

RESEARCH ARTICLE

From Cadres to Managers: The Double-hundred Action Programme and China's State-owned Enterprise Reform

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Abstract

Reforming China's state-owned enterprises (SOEs) is a complex endeavour. Among recent initiatives, the double-hundred action (DHA) programme stands out for its ambition, especially in its aim to revamp corporate governance structures and management systems. A notable change is that top executive positions are now open to a wider and more diverse candidate pool and are no longer restricted to Party cadres. Based on fieldwork and interviews at a DHA-selected enterprise, this paper explores the DHA's impact on SOE functioning and governance. Our research reveals unanimous support among top executives for the policy, despite stringent performance appraisals and limitations on future promotion opportunities. The policy has significantly transformed recruitment, performance evaluation and remuneration within the enterprise under study. However, although top executive recruitment is no longer tied to Party membership, the Party still exerts its influence through key appointments on the board of directors.

摘要

中国国有企业改革是一项复杂的工作。在最近的举措中，“双百行动”以其雄心壮志脱颖而出，尤其是其旨在改革公司治理结构和管理制度的目标。一个显著的变化是，高层管理人员现在从多样化的人才库中招聘，而不局限于党员干部。本文基于对双百行动试点企业的实地调查和访谈，探讨了双百行动对国有企业运作和治理的影响。我们的研究揭示了，尽管绩效考核严格且未来晋升机会有限，但高层管理人员一致支持这项政策。该政策极大地改变了我们的案例在招聘、绩效评估和薪酬方面的情况。然而，在党的控制方面，虽然高层管理人员的招聘不再完全与党员身份挂钩，但党仍通过董事会的关键职位施加影响。

Keywords: state-owned enterprise; reform; Party cadre; Chinese economy

关键词: 国有企业; 改革; 党员干部; 中国经济

State-owned enterprise (SOE) reform has been a focus of central policy since China's economic reform was launched. In 2015, the State Council presented a comprehensive plan for a new wave of SOE reform with its “Guiding opinions on deepening the reform of state-owned enterprises” (*guanyu shenhua guoyou qiye gaige de zhidao jianyi* 关于深化国有企业改革的指导意见).¹ Alongside the continued emphasis on the vital role of SOEs in the Chinese economy, one of the key elements included in the five principles outlined in the guiding opinions was the strengthening of Party control over these enterprises.

Later, in August 2018, the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council announced the launch of the “double-hundred action” (*shuangbai*

¹ CCP 2015.

xingdong 双百行动, DHA hereafter). The DHA focuses on “five breakthroughs and one strengthening” (*wutupo yijiaqiang* 五突破一加强). The “breakthroughs” refer to reforms regarding mixed ownership, the corporate governance structure, market-oriented operating mechanisms and incentive mechanisms, and to addressing historical legacy issues; “strengthening” refers to boosting the leadership role of the Party. Under the DHA programme, hundreds of eligible SOEs were selected to pilot and experiment with several market-based mechanisms in an attempt to increase their efficiency. A series of policy documents were issued in the following years. A significant change introduced by the DHA concerned the employment conditions of the top leaders of SOEs: in theory, these leaders no longer have to be Party cadres and the extension of employment contracts must be based solely upon performance. This bold step appears to signal a move towards the professionalization of Chinese SOE leaders and marketization.

Studies on Chinese SOEs emphasize the continuing dominance of the Party cadre system within the government bureaucracy and SOEs.² For example, Kasper Ingeman Beck and Kjeld Erik Brødsgaard analyse official documents released by SOEs and propose the concept of SOE reform with Chinese characteristics.³ Under this reform, the Party maintains its grip on SOEs through its control of the political mobility of leaders with the cadre system.⁴ While SOE leaders and senior executives in positions such as general manager (*zongjingli* 总经理) and chair of the board of directors (*dongshizhang* 董事长) are not civil servants (*gongwuyuan* 公务员), they do hold bureaucratic ranks within the Party. The conferred status of SOE leaders led to the establishment of the cadre system, or *nomenklatura*, a vital mechanism by which the Chinese Communist Party (CCP) controls SOEs.⁵

The cadre management system effectively provides a “revolving door” for SOE executives by allowing them to rotate within and across state-owned groups, between Party and local government posts or even into central government and higher positions.⁶ As the principal instrument for promoting political and administrative elites, cadre transfers can be made from SOEs to government positions, or vice versa.⁷ Senior executives of China’s central state-owned enterprises (*zhongyang qiye* 中央企业) have been appointed through lateral transfers to top managerial positions in other central SOEs or to leading positions within the government or Party at the provincial level, and have even been promoted to central-level government or Party appointments.⁸ However, recent studies have found that top SOE executives are not necessarily progressing upwards through the “revolving door.”⁹ The DHA’s emphasis on the promotion of professional management may also impact the “revolving door” institution as some top executives may opt to switch their employment relationship to the new contract-based system.

The DHA programme promotes an appointment and management system for top SOE executives based on open market selection and recruitment (*shichanghua xuanpin* 市场化选聘), contractual management (*qiyuehua guanli* 契约化管理), differentiated remuneration (*chayihua xinchou* 差异化薪酬) and market-based exit (*shichanghua tuichu* 市场化退出). This leads to the research question of this study: although the DHA aims to professionalize the managerial systems of some SOEs, to what extent is the current control of these SOEs, which is firmly rooted in the *nomenklatura* system, being significantly reshaped by the implementation of a tenure system and contractual management?

2 Manion 1985; Goldstein 1994; Chan 2004; Burns 2009; Eaton and Kostka 2014; Leutert 2018.

3 Beck and Brødsgaard 2022.

4 Brødsgaard 2012; Sheng and Zhao 2012; Lin, Li-Wen 2017.

5 Li 2016.

6 A recent notable case involves Hu Haifeng, the son of former CCP leader, Hu Jintao. He previously worked in large SOEs before becoming an official in the local government. See also Heberer and Trappel 2013; Zuo 2015; Liu and Li 2016.

7 Kung, Cai and Sun 2009; Tsai and Kou 2015.

8 Choi 2012.

9 Leutert 2018.

Based on six months of fieldwork, this article presents a case study of an enterprise selected for the DHA programme. It explores the impacts and changes that the DHA has brought to the enterprise and its employment relationships. The rest of the article is organized as follows. Next, the DHA is introduced in the context of past research on the reform of Chinese SOEs. Then, the article presents the methodology and case under study. The substantive analysis begins with an overview of the DHA and the selected enterprises. The article continues with a discussion of the impacts of the DHA on the case enterprise and the changes in its appointment process, remuneration and tenure systems. Finally, it presents an analysis of Party control under the DHA.

