Does Corporate Governance Enhance Common Interests of Shareholders and Primary Stakeholders?

Ninghua Zhong, Shujing Wang & Rudai Yang

Journal of Business Ethics

ISSN 0167-4544

J Bus Ethics
DOI 10.1007/s10551-015-2702-5


Journal of Business Ethics

ONLINE FIRST

Volume 138, No. 3
October (II) 2016

ISSN 0167-4544

ORIGINAL ARTICLES

Continued on back cover

Springer

Springer

J Bus Ethics
DOI 10.1007/s10551-015-2702-5

CrossMark

Does Corporate Governance Enhance Common Interests of Shareholders and Primary Stakeholders?

Ninghua Zhong[1] · **Shujing Wang**[2] · **Rudai Yang**[3]

Received: 22 April 2014 / Accepted: 24 May 2015

Abstract Employing a unique dataset of Chinese non-listed firms, this paper investigates the effects of the presence of 19 governance structures on 20 employees' interest indicators. In general, we find that firms with the governance structures pay workers higher hourly wages, require less monthly working hours, and have a smaller chance of wage arrears. Meanwhile, the shares of total wage and welfare expenditures in total sales revenue are lower in these firms, which results in higher profitability. Moreover, firms with the governance structures invest significantly more into training and provide employees with better fringe benefits. Considering the low labor protection standard and the weak external regulations of China's labor market, we explain the positive findings thusly: corporate governance structures induce managers to adjust wage payments to the "efficiency wage" level, which is the best balance point for the interests of both shareholders and employees and, therefore, for maintaining the stakeholder relationships. We also find the governance structures that give blockholders superpower are negatively associated with employees interests. These results highlight the importance of giving enough discretion to managers in order to successfully find the common ground for creating mutual values for shareholders and employees.

Keywords Corporate governance · Employees' interests · Efficiency wage theory

Introduction

Should corporate governance only take into account the interests of shareholders who supply finance, or should it also be responsible for other stakeholders' interests? Starting with the early literature on governance issues (e.g., Berle 1931; Dodd 1932), a large number of theoretical papers have engaged in this debate.

Remarkably, the issue remains central today. Finance researchers typically regard corporate governance as institutions defending shareholders' interests against managers' opportunistic activities. But, this perspective has been regularly challenged by scholars in economics, business, and society. For example, Tirole (2001), in promoting the stakeholder society concept, argues that managerial decisions on profit maximization also exert externalities on other stakeholders, in particular employees who invest in the employment relationships not only with their human capital but also with their off-work related capital such as housing, spouse employment, schools, and social relationships. Therefore, corporate governance is "the design of institutions that induce or force management to internalize the welfare of stakeholders" (p. 4). Similarly, Van Buren (2001) proposes that stakeholder voices should be included in the corporate governance process, which would enable actual consent to the contracting relationships and responsibilities

✉ Shujing Wang
shujingwang@connect.ust.hk

Ninghua Zhong
ninghua.zhong@gmail.com

Rudai Yang
rdyang@pku.edu.cn

1 School of Economics and Management, Tongji University, 1239 Siping Road, Shanghai 200092, People's Republic of China

2 School of International Finance, Shanghai Finance University, Shanghai 200092, People's Republic of China

3 School of Economics, Peking University, Beijing, People's Republic of China

Published online: 03 June 2015

within a stakeholder network. In essence, these arguments as well as those made in Maren and Wicks (1999) and Blair (1995) all suggest a role assumed by corporate governance in maintaining the stakeholder relationship.

Despite the strong interests of theoretical discussions in the shareholder versus stakeholder perspective of governance, empirical evidence is scarce largely because of the lack of proper data. In reality, does corporate governance induce managers to internalize interests of the primary stakeholder group, which was defined by Clarkson (1995) as "one without whose continuing participation the corporation cannot survive as a going concern" (p. 106)? Are managers in firms with certain governance structure working harder to pursue common interests of both shareholders and primary stakeholders, rather than only focusing on maximizing returns to shareholders? And does the presence of governance structure contribute to the maintenance of stakeholder relationships?

