, the main effect relationship of each direct state-owned firm have a significant negative (-) effect ($\beta = -0.087$, $p < .05$) while it can be inferred that the regression coefficient of the main effect of each indirect state-owned firm has a positive (+) direction. Thus, Hypothesis 6 has also turned out to be supported. The interaction effect between these variables can also be visualized as shown in Figure B3. State-owned share firms have the same direction, where there is the negative (-) effect between each independent variable and the dependent variable. On the other hand, it can be observed that the main effect of state-owned legal person share firms shows the opposite direction due to the organizational characteristics claimed in the hypothesis.

Finally, Model 5 verified the interaction effect of the ownership type on the negative (-) relationship between the ownership concentration and the level of strategic change. As a result, as claimed in Hypothesis 7, the interaction effect of each ownership type variable factor on the relationship between two variables could be confirmed ($\beta = 0.231$, $p < .01$ level). It can be known that the state-owned share firm has a negative (-) relationship between each independent variable and the dependent variable at the level of $p < .01$ ($\beta = -0.180$). On the other hand, it can be observed that state-owned legal person share firms show the opposite direction. According to the results, Hypothesis 7 has also turned out to be adopted. This can be understood more clearly in Figure B4. That is, while the hypothesis that the higher ownership

concentration will lower the level of corporate strategic change is valid for the state-owned share firm group, the state-owned legal person share firm group shows an opposite directional relationship on the basis of the logic of the hypothesis.

Figure B2 is about here

Figure B3 is about here

Figure B4 is about here

V. Discussions and Conclusions

In this study, we have focused on the empirical analysis of Chinese state-owned enterprises regarding the causal relationship of the corporate governance factors with the level of strategic change and the interaction effect of the ownership type. This is because the background and organizational characteristics of listed state-owned

enterprises in China should be reflected in reality.

The results obtained through hypothesis testing have the following implications.

First, we can expect the expansion of the research area related to the level of strategic change by examining the causal relationship between multiple corporate governance factors and the level of strategic change. As mentioned above, governance factors affecting the level of strategic change have concentrated on principal 'management' agents, and there have been no studies to identify the relationship between them in Chinese listed enterprises. Therefore, this study can be considered to have an academic meaning. Model 2 in Table B3 can be used to identify the causal relationship of each variable. First, it can be observed that the ratio of outside directors in the BOD has a positive (+) relationship with the level of corporate strategic change. This implies that the functions of outside directors such as services and resources provide a positive influence on the strategic change of state-owned enterprises. In addition, the CEO-related research hypothesis, which has been most actively discussed in relation to the level of strategic change, has also been adopted. As a result, we could support previous studies' assertion that they show a passive attitude toward strategic change as their tenure gets longer (Shen, 2003; Staw et al., 1981). The more interesting part is that the ownership concentration and the ownership type have a significant relationship with the level of strategic change. Here, the ownership concentration and the ownership type are set in consideration of the national

uniqueness and the uniqueness of Chinese state-owned enterprises. It can be observed that there is a negative (-) relationship between the concentration of government-related shares and the level of strategic change. This is because the non-government-related block holders are more interested in strategic change to improve the financial performance than the government-related block holders as we have assumed. This implies that the demand of non-government-related block holders can act as a pressure for strategic choice in the enterprise. The relationship between the ownership type and the level of strategic change has also been supported. State-owned firms take a passive attitude toward strategic change, since their organizational characteristics emphasize public interest (Dong Sik Chang, 2008). In contrast, state-owned legal person firms take a relatively aggressive attitude toward strategic change since they are exposed to relatively competitive industries and seek revenue maximization. In summary, we have come to the conclusion that each corporate governance factor can be considered as a major leading variable in corporate strategic change.