The Double-hundred Action and the Reform of Chinese SOEs

The marketization of tenure mechanisms for the appointment and dismissal of the leaders of China's SOEs has received little attention in the literature on the Chinese cadre system. Scholars have discussed the operational efficiency and institutionalized management systems of SOEs, including ownership,¹⁰ the political appointments of elites,¹¹ the mobility of executives¹² and market and policy transitions.¹³ However, in terms of the personnel tenure system, few profound changes had been made in the past.¹⁴ In contrast, the indispensable role of SOEs in the national economy and the dual role of SOE executives, as both administrative figures and business operators, continue to be highlighted. The emphasis on the "three major one big" decision-making mechanism, promoted by the CPP in 2010, is one example.¹⁵

The performance of SOEs, especially large and medium-scale enterprises, is not inferior to that of other ownership structures and indeed demonstrates flourishing development in comparison.¹⁶ Despite this, it is widely perceived that the presence of bureaucratic groups within SOEs is often an obstacle to improving their efficiency. Scholars have contended that there is a "revolving door" institution through which SOEs leaders rotate between higher positions in SOEs, Party administration and the central government.¹⁷ Through repeated cadre rotations, central SOE leaders assume top executive positions or provincial leadership positions in other core central SOEs or even transfer to leadership positions in central-level government or Party institutions.¹⁸ Recent studies, however, indicate that only a small fraction of SOE leaders are promoted to higher positions. In addition, their career mobility is also restricted by the imposed average tenure of five years.¹⁹ This structure can lead to a lack of motivation among top SOE executives to drive economic performance. The DHA was born out of this context.

The double-hundred action

The DHA was proposed by the Leading Group for State-owned Enterprise Reform of the State Council in 2018.²⁰ Under this initiative, hundreds of subsidiary enterprises of central enterprises and core local state-owned enterprises, named Double-hundred Enterprises (DHE), have been selected to undergo and experiment with several critical reforms.²¹ According to the SASAC notice

10 McMillan and Naughton 1992.

11 Goldstein 1994.

12 Leutert 2018.

13 Lo 1999.

14 Lin, Li-Wen 2017.

15 CCP 2010.

16 Jefferson, Rawski and Zheng 1994; Naughton 1994; Yeo 2009.

17 Lin, Nan 2011; Sheng and Zhao 2012.

18 Choi 2012; Landry, Lü and Duan 2018.

19 Lin, Li-Wen 2017; Leutert 2018.

20 SASAC 2018. The full name is "Double-hundred action plan for state-owned enterprise reform" (*guoqi gaige shuangbai xingdong gongzuo fang'an*).

21 Heilmann 2008.

on selection, there are three types of enterprises suitable for the DHA programme: 1) firms that are representative of and well-established within their industry with a priority on profit generation; 2) firms with high growth potential but which require urgent efficiency improvements; and 3) firms which are strongly inclined towards reform.²²

The DHA's major development stems from its endorsement of a new tenure system that follows principles such as market-based recruitment, contractual management, varying levels of pay and dismissal in line with market terms.²³ In 2020, the Leading Group for State-owned Enterprise Reform of the State Council promulgated the "Operational guidelines for the implementation of a tenure system and contractual management for managerial members of double-hundred enterprises" (*shuangbai qiye tuixing jingli ceng chengyuan renqi zhi he qiye hua guanli caozuo zhiyin* 双百企业推行经理层成员任期制和契约化管理操作指引) and the "Operational guidelines for the implementation of a professional manager system in double-hundred enterprises" (*shuangbai qiye tuixing zhiye jingli ren zhidu caozuo zhiyin* 双百企业推行职业经理人制度操作指引), referred to as the "two operational guidelines" (TOG hereafter).²⁴ According to the TOG, "professional managers" includes positions such as chief executive officer (CEO), vice-CEO and chief financial officer (CFO), along with other top managers, as specified in the company's charter, and Party affiliation is no longer a prerequisite for these positions. Chair of the board of directors (*dongshizhang* 董事长) is excluded from this list. Point 2 of Section 3 of the TOG defines the terms of the candidate pool (*renxuan lai yuan* 人选来源):

Adhering to the principle of inclusivity and appointing people based on their merits (*jianchi wuhusihai renrenweixian* 坚持五湖四海, 任人唯贤). This generally includes personnel from within the enterprise, individuals recommended by shareholders, participants from the community, and candidates proposed by talent agencies, without restrictions based on internal or external enterprise status, rank, seniority or experience.²⁵

The new policy is aimed at solidifying the responsibilities, rights and obligations of top managers. It specifies the terms of tenure, reappointment on expiration of tenure, employment contract, etc. and emphasizes that, based on assessment of performance, remuneration "can increase or decrease" (*nengzeng nengjian* 能增能减) and the position "can go up or down" (*nengshang nengxia* 能上能下).²⁶ SOE leaders' positions no longer offer guaranteed job security, and poor performance will lead to demotion. Likewise, salaries are also dependent on performance to a greater extent.²⁷

Under the DHA, Party membership is no longer a requirement for top executive positions within SOEs. Consequently, those positions are not party to the "revolving door" of the cadre system. However, incumbent executives hired under the new contract conditions do not have to forgo their Party membership or the accompanying benefits. Thus, it cannot be assumed that the cadre revolving-door system will cease to function in future. As observed during our fieldwork, people with or without Party membership can now apply for top positions; however, all appointments need board approval and top managers are encouraged to participate in Party affairs.

The DHA appears to have achieved a degree of early success since its introduction in 2018. This can be measured by the significant increase in the number of firms included in the scheme, which has grown to over 500, and the evolving nature of the DHA reforms. Furthermore, the SASAC is

22 "Guoqi gaige shuangbai xingdong gongzuo fang'an yinfa jin 400 jia qiye ruwei" (State-owned enterprise reform "double-hundred action" work plan issued, nearly 400 enterprises shortlisted). *China Securities Journal*, 15 August 2018, https://cs.com.cn/xwzx/hg/201808/t20180815_5858201_2.html. Accessed 1 February 2024.

23 SASAC 2018; 2019a.

24 CCP 2020; SASAC 2020.

25 SASAC 2020.

26 SASAC 2019b; 2021a.

27 CCP 2018; SASAC 2021b.

actively bolstering its efforts to promote and disseminate the DHA by publishing comprehensive materials on DHA “practices” and by organizing annual conferences and forums for DHEs aimed at knowledge sharing and collaborative learning.²⁸

Research Methodology

Owing to the difficulties of conducting direct observation and interviews, past research on Chinese SOEs has usually focused on second-hand datasets or macro-economic indexes; rarely have case studies or interview methods been used. We were fortunate enough to acquire permission to carry out onsite fieldwork while undertaking an official internship in an SOE under the DHA scheme. As such, one of the authors spent six months conducting fieldwork and research within a DHE.

The fieldwork took place in two stages: the first was in Guangzhou and Hong Kong from September to December 2022, and the second in Hong Kong from January to March 2023. Both stages focused on Enterprise C, a DHE. We selected Enterprise C and Hong Kong for two reasons. First, Enterprise C was among the initial group chosen for the DHA programme and excelled in the DHA reform assessment, earning itself “benchmark enterprise” status (*biaogan qiye* 标杆企业), an accolade received by less than a quarter of all DHEs. This status reflects its alignment with the DHA’s objectives and signals its role as a model for other SOEs. This is significant as Enterprise C showcases the early achievements and desired trajectory of the DHA reforms. Second, Enterprise C, based in Hong Kong’s competitive market, specializes in high-stakes commercial services for both domestic and international clients.