Using a unique dataset, this paper empirically examines these questions, exploring the relationships between corporate governance and employees' interests. The test consists of five parts. (1) Clarkson (1995) emphasizes that, to ensure that each primary stakeholder group continues as part of the corporation's stakeholder system, fairness, and balance in the distribution of increased wealth is necessary. Hence, we study whether and how corporate governance affects the distribution of sales revenue among shareholders (in the form of profits) and employees (in the form of wage and welfare expenditures). For this, we compare the group of firms with and without certain governance structures by the shares of wage, welfare expenditures, and pre-tax profits in total sales. (2) Do governance structures have enhanced key interests of employees, namely, higher hourly wages or lower monthly working hours? (3) Training can benefit both shareholders (as it raises firm productivity) and employees (as it raises their human capital). More important, training that increases employees' asset-specific skills is an important approach to retain workers and to maintain stakeholder relationships. Thus, do governance structures lead to more expenditure on training? (4) Does governance contribute to the continuing participation of employees, preventing them from withdrawing from the corporate system? For this question, we examine the average tenures of workers and clerks in firms with and without governance. (5) Do governance structures improve fringe benefits for employees, such as various insurance coverage, a canteen or a clinic, and severance?

We explore these questions by analyzing firm-level data of 1268 Chinese enterprises. Almost all sample firms are non-listed enterprises. Unlike listed companies that have to obey certain regulations by setting governance, non-listed companies establish governance structures voluntarily. As a result, we observe big variance of sample firms' governance structures, which makes the empirical studies in this paper more meaningful and effective. The data are also unique in that it contains rich information of interests for this paper, in particular, the incidence of 19 internal governance structures, 20 indicators of employee interests, and firm financial performance. The different nature of various corporate governance and that of various employees' interests indicators greatly enriches our analyses on the relationship between the two aspects.

In "Findings" section, we report more than 1100 correlations. We find that, the presence of most corporate governance structures that we examine is strongly associated with better employees' welfare, in particular, higher hourly wages, less monthly working hours, and a smaller chance of wage arrears. Furthermore, the shares of total wage and welfare expenditures in total sales revenue are lower in firms with these governance structures, which results in higher profitability. These positive results are mainly from governance that enhances information disclosure and that increases formalization of the CEO's contract and the firm charter.

These results are more vividly illustrated by the following graphs. Compared with firms that do not hire external auditors (Fig. 1), firms that do so (Fig. 2) provide higher average hourly wages for employees; moreover, the correlation between hourly wage and profitability is more positive in these firms, which is reflected by the much larger slope (i.e., more than three times) and the much larger R^2 value (i.e., more than five times) of the fitted line. If we compare firms in which the firm charters do not contains specific terms regarding decision process (Fig. 3) with firms whose charters contain them (Fig. 4), we can get similar findings.

Wages and profits are competing in the distribution of total sales revenue. These graphs suggest that corporate governance reconciles the conflicts between wages and profitability. We explain the positive findings as that these corporate governance structures induce managers to adjust wage payments to the "efficiency wage" level. As this level of wages fully releases the reserves of human