The second implication of this study is as follows. The ownership type of the study subject has been classified into a state-owned firm and a state-owned legal person firm, and the effect of these enterprises' corporate governance factors on corporate strategic change has been verified. As stated in the Theoretical Background section, state-owned enterprises (SOEs) in China are divided into state-owned firms and state-owned legal person firms, which have been developed with different backgrounds and legal bases. Since 1992, there have been

reforms related to the state-owned legal person firms in phases. Here, state-owned firms are directly managed by the government, and the government directly engages in their management. State-owned legal person firms are indirectly owned by the government, but they operate their enterprise independently. It is our discretion that the characteristics of the state-owned legal person firm have been divided. Hence, we could set the hypothesis that these characteristics would affect the main effect relationship.

Model 3 in Table B3 shows the interaction effect of the ownership type in the relationship between the ratio of outside directors and the level of strategic change. The positive (+) effect of outside directors, which affects the level of strategic change in a state-owned firm, is greater. Figure B2 illustrates these results in more detail. In the state-owned firm group, the level of strategic change gets higher as the ratio of outside directors gets higher. On the other hand, in the case of the state-owned legal person firm group, the level of strategic change tends to decrease as the ratio of outside directors increases. This indicates practical implications that the composition of the BOD can depend on the ownership type in the strategic change and choice of a state-owned firm. In contrast, Model 4 in Table B3 shows the relationship between the CEO's tenure and the level of strategic change according to the ownership type. Hypothesis 2 verifies that there is a negative (-) relationship between the CEO's tenure and the level of strategic change. The relationship has been confirmed to be a significant difference between the state-owned firm group and the

state-owned legal person firm group. This is illustrated in more detail in Figure B3. In the case of the state-owned corporation group, the ratio of strategic change rather increases even though the tenure of the CEO increases. On the other hand, in state-owned shares, the level of strategic change also decreases as the tenure of the CEO increases, as assumed in the main effect relationship. This result can be interpreted as a result of the organizational characteristics and the industrial environment of each group. In the case of the state-owned legal person firm group, it can be seen that the enterprise is exposed to a competitive environment with a performance-oriented organizational structure. Finally, Model 5 of Table B3 can be used to confirm the interaction effect between the ownership concentration and the ownership type with relation to the level of strategic change. In the end, it is logical to assume that the concentration of non-government-related shares determines the attitude of the organization to strategic change and its characteristics may vary according to each group. Figure B4 shows the relationship between the ownership concentration of the government and the level of strategic change in each group. In the state-owned firm group, the level of strategic change decreases as the concentration of the government-related shares increases. In the state-owned legal person firm group, the level of strategic change increases as the ownership concentration of the government increases. The results are as follows:

- 1) In the case of the state-owned legal person firm group, the ownership and the management are separated due to the nature of the

corporate group, and the independence of the business management of the enterprise is ensured. Therefore, the executives can be less burdened when choosing strategy changes even though the government-related share is high, 2) The high concentration of government-related shares stabilizes corporate governance and gives investors confidence that they can eventually lead to aggressive strategic change.

Table B4 is about here

In addition, we have not postulated the ownership type as an independent and moderating variable. Instead, in order to check the causal relationship in each group, we have verified the significance between each independent variable and the dependent variable in the state-owned firm group and in state-owned legal person firm group respectively as shown in Table B4. Models 2 and 3 can be used to determine the significance of directionality and the relationship between each independent variable and the dependent variable in each group. The ratio of outside directors (+), the CEO's tenure (-) and ownership concentration (-) have been verified in the whole groups at the level of $p < .01$, but all of these variables have shown a significant opposite directional relationship in the state-owned legal person firm group. On the other hand, in the state-owned firm group, all these variables have

shown the same directional relationship as the hypotheses about the whole groups, and the relationship has turned out to be significant. It can be interpreted that the different effect and directionality of each group support the moderation effect of the ownership type in the relationship between each governance factor and the level of strategic change as identified in Figure B1, B2 and B3.