Alongside participant observation, we interviewed various stakeholders including partners, non-DHE SOE executives within the same conglomerate, enterprise employees and current as well as former executives of Enterprise C. Interviews centred on the anticipated impact of the DHA scheme on organizational structure and operational changes, including executive employment tenure, management flexibility and personal perceptions. In all, we conducted 30 interviews, including 15 with executives and employees of Enterprise C and 12 with industry partners, to understand the impact of the DHA programme. Interviewees varied in seniority from junior staff to general managers and had joined Enterprise C prior to the introduction of the DHA scheme. Some had retained their original positions post-DHA, while others had advanced to professional management roles.

We also collected and analysed data on the characteristics and geographic distribution of the companies selected for the DHA programme. Information on these corporate profiles was obtained from official sources, company websites and corporate credit institutions, and includes data on industry, size, group affiliation and other business characteristics of the 449 DHEs. These data were used to provide a comprehensive understanding of the scope and impact of the DHE programme on China’s SOEs.

An Overview of the DHEs

At the time of our data collection, there were 449 DHEs, which belonged to central state-owned enterprise conglomerates and local SASACs across various industries. We detail four characteristics of these DHEs in Figures 1–4.

Figure 1 shows the provincial distribution of the DHEs, indicating that most provinces, with a few notable exceptions, have at least one SOE in the DHA programme. While these SOEs are located mainly in eastern and coastal provinces, the highest concentration of DHEs is not limited to coastal areas, with Guangdong being an exception. The graph reveals four major regions. Guangdong leads with nearly a quarter of all DHEs, followed by Beijing. Sichuan, Hubei, Hunan

28 SASAC 2021c; 2022.

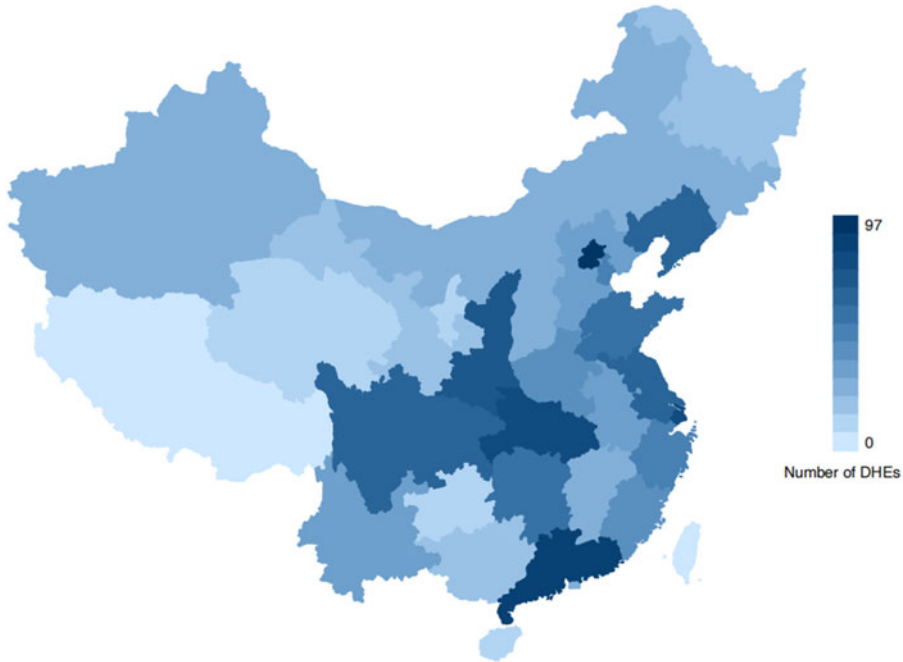


Figure 1. Geographical Distribution of the DHEs

and Ningxia form a third cluster, with a substantial share of the DHEs. The fourth cluster comprises Shanghai, Jiangsu, Shandong and Zhejiang, with Liaoning also hosting a notable number of DHEs.

We separate these 449 DHEs into 14 categories. Figure 2 shows their industrial distribution. The top three categories are: manufacturing (21.2 per cent – for example, Baoshan Iron and Steel Co. Ltd (宝山钢铁股份有限公司), CRRC Zhuzhou Electric Locomotive Co. Ltd (中车株洲电力机车有限公司) and AECC Commercial Aircraft Engine Co. Ltd (中国航发商用航空发动机有限责任公司)); commercial services (20.3 per cent – for example, Huaneng Capital Services Co. Ltd (华能资本服务有限公司) and China Oilfield Services Limited (中海油田服务股份有限公司)); and scientific and professional services (18.5 per cent – for example, Zhongyuan Environmental Protection Co. Ltd (中原环保股份有限公司) and CASIC Rocket Technology Company (航天科工火箭技术有限公司)).

Figure 3 shows the ages of the DHEs. The majority are 20–30 years old and were established before 2000. Next are DHEs aged 10–20 years old, then 30–40 years, and 5–10 years. About 4 per cent are over 40 years old, indicating that some long-standing DHEs are in the group.

Figure 4 displays the size of the workforces of the 449 DHEs. Notably, over a quarter (25.8 per cent) have 200–500 employees. More than half employ over 500 workers, and 14.4 per cent have over 5,000 employees, suggesting that company size matters but is not the only criterion for DHE selection under the DHA.

A brief background of Enterprise C

Established in 2012, Enterprise C is the first shipyard-affiliated leasing company in Greater China and one of the leading ship-leasing companies in the world. As a subsidiary of China State Shipbuilding Corporation (CSSC), it is also one of the largest shipbuilding companies in the world. Enterprise C's main business is to provide ship-leasing services to ship brokers, cargo owners and traders around the world. The highly competitive market pressure under which Enterprise C operates aligns with a crucial criterion for pilot selection under the DHA.