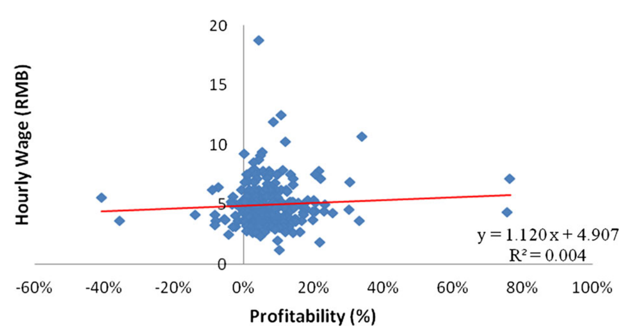

Fig. 1 Firms without external auditor

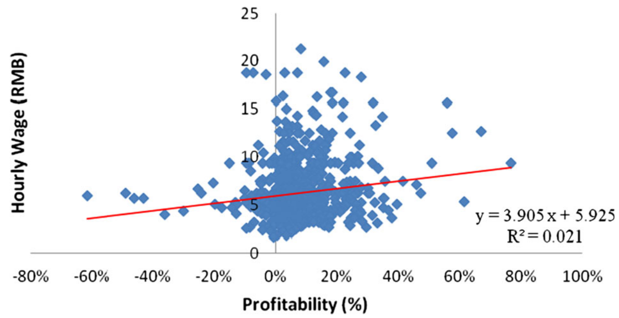

Fig. 2 Firms with external auditor

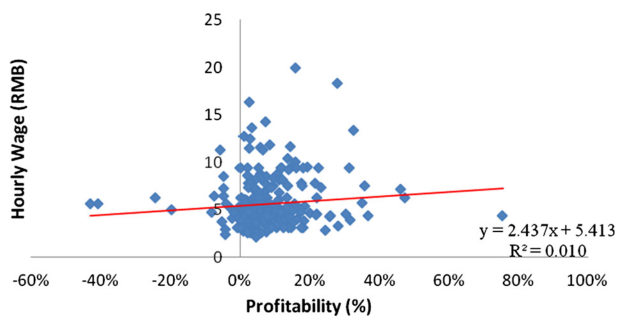

Fig. 3 Firms without terms of decision process

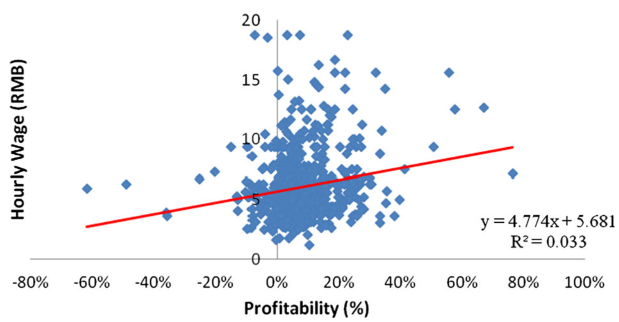

Fig. 4 Firms with terms of decision process

resources, it is the best balance point for the interests of both shareholders and employees and thus for maintaining the stakeholder relationships.

Meanwhile, our analyses also indicate the importance of enough discretion that managers have in order to successfully find the best balance point. We get this implication first from the feature of China's labor market in which the sample firms operate. As introduced in "Data and Institutional Background" section, labor protection standard in China is low. Legal stipulations on employees' interests are minimum, whereas violations of labor laws and even serious labor issues are common. Since external regulations are weak, managers of sample firms have very wide discretions in treating their employees and are also more likely to successfully implement the "efficiency wage" approach—to enhance firm productivity and profitability by raising wages. If, however, the external labor markets are featured with already high labor protection, high payoff standards or other labor market rigidities as in many developed economies, it is impossible for managers to enhance mutual benefits of shareholders and employees by this approach.

The second source of evidence indicates the importance of giving enough discretion to managers: among the 19 governance structures that we examine, we find that two structures regarding board functioning relate to worse employees' interests. They are the largest shareholder having the veto right and the board of directors employing the voting rule of one share one vote instead of one shareholder one vote. The main results are illustrated by Figs. 5, 6, 7, and 8. Compared with firms without the veto