The implications discussed above may be regarded as differentiating characteristics of this study, but it also contains limitations. First, there are limitations in the data collection and analysis process. In the study, nine-year panel data collected from 2007 to 2014 and from 2008 to 2015 have been used for the independent variables and the dependent variable respectively, except for those enterprises that were not able to pursue a 9-year follow-up survey to analyze the balance panel data. Finally, only a total of 270 enterprises were sampled. In the future, there is a need for a study on more enterprises. In addition, since there are only a limited number of manufacturing companies supporting all variables necessary for the research, and only a limited number of listed companies have been sampled. Therefore, there may be a problem of whether these characteristics represent the entire state-owned enterprises.

Second, in this study, the ownership type is used to distinguish between state-owned firms and state-owned legal person firms, but there have been only a few studies that use such criteria to classify Chinese state-owned enterprises (e.g., Hu, Tam & Tan, 2010). There is also another study on ownership type differentiation. Although in this

study we have classified the characteristics of the state-owned firm group and state-owned legal person firm group on the basis of historical and institutional backgrounds, more valid grounds are needed.

Third, in this study, various variables considered to affect the level of strategic change have been used as control variables. However, this study still has the following limitations: we have not controlled the additional factors that could influence the dependent variable. For example, in the case of a CEO or a BOD, their demographic and statistical characteristics can influence corporate strategic change (Herrmann & Nadkarni, 2014; Musteen, Barket & Baeten, 2006). Therefore, more precise research reflecting such a point should be conducted in the future.

Finally, in this study, we have used the following factors as proxy variables for the ownership type and principal management agents in corporate governance affecting the level of strategic change: the ratio of outside directors in the BOD, the CEO's tenure, the ownership concentration and the ownership type. However, there are limitations to these since there are various proxy variables that can show the characteristics of each management agent.

[Table B1] Descriptive Statistics

Variables	Mean	Std. Dev.	state-owned share	state-owned legal person share	Rank-sum Z for the difference
Strategic Change	0.000	1.000	0.000	0.000	12.941***
firm age(t-1)	14.217	4.933	14.931	13.738	5.530***
firm size(t-1)	23.592	2.475	23.868	23.408	2.334**
sales(t-1)	21.795	2.112	21.009	22.307	11.466***
performance (t-1)	0.225	2.604	0.271	0.343	4.816***
board size(t-1)	9.790	2.442	9.187	10.178	7.572***
CEO succession(t-1)	0.047	0.212	0.050	0.045	1.219
CEO age(t-1)	48.260	5.616	49.461	46.436	-11.551***
ownership concentration	0.613	0.181	0.721	0.565	-16.817***
outside directors	0.371	0.059	0.374	0.369	2.769**
CEO tenure	4.428	3.154	5.072	4.015	5.691***

a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

[Table B2] Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11
Strategic Change	1										
firm age(t-1)	0.058***	1									
firm size(t-1)	0.007	0.061***	1								
sales(t-1)	-0.258***	-0.106***	-0.002	1							
performance(t-1)	-0.014	-0.033	-0.055**	0.196***	1						
board size(t-1)	-0.061***	-0.135***	-0.031	0.230***	0.051**	1					
CEO age(t-1)	-0.109***	0.047**	-0.072***	0.243***	0.043**	0.107***	1				
CEO succession(t-1)	-0.003	0.030	0.001	-0.053***	-0.016	-0.077***	0.091***	1			
ownership type	-0.113***	-0.123***	0.007	0.313***	0.058***	0.207***	0.250***	-0.113***	1		
ownership concentration	-0.105***	-0.058***	-0.093***	0.200***	0.033	0.170***	0.191***	-0.105***	0.334***	1	
outside directors	0.068***	-0.074***	-0.026	0.067***	0.013	-0.255***	0.091***	0.068***	-0.035*	-0.046**	1
CEO tenure	-0.033	0.127***	-0.012	0.079***	-0.016	0.010	0.163***	-0.033	-0.158***	-0.093***	0.058***

a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (양측검정)

[Table B3] The fixed-effects panel estimates for governance factors toward strategic change