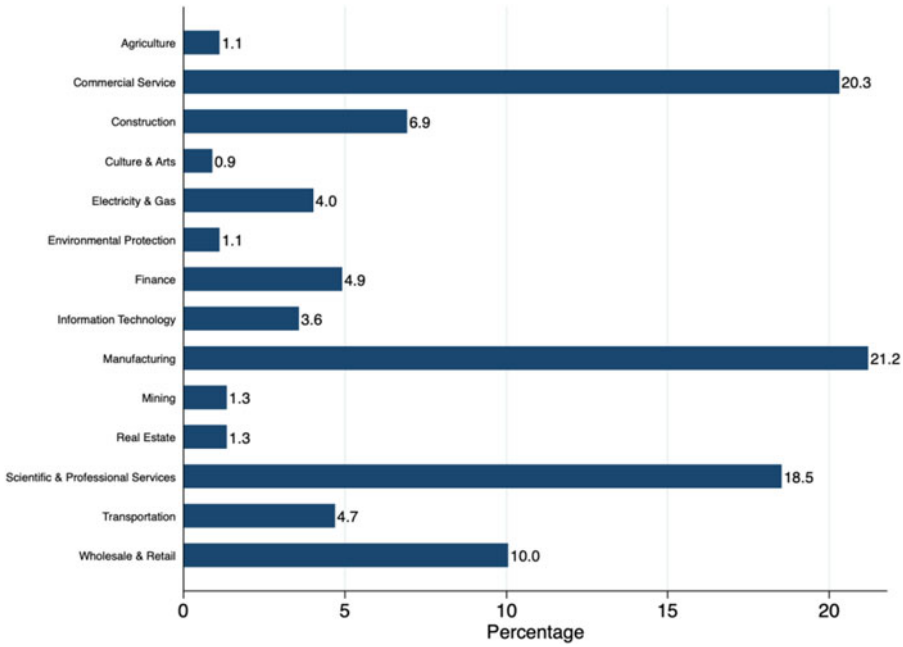


Figure 2. Industrial Distribution of the DHEs

Enterprise C has a dedicated workforce of 86 employees, whose efforts contributed to an annual revenue of HK\$3 billion in 2022. By 2018, it claimed a 3.9 per cent share of the global market and was ranked fourth in the global ship-leasing industry. Despite the market’s fragmentation, and with a large number of companies competing for a share, it has managed to achieve and maintain a

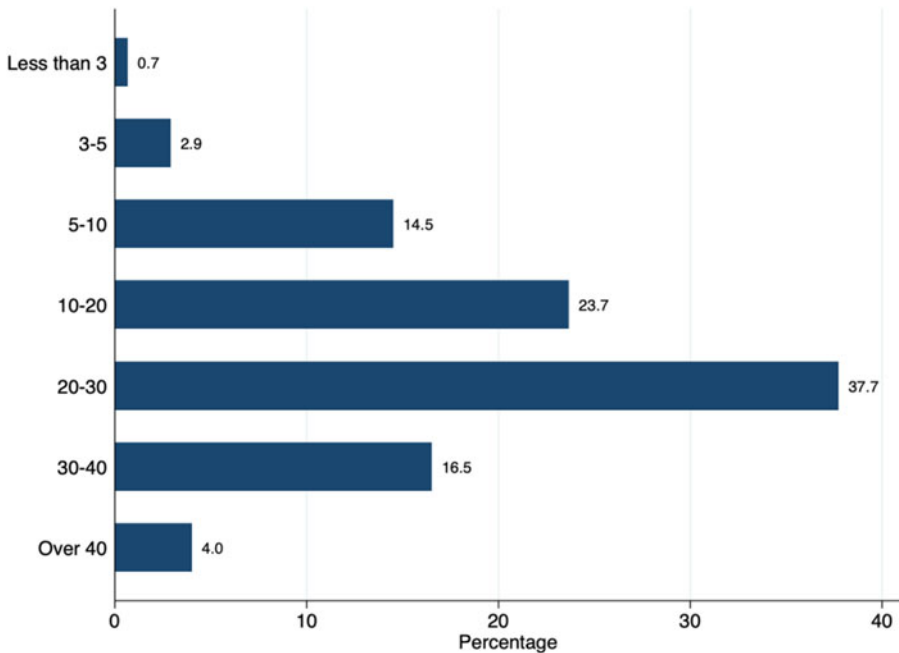


Figure 3. Age of the DHEs (years)

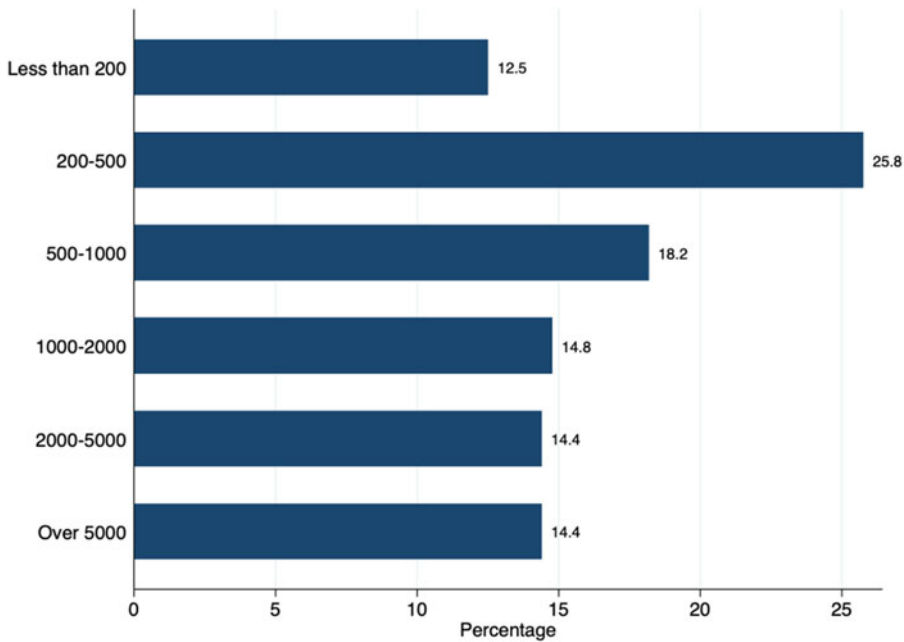


Figure 4. Number of Employees of the DHEs

Table 1. Major Milestones in Enterprise C, 2012–2022

Date	Milestone
2012	Incorporated in Hong Kong as the sole leasing company under CSSC Group
2018	Became one of the first companies selected by the DHA for a reform pilot
2019	Listed on the Hong Kong Stock Exchange
2020	Began to implement a professional manager system, tenure system reform and contractual employment of the members of the managerial board
2022	Tenth anniversary

leading position in the global non-bank ship leasing industry since 2018. However, this dominance is represented by a market share of only 14.8 per cent, further emphasizing the intense competition and wide distribution of market power within this sector.²⁹

In 2019, Enterprise C was listed on the Hong Kong Stock Exchange (see Table 1). Figure 5 shows the growth of its turnover from 2017 to 2022. Its operating income has grown from less than HK \$1.5 billion to more than HK\$3 billion in five years. Although financial information for before 2017 was not available, given the positive turnover growth rate in 2017, it is evident that Enterprise C was in a good shape before the implementation of the DHA.

Endogenous Demand for Transformation within the Organization

We were surprised to find that removal of the cadre evaluation and administrative ranking systems was unanimously supported by Enterprise C's top executives. Previous literature on SOE

²⁹ Interview with the general manager of Enterprise C, Hong Kong, September 2022.