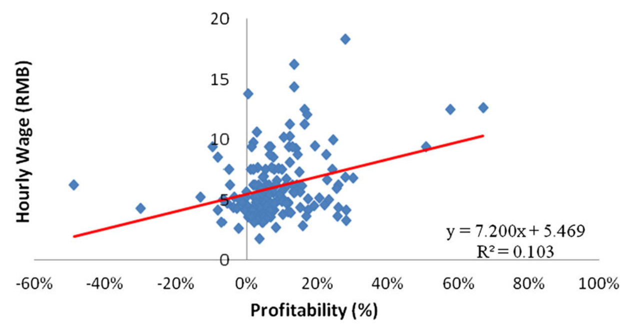

Fig. 5 Firms without veto right

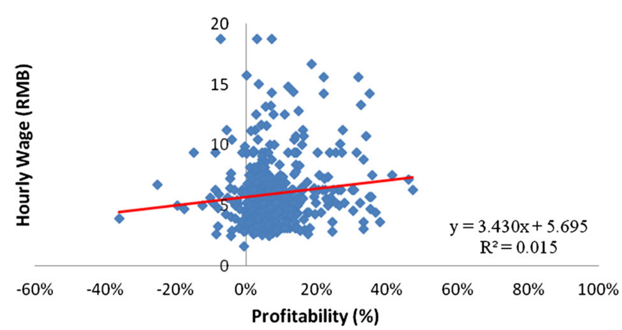

Fig. 6 Firms with veto right

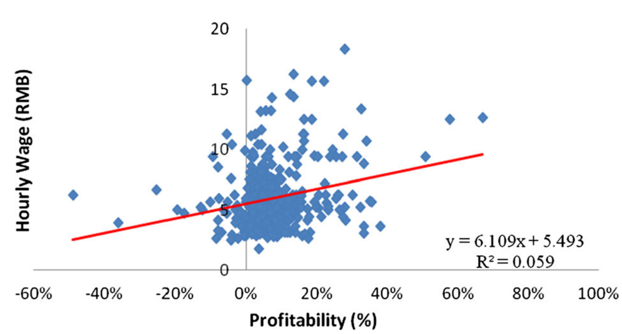

Fig. 7 Firms with one shareholder one vote

right (Fig. 5), firms with the veto right (Fig. 6) pay a lower average hourly wage and have a much smaller correlation between wages and profitability (i.e., less than half). Moreover, profitability of firms with the veto right span over a narrower area (i.e., −36–47 %) compared with firms without the veto right (i.e., −49–68 %). The cutoff for the upside chance of profitability in the firms with the veto right is significant. We get similar findings when comparing firms employing one shareholder one vote (Fig. 7) with firms employing one share one vote (Fig. 8). Both the veto right and the one share one vote rule give blockholders big power. Hence, we interpret these negative findings in that managers are restricted by the superpower of the blockholders, thus they lack the room for "trial and error" that is necessary for them to find the optimal level of wages that also benefit shareholders.

Except for the effects on the key interests of employees, such as wages, we also find that firms with most of the 19 governance structures invest significantly more into trainings and provide employees with better fringe benefits. Although both trainings and fringe benefits could be regarded as part of the "wages" so that the arguments of "efficiency wage" can be similarly applied to explain these findings, the strongly positive results on trainings carry extra implications for the maintenance of the stakeholder relationships. Calton and Lad (1995) argue that "professional managers … must have discretionary authority within the hierarchy to resolve by 'fiat' the complex problems that arise from the interaction of participants.… Among these problems are … 'asset specificity'" (p. 276). As discussed in "Reviews of Related Theoretical Discussions" section, employees can be discouraged to develop skills for the specific assets of their firms, which prevents them from fully participating in the stakeholder relationships. One solution for this problem is for the manager to organize asset-specific trainings. The skills that employees acquire not only prepare them to join the production process that the stakeholder relationship is set for, but also provide them the "stake" to become real stakeholders. In this sense, our findings highlight the role of corporate governance in providing managers with proper discretions and incentives to invest in trainings, echoing both the words of Calton and Lad (1995) and our previous emphasis on enough managerial discretion.

Furthermore, given the importance of training and the need to retain workers with asset-specific skills, one might expect that the positive effects of corporate governance on maintaining stakeholder relationships is stronger for more technology- and knowledge-intensive firms. This is indeed what we find. Figures 9 and 10 follow Fig. 4 and examine the correlations between hourly wage and profitability in firms in which their charter contains specific terms about the decision process. Figure 9 reports the data of firms in the textile industry that employ mainly low-skilled workers for standardized production; while Fig. 10 reports firms in the pharmaceutical industry that are more knowledge-intensive. Clearly, corporate governance plays a much stronger role in pharmaceutical firms, as reflected by the more positive correlation between wage and profitability in Fig. 10.

Based on these major findings, this study answers two main questions posed at the beginning, which are also our potential contributions. First, in reality, does governance affect primary stakeholders' interests? We provide evidence showing that strong correlations do exist between the two aspects. Second, does governance affect employees' interests positively or negatively? We find that most of the