	Model 1	Model 2	Model 3	Model 4	Model 5
firm age(t-1)	0.076*** (0.083)	0.070*** (0.081)	0.070*** (0.081)	0.071*** (0.080)	0.073*** (0.081)
firm size(t-1)	-0.041 (0.037)	-0.026 (0.036)	-0.024 (0.036)	-0.035 (0.035)	-0.021 (0.036)
sales(t-1)	-0.542*** (0.040)	-0.527*** (0.032)	-0.528*** (0.039)	-0.522*** (0.039)	-0.523*** (0.039)
performance(t-1)	-0.030 (0.027)	-0.022 (0.026)	-0.021 (0.026)	-0.019 (0.026)	-0.023 (0.026)
board size(t-1)	-0.108*** (0.045)	-0.089** (0.044)	-0.083* (0.044)	-0.079** (0.044)	-0.085** (0.044)
CEO age(t-1)	-0.132*** (0.036)	-0.126*** (0.037)	-0.128*** (0.036)	-0.128*** (0.036)	-0.123*** (0.037)
CEO succession(t-1) (outside=1)	-0.079** (0.037)	-0.078** (0.037)	-0.078** (0.037)	-0.092** (0.036)	-0.069* (0.037)
outside directors		0.150*** (0.030)	0.159*** (0.030)	0.149*** (0.048)	0.147*** (0.030)
CEO tenure		-0.079** (0.042)	-0.078** (0.042)	-0.087** (0.042)	-0.080** (0.058)
ownership concentration		-0.341*** (0.053)	-0.327*** (0.060)	-0.334*** (0.052)	-0.180*** (0.053)
ownership type(state-owned legal share=1)		0.350** (0.322)	0.281** (0.320)	0.407** (0.318)	0.381*** (0.322)
H4 X H1			-0.203*** (0.060)		
H4 X H2				0.206*** (0.067)	
H4 X H3					0.231*** (0.115)
Constants	0.260*** (0.113)	-0.162*** (0.220)	-0.275*** (0.220)	-0.452*** (0.223)	-0.535*** (0.223)
Observations	2,430	2,430	2,430	2,430	2,430
Number of firms	270	270	270	270	270
R-squared	0.131	0.167	0.174	0.186	0.171
F statistic	14.03	15.46	15.64	16.99	15.38

a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

b. years, industry, dummies are included but not reported

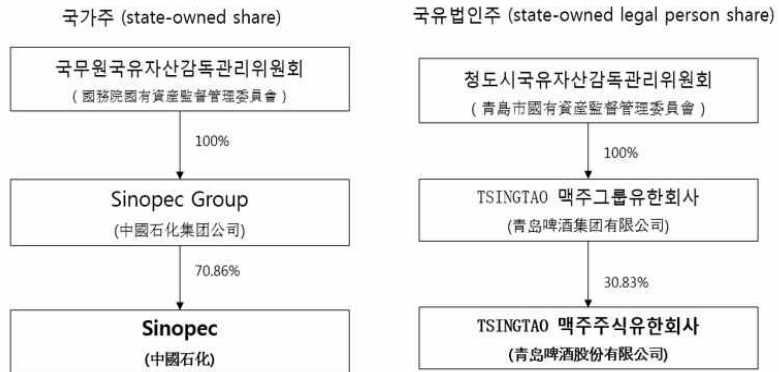
[Table B4] The fixed-effects panel estimates for governance factors toward strategic change each group

	Model 1 full sample	Model 2 A Type	Model 3 B Type
firm age t-1	0.070*** (0.081)	0.015 (0.016)	0.118*** (0.009)
firm size t-1	-0.026 (0.036)	-0.004 (0.020)	-0.018 (0.012)
sales t-1	-0.527*** (0.032)	-0.468*** (0.046)	-0.331*** (0.045)
performance t-1	-0.022 (0.026)	-0.119 (0.010)	-0.003 (0.006)
board size t-1	-0.089** (0.044)	-0.031 (0.028)	0.014 (0.013)
ceo age t-1	-0.126*** (0.037)	-0.029*** (0.010)	0.003 (0.005)
CEO succession t-1	-0.078** (0.037)	-0.057* (0.023)	-0.061** (0.015)
outside directors	0.140*** (0.030)	0.174*** (0.317)	-0.024*** (0.367)
CEO tenure	-0.136*** (0.042)	-0.108*** (0.022)	0.021** (0.010)
ownership concentration	-0.362*** (0.053)	-0.468*** (0.038)	0.151*** (0.044)
Constants	-0.190*** (1.055)	10.446*** (1.134)	12.956*** (1.048)
Observations	2340	954	1476
Number of firms	270	106	164
R-squared	0.147	0.274	0.294
F statistic	13.79	11.900	21.19