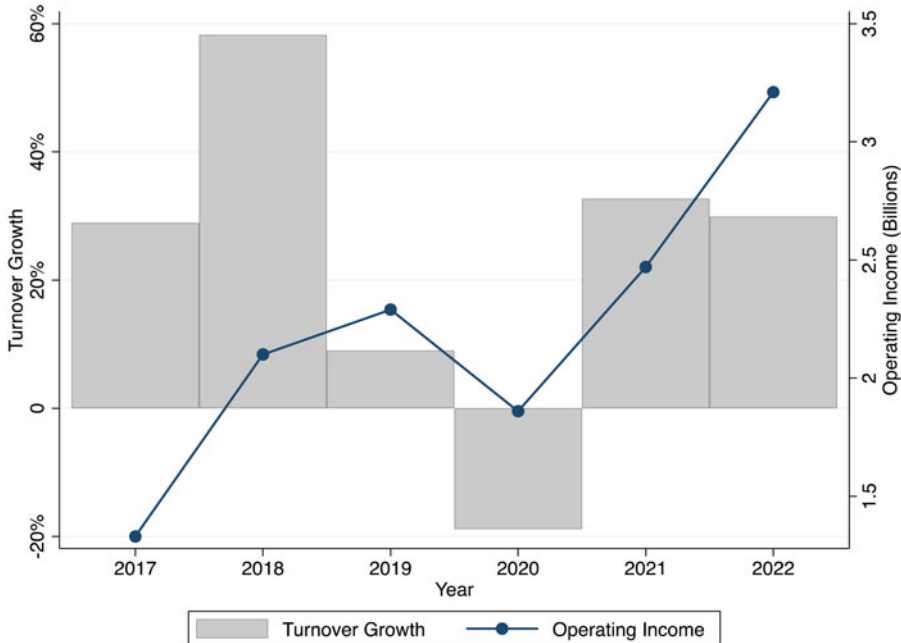


Figure 5. Turnover Growth and Operating Income of Enterprise C, 2017–2022

reform largely focuses on the top-down manner or, in our words, external demand, for SOE reform. In contrast, we found a strong endogenous demand for tenure system reform in our case enterprise.

We identified two unique characteristics among the executives' reactions to the DHA in Enterprise C. First, there was an endogenous desire for term limits to be removed and general dissatisfaction with mandatory job mobility. This is because heightened market competition necessitates a focus on long-term growth and coherent management objectives. However, tenure limitations do not allow executives sufficient time to devise and execute long-term strategies that are beneficial for the enterprise.

The second characteristic was a desire for greater flexibility in management and operations. Enterprise C executives expressed the need for increased flexibility to streamline approval processes and enhance the efficiency of communications between subsidiaries and parent groups. While such demands are commonly seen in private enterprises, requesting similar flexibility within Chinese SOEs may pose challenges in terms of control for the monitoring agency and could potentially deviate from the principle of enhancing the Party's control over SOEs, as outlined in the 2015 Guidelines.

Reforming the Tenure System

Before the reform of the tenure system, the majority of Enterprise C's executives' employment relationships were not solely with the enterprise; rather, their employment connections were typically with the parent company of the group. Similar to civil servants, these executives were subject to tenure limits, the imposition of which has posed challenges for SOE executives in general when formulating long-term operational plans that span market business cycles.

One high-ranking executive in Enterprise C explained that the sense of accomplishment and satisfaction that can be derived from individual managerial performance and corporate growth fosters

a deeper appreciation of the hard-won achievements of the business.³⁰ Enterprise C's executives recognized that running a business is fundamentally different from leading a county and highlighted the unique and demanding nature of their roles as top managers in a dynamic and competitive business environment.

The DHA introduced two new core practices to the SOE tenure system – “expiration reappointment” (*daoqi chongpin* 到期重聘) and “rigid appraisal” (*gangxing kaohe* 刚性考核). Under this new framework, executives are permitted to seek reappointment after their term of employment has expired and to renew their appointment through an employment contract. Executives' employment relationship is no longer tied to their Party affiliation and administrative rank. Our interviewees stated that the rigid appraisal system also differs from the previous subjective and flexible criteria of the cadre appraisal system. A rigorous assessment of the enterprise's performance, as stipulated in their employment contract, determines whether executives are eligible for reappointment, rather than their status within the Party hierarchy. This measurable and transparent approach ensures that executives are held accountable for their performance.

The stringent appraisal system, along with higher salaries and stock options, aligns executives' interests more closely with those of the company. Offering executives substantial stakes in the company's performance is believed to enhance professionalism and entrepreneurship.³¹ When asked to compare the new contractual relationship with the previous employment relationship, several executives noted that while it might limit career mobility within the cadre system, it significantly boosted their sense of belonging as well as their motivation to contribute to the company's success.³²

Increased commitment to the enterprise also fosters a more positive work environment, which can further stimulate employee engagement and productivity. By establishing a merit-based appointment system, the DHA aims to attract and retain top talent within the company. In the past, top executives had to have “backgrounds” (*beijing* 背景).³³ The DHA's tenure reforms have ushered in a new era that theoretically removes this barrier for otherwise suitable candidates. Under the DHA, professional managers are identified through a global recruitment drive, ensuring a wider and more diverse pool of candidates to choose from.³⁴ A selection committee, composed of experts from various divisions both within and external to the business group, evaluates candidates based on market-oriented criteria. By emphasizing the merits and qualifications of individuals, along with external expert assessment and a transparent recruitment process, this approach is designed to reduce the impact of nepotism and cronyism.³⁵

The appointment of Enterprise C's CEO during the period of our fieldwork provided an example of this new approach to executive recruitment.³⁶ We were told that despite his affiliation with the CCP, the CEO's appointment was not contingent on internal Party ties or influences but instead adhered to the new selection process. The appointment of the secretary of the board of directors

30 Interview with the CFO of Enterprise C, Hong Kong, September 2022. We conducted interviews with key personnel at Enterprise C, including the chair of the board, the CEO, the CFO, members of the Party cell, directors, executives and senior managers from various departments.

31 Interview with the CEO of Enterprise C, Hong Kong, December 2022. The CEO emphasized the importance of the professional manager system within the company: “The professional manager system offers managers the possibility to plan the long-term development of the company, and the new system enables us to focus on our business and our area of specialization. It is certainly a reform that gives us a greater sense of belonging and entrepreneurial spirit.” This insight further underlines the alignment of interests and the coordination within the company, supporting the idea that DHA and alignment stimulates professionalism and entrepreneurship.

32 Ibid.

33 Ibid.

34 Interview with the senior financial executive, Hong Kong, December 2022. The senior treasurer is a non-Party member and a non-resident of mainland China who was recruited through a market-based recruitment process.

35 Interview with the human resources executive at Enterprise C, Hong Kong, November 2022.

36 Information on the executives' career paths, experiences and public recruitment was gleaned from Enterprise C's public annual reports and official announcements.

(*dongshihui mishu* 董事会秘书) was a further example of this shift in the recruitment approach. Unlike the CEO, the board secretary had no prior ties to the Group or Enterprise C. He was appointed based on his own initiative and merit, and by standing out in a competitive environment that prioritized competence over connections. Both these pivotal appointments are emblematic of a broader move towards a fairer, performance-centric corporate culture within Enterprise C.