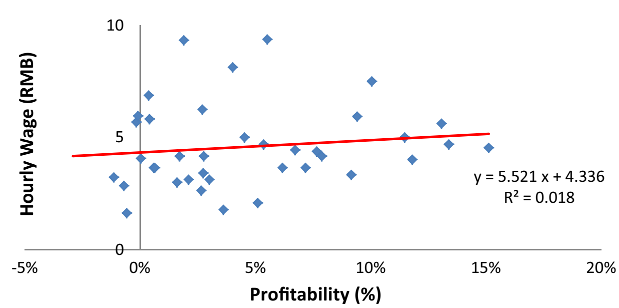

Fig. 9 Firms with terms of decision process and in textile industry

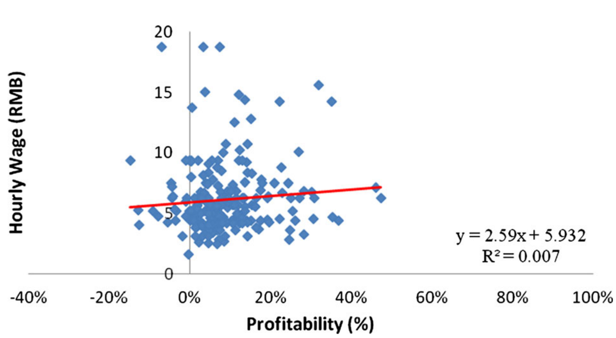

Fig. 8 Firms with one share one vote

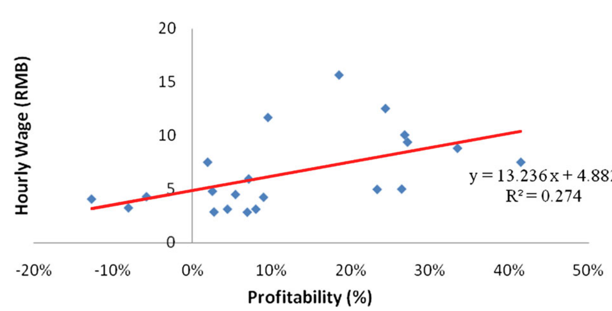

Fig. 10 Firms with terms of decision process and in pharmaceutical industry

19 governance structures that we examine have positive effects, especially on trainings that provide employees asset-specific skills as the basis of their "stakes." Meanwhile, we also find strong negative effects of governance structures that give blockholders superpower. Applying the efficiency wage theories to China's labor market, the paper presents an explanation for the major positive findings. It highlights the effects of corporate governance in motivating managers to reconcile the conflicts between wages and profits. We believe that our results and arguments can be applied to non-listed firms in some other developing countries where external labor protection is weak. For the negative findings regarding blockholders' superpower, we highlight the importance of enough discretion given to managers in order for them to successfully find the common ground for creating mutual values of shareholders and employees.

In general, the empirical findings that we obtain lend support to the idea that corporate governance induces or forces managers to internalize interests of primary stakeholders in pursuing the profit maximization target. As such, it is noteworthy that, our study is still grounded in (a broad version of) agency theory and has not addressed the full range of stakeholder theory, partially because of some empirical reasons discussed in "Reviews of Related Theoretical Discussions" section. Moreover, our empirical study by nature only answers the positive question of "does corporate governance really affect the interests of stakeholders?" but is not able to answer the normative question of "should governance take into account of stakeholders' interests?" Having said this, however, we hope the mechanism that this study empirically illustrates (i.e., governance induces managers to implement efficiency wages in the context of weakly regulated labor markets) could provide useful reference for future theoretical discussions and development. In particular, Goodpaster (1991) suggests that the paradox of stakeholder problem arises from two different approaches to "stakeholder synthesis." If non-owner stakeholders are treated as external constraints that must be manipulated, then managerial agents of shareholder interests are engaged in "business without ethics." However, if managers try to fulfill their "multifiduciary" responsibilities to all stakeholders, they may be practicing "ethics without business." Although we largely agree with these statements, our study indicates the room in which governance may reconcile such conflicts in some contexts.

Finally, for practitioners, especially those in developing countries, our results carry two suggestions. First, setting up sound corporate governance with respect to information disclosure, financial transparency, formal CEO contracts, and a formalized firm charter can benefit both shareholders and primary stakeholders. Second, undue power held by blockholders could both reduce the managers' incentives and ability to evenly distribute the increased wealth and lead to primary stakeholders' withdrawing the corporate system. Related to this point, in the final section, we make some preliminary discussions on the power structure, which is fundamental to the relationships between governance and employees' interests. We claim that the enhancement of mutual benefits is more likely to be achieved in firms with a more balanced power structure. By this claim, we are sympathetic to the argument by Kelly (2002) that the corporate social responsibility movement needs to focus more on "system design… to craft new structures of power—structures where power is wielded not by the few but by the many" (pp. 11–12).

Next, in "Reviews of Related Theoretical Discussions" section, we review some related theoretical discussions, especially those on the approaches through which managers can enhance the interests of both shareholders and primary stakeholders.

Reviews of Related Theoretical Discussions

Profit Maximization or Stakeholders' Welfare Maximization?

The classical view of corporate governance refers to the defense of shareholders' interests. This approach is reflected in the definition from a survey by Shleifer and Vishny (1997) that "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (p. 737). However, some theoretical studies argue for "stakeholder society" (i.e., Tirole 2001) and propose that management choose what's best for society. Thus, instead of maximizing profits, "management should aim at maximizing the sum of the various stakeholders' surpluses" (p. 24). Nonetheless, these studies also acknowledge the difficulties in implementing this proposal, which include, among others, the unavailability of a measure of aggregate stakeholders' welfare, managerial confusion, the complicity of designing managerial incentives to pursue multiple missions, and inefficiency. In particular, the lack of a measure of stakeholders' welfare almost denies the possibility of a direct empirical examination.