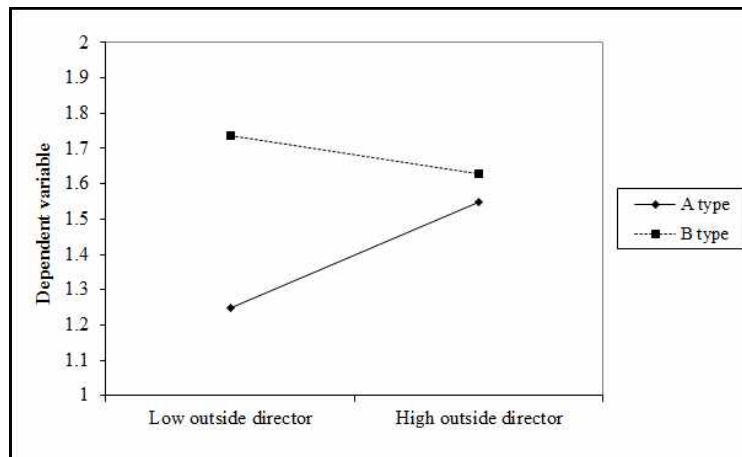
a. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

b. years, industry, dummies are included but not reported

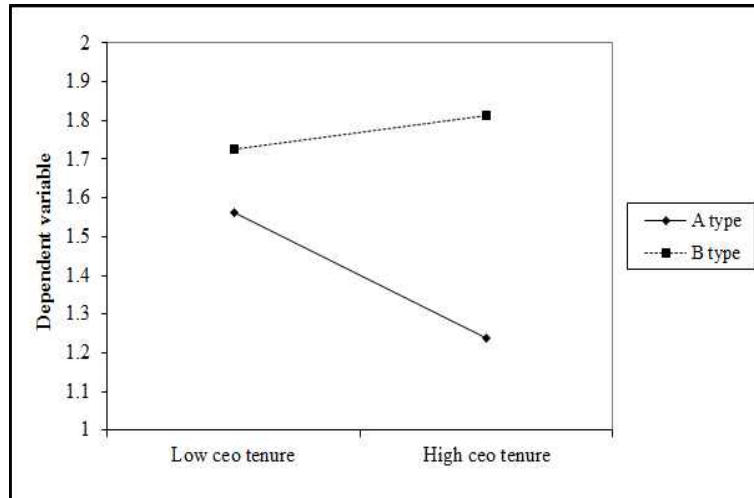
[Figure B1] Comparing state-owned share to state-owned legal person share



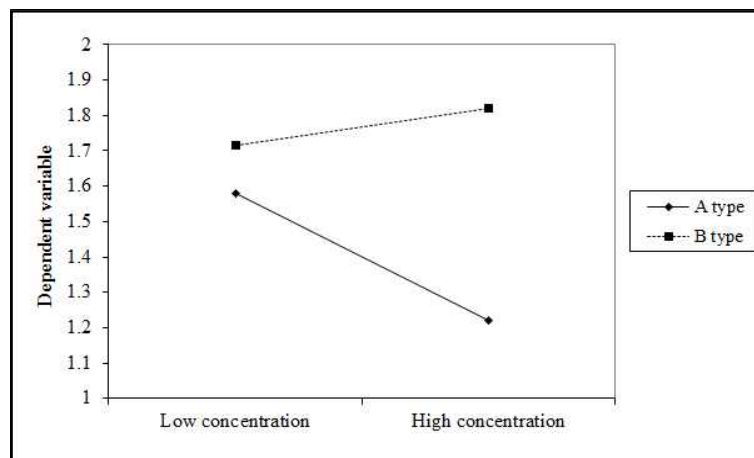
[Figure B2] The moderating effect of ownership type on the link between outside director ratio and strategic change