Although our interviewees were not privy to the actual policymaking process behind the DHA and were perhaps reluctant to comment on government policy, they often mentioned the factors that they believed were behind this fundamental shift in the tenure system. Most often mentioned was the nature of the market. Enterprise C operates within a highly competitive and globalized (ship-leasing) market in competition with numerous local and foreign companies.³⁷ To compete in this environment, the executives at Enterprise C feel compelled to incorporate standardized market practices and to implement a comparable internal organizational structure.³⁸

Our interviewees in Enterprise C emphasized that the recruitment of top talent is crucial for the company's success. Given the highly globalized nature of the industry, candidates typically are very knowledgeable about all the companies operating in the sector. As one interviewee noted, if a company's system significantly deviates from market norms, it becomes challenging to attract the top talent, raising the question, "How can you recruit these talents?"³⁹ The executives of Enterprise C monitor their competitors closely and make adjustments accordingly. Owing to the globalized nature of the market, companies are forced to adopt systems similar to a tenure-managerial model to maintain their competitive edge, leading to institutional isomorphism.⁴⁰ Their involvement in the global market may explain why a significant number of DHEs are located in Guangdong and Beijing.

In addition, most of our interviewees indicated a real and intrinsic need for reform, and specifically a delinking from the cadre tenure system. Despite losing the possibility of promotion to higher-ranking government posts, executives at Enterprise C generally viewed this as an acceptable trade-off when weighed against the benefits gained.⁴¹ The mandatory rotation and limited tenures of executives in specific positions make it challenging for leading executives to devise and execute long-term business strategies and decisions. Additionally, the contractual-based employment relationship boosts executives' overall salary and compensation packages.

Changes in the Executive Selection Process

In the past, the executive selection process at Enterprise C was largely conducted behind closed doors. Executive appointments were primarily made via internal promotions and transfers from within the Group. The process, as we discerned from conversations and organizational documentation, frequently resulted in partial adherence to market standards and featured a lack of transparency regarding appointment criteria.⁴² The new selection process must adhere to the TOG, and all recruitment advertisements need to be publicly announced on Enterprise C's corporate platforms and mass media. The majority of the vacancy announcements we collected highlighted that the selection criteria were based on the principles of "openness, equality, competition, and merit."⁴³ Interestingly, announcements did not explicitly require Party membership but rather emphasized that the candidates needed a high degree of "political literacy" (*zhengzhi suyang* 政治素养) and the correct "political direction" (*zhengzhi fangxiang* 政治方向). This subtle adjustment, facilitated

37 Interview with the Enterprise C's director of assets management department, Hong Kong, November 2022.

38 Ibid.

39 Interview, human resources executive of Enterprise C.

40 DiMaggio and Powell 1983.

41 Interview with the CFO of Enterprise C, Hong Kong, November 2022.

42 Interview with the senior manager of Enterprise C, Hong Kong, December 2022.

43 Quotation taken directly from a recruitment advertisement posted by Enterprise C.

by the DHA, significantly widens the pool of candidates. In addition, legacy executives are no longer directly re-elected as per the previous system. Notably, even incumbents like CEOs had to re-apply and compete for their positions. Conversations with several executives revealed a genuine surprise about the large influx of internal and external applicants and the stiff competition they faced at that time.⁴⁴

Chairman's Unique Role and Remuneration Reform

Following the implementation of the TOG, we witnessed a significant change in Enterprise C's executive remuneration packages. The previously imposed ceiling on executives' pay, set by the central government, has been lifted, giving way to a philosophy of "differentiated compensation" (*chayihua xinchou* 差异化薪酬). The new pay strategy incentivizes executives to improve their performance and emphasizes the difference in earnings for senior executives and grassroots employees.⁴⁵ During our fieldwork, an executive shared confidentially how the TOG has enabled the company to align bonuses more closely with performance, motivating top leadership to strive for excellence. He remarked, "We are now recognized for our accomplishments, not just our titles."⁴⁶

In the context of executive compensation, the role and salary of Enterprise C's chair of the board of directors, who also functions as Party secretary, offer up an interesting case. Unlike other core executives, the position of chair is appointed by higher-level Party leadership or through cadre rotation within the conglomerate, rather than through open recruitment. A careful examination of public records revealed that the chair's salary at the time of our fieldwork was in excess of HK\$3 million – a huge figure compared to the earnings of an official of the same rank in local government.⁴⁷ This disparity can partly be understood by looking into the chair's professional history. He is a leader with extensive professional experience rather than a mere bureaucrat, and his specialized expertise and strong decision-making capability in business operations are likely to account for what we believe to be his far superior remuneration compared to other same-level bureaucrats.

These observations indicate a shift in the Party secretary role, from a bureaucratic to a more professionalized role. The Party committee in the enterprise has experienced a fundamental change from being run by bureaucratic cadres to being managed by skilled technocrats and managers recruited from the market. What remains unchanged is the Party's control; however, the agents representing this control have undergone a professional-oriented transformation. The Party secretary is no longer just a political mouthpiece, but someone equipped with both business acumen and professional competence.

Demanding More Flexibility

For Enterprise C executives, flexibility (*tanxing* 弹性) is crucial in a number of areas including decision making, hiring, organizational structure and business culture. It is a vital aspect of the corporation's capacity to adapt to ever-changing market dynamics and to seize opportunities effectively. The need for flexibility goes beyond allowing executives to side-step regulation and avoid group interference; it is fundamental to organizational success. Historically, SOEs have operated within outdated, highly restrictive and centralized structures, characterized by complex layers of authority.⁴⁸ Decisions are often made by a small group of higher-level executives at the group level,

44 Interview with executives of different departments of Enterprise C, Hong Kong, December 2022.

45 SASAC 2020; 2021b.

46 Interview with the head of the accounting department, Hong Kong, December 2022.

47 The salary information cited here is taken from the annual report of Enterprise C, which is available for public examination.

48 Brødsgaard 2012; Li 2016; Beck and Brødsgaard 2022.

resulting in a slow and bureaucratic decision-making process.⁴⁹ Consequently, numerous SOE leaders, including Enterprise C's executives, have limited autonomy when making decisions.⁵⁰

Our interviewees mentioned that the top-down decision-making model has stifled the creativity of many subsidiary executives who possess valuable experience, courage and commitment in their niche areas. It has hindered not only Enterprise C but also other SOEs' ability to develop innovative strategies and to effectively address unexpected challenges.⁵¹ The lack of streamlined approval processes and flexible hierarchical management systems further obstructs an SOE's capacity to compete with more agile and adaptable private sector companies and foreign firms in a globalized market.⁵²

SOE leaders want the autonomy to make decisions based on their professional expertise, a prerogative not permissible under the old inflexible framework. While Enterprise C's performance, as measured by its annual revenue, may not be directly affected by its lack of management flexibility, according to the interviewees, its limited autonomy will determine whether the company can continue to climb to a higher level.⁵³ In essence, the ability to make autonomous decisions and implement innovative strategies will determine whether the company can go one step further.

Ultimately, the lack of flexibility inhibits the capacity of SOEs to innovate and adapt in the face of a rapidly changing and competitive market.⁵⁴ When operating under the constraints of the old system, managers are not permitted the flexibility they require to manage the business and operations effectively and yet they still run the risk of being scrutinized and held responsible for decisions made at their own discretion, regardless of whether those decisions are right or wrong. This invisible constraint poses a difficult dilemma for managers when navigating the pressures of the marketplace.