[Figure B3] The moderating effect of ownership type on the link between CEO tenure and strategic change



[Figure B4] The moderating effect of ownership type on the link between ownership concentration and strategic change



General Conclusion

This study focused on empirically analyzing the effects of corporate governance factors on the financial performance and strategic change of Chinese enterprises. In this process, we have attempted to fill the limitations of the previous studies in assuming governance factors. The reason for this is that the moderation effect will vary depending on the ownership type operationally defined in each study.

Let's summarize the results of each study. First, in Study 1, we have postulated the following characteristics of principal 'management' agents (BOD and CEO) as independent variables among corporate governance variables: the ratio of outside directors in the BOD, the ration of directors with political connections in the BOD, the CEO's tenure, and the CEO's political connection. We have examined the causal relationship between these characteristics and the financial performance of the enterprise. The ownership type can be used to distinguish whether an enterprise is a state-owned firm or a private-owned firm. We have also postulated ownership type as an independent variable to verify the effect of this ownership type on the causal relationship between each independent variable and the dependent variable. As a result of the empirical analysis, it is found that all factors except the political connections of the BOD among the four independent variables postulated in the study have a significant relationship with the financial performance. In addition, the interaction effect of the ownership type has a significant moderation effect

on all hypotheses except the ones related to the political connections of the BOD. These results have the following implications: 1) We have provided longitudinal verification results in the relationship between financial performance and governance variables that have not been consistent. 2) We have examined the causal relationship between the characteristics of principal 'management' agents and the financial performance. 3) We have shown the collective characteristics of listed enterprises in China by revealing the moderation effect according to the given ownership type.

In Study 2, among corporate governance factors, the ratio of outside directors in the BOD and the CEO's tenure represents the characteristics of principal 'management' agents, and the ownership concentration and ownership type indicates the characteristics of an 'ownership' holder. We have postulated these characteristics as independent variables to identify the causal relationship between them and strategic change. In addition, we have redefined the ownership type of a state-owned firm as a moderating variable to identify its effect on the causal relationship between each independent variable and the dependent variable. According to the results of the empirical analysis, all four independent variables postulated in the study have a significant relationship with the dependent variable, and the interaction effect of the ownership type of state-owned firm is also supported in all hypotheses. The results have the following implications. 1) We have extended the study of the relationship between corporate governance and strategic change by identifying the causal relationship between each 'ownership' holder's characteristics as well as each 'management' body's characteristics which have been concentrated so far.

2) We have classified the ownership type into a state-owned firm and a state-owned legal person firm, and it has been found that this type has the interaction effect on the relationship between each corporate governance factor and the level of corporate strategic change.

Of course, the following problems can be raised during the verification process: 1) limitations on sampling and methodology, and 2) validity in the process of postulating variables considering environmental uniqueness. However, it can be said that this study has academic significance due to the following reasons: we have filled the academic gap that has been presented in the study of Chinese enterprises regarding corporate governance. We have explained the causal relationship between variables through a behavioral and structural approach.

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국문 초록

중국의 기업을 중심으로 기업지배구조가 기업의 성과와 전략적 변화에 미치는 영향

유 단

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경영학과 경영학 전공

기업지배구조(corporate governance)는 현대 전략경영연구에 있어 주요한 연구 주제로 자리 잡아왔다. ‘소유’와 ‘경영’의 특수한 관계가 야기하는 대리인 문제(agency problem)를 해결하기 위한 과정에서 출현한 ‘기업지배구조’ 개념은 대리인 이론(agency theory), 청지기 이론(stewardship theory) 등 지배구조 주체의 태도와 특성에 근거한 통제 메커니즘, 각종 기업 성과 변수들과 가지는 인과관계 규명 등 광범위하고 폭넓은 연구 영역을 구축하고 있다. 특히, 20세기 말부터 시작된 세계화와 자유무역주의의 확산은 각 국가 및 기업들에게 국제적 표준의 기업지배구조 형성에 관한 당위성을 높임으로써 지배구조 개선과 관련한 움직임을 촉발시키는 계기가 되었다.

이 같은 흐름에서 중국 역시 예외일 수 없다. 중국 기업들의 영향력이 증가함에 따라 국제적 표준에 규합하는 지배구조 개선이 중요한 과제로 부각되었고 결국 정부 주도의 단계적 제도 개선이 요구되었던 것이다. 이에 중국 정부는 1999년 9월 중국 공산당 15차 중앙위원회 회의에서 증권시장 양대 기본법인 <회사법>과 <증권법> 개정을 시작으로, 2006년 말 ‘비유통주의 유통화 개

혁(equity division reform)'을 마무리 짐으로써 정부 중심 '소유-경영' 일원적 구조를 분리시키고 국제적 표준에 근접한 제도적 기반을 마련하게 되었다.

따라서 연구자는 '유통화 개혁'이 중국 상장 기업들의 지배구조 체질 개선에 있어 중대한 영향을 미쳤음을 전제로, 연구를 진행함에 있어 개혁 이후 중국 기업들에서 관찰되는 지배구조 특성과 기업의 성과 및 전략 변수와의 인과 관계를 검증하는데 초점을 맞추었다. 먼저, study 1의 경우 기업의 '경영' 주체가 가지는 특성이 기업의 재무적 성과와 가지는 관계를 살폈다. 지배구조 안정화 시점에 접어들어 2007년부터 2015년까지의 중국 내 상장된 공기업(state-owned firm) 및 사기업(private-owned firm)을 표본으로 하고 기업지배구조 변수 중 핵심적 '경영' 주체로 판단될 수 있는 이사회와 최고경영자의 특성을 독립변수로 상정하여 이것이 재무적 성과에 미치는 영향을 분석하였다. 그간 중국 내 기업들을 대상으로 진행된 연구들은 지배구조 상의 '경영' 주체와 재무적 성과와의 종단적 관계 규명이 미비했던 만큼 이 같은 간극을 채우기 위한 시도가 주도적으로 이뤄졌음을 밝힌다. 더하여 '정치적 연관성(political connection)'을 경영 주체의 주요한 특성 중 하나로 상정하고 종속변수와의 인과 관계를 살핌으로써 연구의 차별성을 높이는데 주력하였다.

study 2는 연구 대상을 중국 내 상장 공기업만으로 하되 법적, 제도적 근거를 가지고 이를 유형화(국가주와 국유법인주로 구분함)하여 지배구조 특성과 전략변화도가 가지는 인과 관계에 대해 규명하였다. 연구를 진행함에 있어 지금까지 중국 기업들을 대상으로 기업지배구조와 전략변화도가 가지는 관계를 실증 분석한 연구가 매우 미흡했던 점, 그 범위를 중국 외로 확대하더라도 지배구조 요인이 '경영' 주체에 집중되어 있어 '소유' 주체의 특성 역시 고려되어 이것들과 전략변화도와 관계를 규명한 연구가 필요하다는 점 등이 고려되었다. 상하이증권거래소에 상장되어 있는 공기업들 중 2007년부터 2015년까지 총 9년간 관찰 가능한 270개의 기업이 최종적으로 확정되었으며 이를 고정효

과모형(fixed effect model)으로 분석하였다.

이상의 study 1, 2는 기존 계약론적 관점으로 기업지배구조 요인과 기업 성과 및 전략 간의 인과 관계를 분석하는 동시에 지배구조 주체들에 대한 행태적 접근, 중국 기업들이 배태 되어 있는 제도적 환경적 특수성 등이 고려되었다는 점에서 시사점을 가진다고 판단된다.

Key words : 기업지배구조, 재무적 성과, 전략적 변화

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