Recognizing a pressing need for a degree of flexibility within SOE executive operations, the changes brought about by the DHA scheme effectively grant executives greater autonomy and have catalysed a transformation within DHEs to foster innovation and adaptability. The implementation of the DHA also represents a pivotal turning point, signifying the commencement of a transition towards enhanced flexibility and adaptability within the SOE structure.⁵⁵ By simplifying the approval and decision-making process, the DHA affords executives the space to leverage their expertise for the betterment of the enterprise. Executives can then pursue organizational success and innovation without having to meticulously evaluate the risks and responsibilities individuals must bear for their decisions.⁵⁶ Enterprise C's executives said that the implementation of the DHA has cultivated a more enabling environment in which SOE leaders can make informed decisions and promote openness, transparency and a more flexible approach within their company.⁵⁷ Consequently, executives feel more secure and confident when pursuing new market opportunities and are better equipped to navigate the dynamic global market landscape. One senior executive mentioned the positive effect the DHA had on decision making within the enterprise: "The DHA has indeed provided the institutional basis for the creation of autonomous decision making within our company. Executives judge and take their own risks and embrace a more entrepreneurial mindset, providing more space for innovation in corporate governance and operations."⁵⁸

An obvious benefit to the decision-making autonomy afforded to executives by the DHA is the speeding up of the previously lengthy approval process. Another interviewee mentioned: "The DHA has enabled a more streamlined decision making and approval process, both externally and

49 Interview with the senior manager of the business department, Hong Kong, September 2022.

50 Ibid.

51 Interview with the general manager of Enterprise C, Hong Kong, December 2022.

52 Ibid.

53 Interview with the director of the financial department, Hong Kong, January 2023.

54 Ibid.

55 Interview with the conglomerate leader, former chairman of the board, Guangzhou, September 2022.

56 Ibid.

57 Ibid.

58 Interview, CFO of Enterprise C, November 2022.

internally. For example, our requests for approval as a DHE will be prioritized by the Group, helping to speed up decision making and ensure that urgent matters are dealt with effectively.”⁵⁹

By emphasizing the importance of flexible management and decision making, the SASAC has initiated a transformation, with DHEs as pilots, that enables SOEs to compete more effectively on the global stage. This newfound flexibility also endows executives with the tools and confidence to explore innovative solutions and strategies that will ultimately propel their companies to organizational success in a competitive market environment.⁶⁰ As more SOEs regard entry into international markets as strategically important and a necessary and unavoidable move, this heightened emphasis on flexibility will prove instrumental to ensuring their long-term competitiveness and success in the global marketplace.⁶¹

The SASAC has played a crucial role in dismantling the constraints of the old SOE structures and the DHA has established a model for SOEs that frees their managers from the restrictions of the old system. According to one interviewee, the implementation of these transformative measures allows a company to embrace a more flexible, innovative and competitive approach, which is essential in today’s rapidly evolving international market.⁶² The DHA serves as a catalyst for change, inspiring a new era of SOE management that is more responsive to market forces and better prepared to face the challenges of an increasingly interconnected and competitive world.

Our interviews and fieldwork observations indicated that the DHA and its positive impacts have been unanimously supported by the executives in Enterprise C. The DHA has created a more transparent and accountable system and provides greater scope for autonomous decision making. As one interviewee explained: “it addresses executives’ concerns that we may have previously been hesitant to take risks or make risky decisions for fear of being criticized for being unauthorized and accountable.”⁶³

Party Control under the DHA

Two of the DHA’s major reform goals – the reform of the tenure system and increased flexibility – appear to be in contention with the major principle of advancing the Party’s influence over SOEs, as outlined in the 2015 Guidelines.⁶⁴ The relaxation in recruitment and decision-making processes further diverges from the CCP’s focus on crucial aspects of SOE management. How does the Party continue to exert its control over SOEs? We find that the DHA does not fundamentally weaken the Party’s grip over these selected SOEs; rather, Party control is now diffused and embedded within the new professional-managerial strata.

It is argued that the nature of Party control and marketization are inherently in contention with one another.⁶⁵ Yet, on the surface, the DHA has two seemingly conflicting goals: to strengthen Party control and to reform SOEs based on the principles of marketization. Our interviewees, however, did not believe that the two goals were at odds, contending that although the DHA may look like an effort to marketize the SOEs, it is in fact a strategic hedge against the regression of marketization.⁶⁶ In the words of the top executives, the DHA aims to embed Party control within the market-driven framework of the SOE reform.

A unique aspect of the DHA programme involves the reorganization of leadership roles within the enterprises into two distinct teams: one dedicated to executive management and the other to

59 Interview with the director, Hong Kong, December 2022.

60 Ibid.

61 Interview with manager of Enterprise C partner corporation, Hong Kong, January 2023.

62 Ibid.

63 Interview with senior manager of the business department, Hong Kong, January 2023.

64 CCP 2015.

65 Xie and Xie 2017.

66 Interview with a Party secretary of Enterprise C, Hong Kong, June 2023.

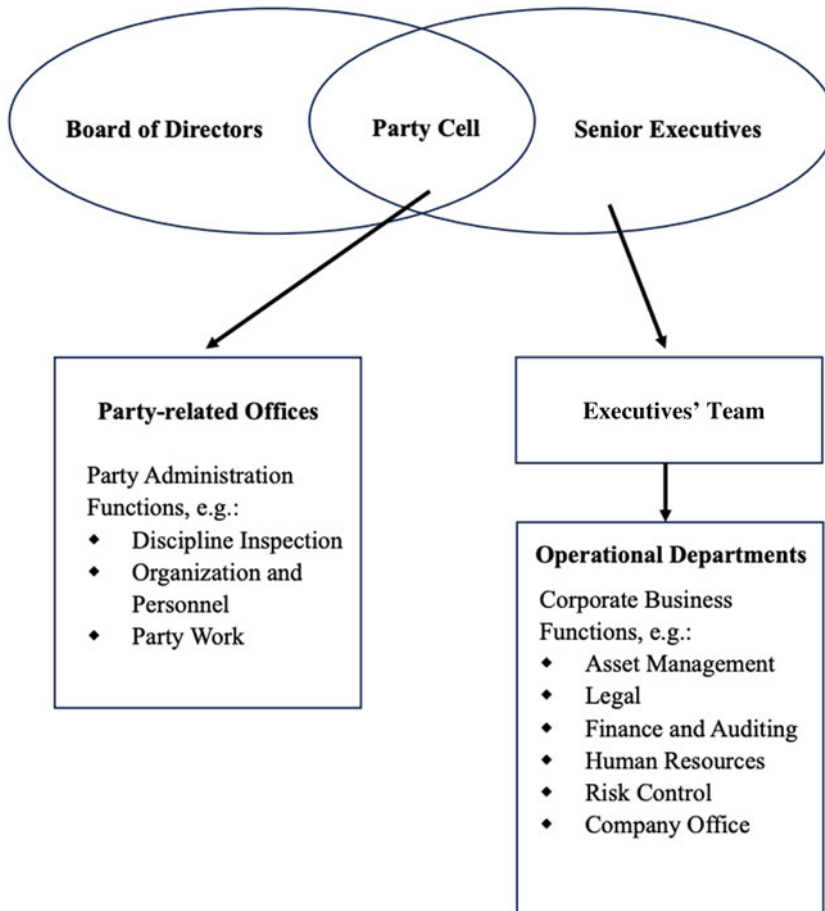


Figure 6. The Bifurcated Corporate Leadership under the DHA

Party oversight (See Figure 6). Corporate leadership positions are now bifurcated, with separate, clear responsibilities assigned to each team. This division serves a dual purpose. First, it allows the executive team to focus on the operational efficiency and market competitiveness of the enterprise, while the Party secretary's team ensures that the enterprise's goals align with the Party's broader ideologies and national objectives. Second, separating these roles enables the enterprise leadership to sidestep the pitfalls of internal politics and competition that might arise from a conflated leadership structure.⁶⁷ Theoretically, such clearly delineated roles and responsibilities facilitate a more harmonious business dynamic by minimizing friction and enabling more coherent and speedy decision making.

During our fieldwork, we observed how the theoretical framework is reflected in the physical structure and functioning of the board and executive team at Enterprise C. Party control is subtly yet effectively woven into the fabric of modern managerial practices, striking a delicate balance between autonomy, efficiency and alignment with national goals.⁶⁸ Party cells have long operated within SOEs even before the DHA, and this arrangement continues to be an integral part of the organizational structure of companies, reflecting the overarching influence and guidance of the

⁶⁷ Ibid.

⁶⁸ Interview with the Party work officer at Enterprise C, Hong Kong, December 2022.

Party within SOEs.⁶⁹ However, the transformation under the DHA programme has been more nuanced. In Enterprise C, the board of directors has seven members, and the senior executive team has six members. Interestingly, by requiring consensus between the board of directors and the executive team, the decision-making process within the company works more effectively to avoid individual bias and, according to one interviewee, exemplifies a system of “democratic centralization.”⁷⁰ In interviews, Enterprise C’s executives repeatedly highlighted the importance of collective decision making and shared governance in mitigating the potential for a unilateral, hierarchical approach.

The inclusion and promotion of non-Party members, including executives recruited openly in Hong Kong, is emblematic of the broader shift towards market-based recruitment and the equal treatment of all candidates, irrespective of political affiliation and connections. For instance, one promoted executive, who was recruited through the open job market rather than through the cadre system, had served as a director and financial executive in multinational and European firms. There appears to be a seamless integration of these executives as their market-driven expertise is valued as much as the Party-aligned vision of other members. In this sense, the composition of the enterprise’s leadership symbolizes the Party’s commitment to market-driven competitiveness and more open personnel appointments.⁷¹ Despite these changes, the Party still dominates the board of directors; however, the real metamorphosis lies in the shifted prioritization of decision making. Under the DHA programme, the Party cell has emerged as the pivotal locus of decision making, symbolizing a more nuanced and participatory approach to balancing Party control with a professional and market-driven framework.

The bifurcation of the SOE leadership into two distinct teams ensures that while market-based imperatives drive the operational aspects of the enterprise, the Party’s directives are not overlooked. While this move introduces a market-oriented management approach, we consider that it is still grounded in the existing principles of “bidirectional entry, cross appointment” (*shuangxiang jinru, jiaocha renzhi* 双向进入 交叉任职) and the “three majors, one big” (*sanzhong yida* 三重一大).⁷² There is still a fine line, and the Party still holds sway over the ultimate strategic decisions and personnel appointments.

Lastly, although the DHA has introduced exciting market-oriented innovations, the nomenclature framework has not been discarded. Nonetheless, it is undeniable that the programme has significantly widened and increased the diversity of the talent pool and has relaxed the decision-making process in the case we studied. Scholars may argue that the continuing existence of Party cells within SOEs, or SOEs with Chinese characteristics, may hinder the performance of those companies and potentially lead to conflicts; however, the business performance of Enterprise C following the implementation of the DHA programme, as measured by its business turnover and annual income shown in Figure 5, indicates that adopting the DHA has been a positive move, although this may be a temporary phenomenon.

Conclusion and Discussion

This study examines the double-hundred action, the most recent policy initiative for SOE reform since 2015, through a case study of Enterprise C, one of over four hundred enterprises selected for the DHE programme. The DHA represents an ambitious effort to revamp the SOE managerial system by replacing the previous inefficient and complex system, based on the Party cadre evaluation system, with a modern, contract-based approach. This shift means that the majority of

69 CCP 2019.

70 Interview, director of Enterprise C, Hong Kong, December 2022.

71 Ibid.

72 CCP 2010; 2015; 2019.

executive positions in SOEs under the DHA programme are no longer filled through the cadre promotion and rotation system, marking a significant transformation in the history of Chinese SOE reform.

Through a case study of Enterprise C and interviews with high-level executives, this paper analyses the first preliminary results of the DHA programme and answers several questions. Our initial findings reveal that executives in Enterprise C strongly support the tenure system reform and endorse the new contract-based system, despite the more stringent annual appraisals and the potential loss of promotion within the cadre system. The unanimous support from within the organization possibly reflects the challenges faced by many Chinese SOEs under previous internally driven and top-down reform approaches. Executives welcome the positive impact of the DHA programme and express a general dissatisfaction with the cadre system and its imposition of mandatory job mobility and unclear performance indicators. It is clear that executives want longer and more stable tenure periods and greater flexibility in business management and operations.

The existing tenure restrictions in SOEs frustrate executives in their ability to plan and implement long-term strategies. The DHA aims to address these concerns by allowing executives to seek reappointment after their job tenure ends and implementing a merit-based, contract-based management system. The data collected during fieldwork indicate that the DHA does create a more stable and motivating work environment, and resulted in improved performance for Enterprise C.

The DHA programme was designed to respond to these internal challenges and address the shortcomings of the tenure system as well as increase organizational flexibility. Our study further suggests that the motivation for promoting the reform is not solely to rescue declining businesses. Rather, the DHA targets enterprises with above-average performance and those which face fierce global market competition.

Second, the assertion that the DHA programme decouples the SOE leadership from the Party cadre system by limiting opportunities for promotion to higher-level government positions should be viewed with caution. While top executive positions are now open to candidates irrespective of their Party membership, Party affiliation is still important. Under the current system, the Party maintains firm control through the appointment of the chair of the board of directors who, along with the board, approves major decisions, including the hiring of top executives. Although the DHA may reduce the share of Party members among top executives under the new contract system, our fieldwork did not reveal any indication that the Party's influence is diminishing.

Finally, while the DHA is widely regarded as the most recent stage in the reform of Chinese SOEs, our fieldwork and interviews indicate the need to be cautious about oversimplifying the reform's framework. The DHA programme neither aims for a complete market-based transformation nor a return to strict Party control. Under the new contract system, top executives' salaries have significantly increased, and business decision making has largely been entrusted to professional managers. However, it was with interest that we noted that many interviewees viewed the reform as a remedy to the trend of excessive marketization.

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