Considering these challenges, in this paper we examine the effects of corporate governance on stakeholders' interests within the traditional framework of profit maximization. This approach is taken not only because such a proposal is directly testable, as profit, and wages are already there, but also because the single target of pursuing profit is in the interest of stakeholder society as a whole. Specifically, we want to empirically examine *whether and* *what kinds of corporate governance induce managers to internalize interests of employees in the profits maximization pursuit, seeking common ground to enhance interests of both shareholders, and primary stakeholders*. However, we need to admit that being confined to this narrow perspective strongly limits the contribution of this study to the building of stakeholder theory.

Underlying our perspective, we share an opinion of Chilosi and Damiani (2007) that a serious issue of the classical corporate governance perspective is "the dominance of financial over productive considerations" (p. 5). Indeed, shareholders provide finance and initiate the business, but they do not participate in the production process that directly affects the profit maximization process. Similar to studies such as Konzelmann et al. (2006), we believe that taking into account interests of participants in the production process could enhance interests for shareholders. Below, we detail the reasons for this claim.

Can Managers Enhance Common Interests of Shareholders and Employees?

The interests of shareholders, mainly in the form of retained profits, are directly competing with the interests of employees, mainly wages, and other welfare expenditures. Given the total revenues of sales of a certain period, the larger the share of wages and welfare to be distributed to employees, the smaller the share of retained profits attributable to shareholders. Catering to shareholders, managers can simply cut down wages and welfare so that retained profits are improved. However, managers can also enhance shareholders' interests by enhancing employees' interests through raising wages, organizing trainings, enhancing fringe benefits, and so on. This approach works for the following three reasons.

First, efficiency wage theory suggests that as long as monitoring labor performance is costly, introducing extra income can induce profit-maximizing efforts from workers. If the firm raises the wage above the market standard, workers are willing to put extra efforts in the future production or sale process to safeguard the current position, which results in improved productivity. As long as the rise in the common interests (i.e., sales revenue) is larger than the rise in wage, retained profits increase and shareholders benefit.

Second, employees can choose to make some firm-specific investments, for example, studying and improving their firm's specific technology, or developing connections in the internal organizations. These kinds of investments enhance productivity and finally benefit shareholders. However, they are risky investments in that their values would be significantly discounted if the employee left the firm. On this issue, social exchange theory (i.e., Blau 1955)[1] indicates that high wages and decent welfare may motivate existing workers to make these investments, which is a payback to their generous employers. As discussed previously, another way to solve such problem of "asset-specificity" is for managers to organize trainings.

In essence, the first and second arguments both agree with Becht et al. (2003), who argue that since "contracts engaging the corporation with parties other than shareholders are generally incomplete … to guarantee efficiency it is necessary to take into account explicitly the interests of other constituencies" (p. 9).

Third, decent payments and welfare can also attract high-quality workers to join the firm's stakeholder system. In the past decades, human capital and knowledge/technology, which are the products of human capital, are gradually replacing physical capital as the most valuable asset (Zingales 2000). With this changing nature of modern firms, the ability to attract talent is perhaps as important as the ability to attract financial and physical capital in determining whether a firm can capture future growth opportunities. Therefore, well-designed rewards to employees that attract talent are important for the sustainable development of firms and for long-term benefits of shareholders.

So, there is room for managers to pursue common interests of both shareholders and employees, in which the key is to release the "untapped reserves of 'human resourcefulness' by increasing employee commitment, participation and involvement" (Blyton and Turnbull 1992, p. 4). For this target, it is crucial to find the balance points, such as the right level of wage and welfare expenditures and the right amount of training provisions. But realizing these targets would take managers great efforts—efforts that are also mentioned by studies such as Tirole (2001) and Chilosi and Damiani (2007).

This study wants to empirically test whether corporate governance induces managers to internalize interests of employees in pursuing profits. If this occurs in reality, we should observe that firms with the governance structure are significantly different from firms without the governance in employees' welfare; moreover, mutual benefits of shareholders and employees are enhanced in firms with the governance. Subsequently in "Data and Institutional Background" section, we introduce a unique dataset that we use to test the hypothesis, and we also present institutional background regarding recent changes of labor market and corporate governance development in China.

[1] Blau's model of exchange hypothesizes that there will be equivalent rewards net of costs on both sides of an exchange.

Data and Institutional Background

The Data

Our data come from a survey initiated and sponsored by the International Finance Corporation (IFC) of the World Bank Group, and jointly conducted by the National Bureau of Statistics of China (NBS), and China Center for Economic Research (CCER) of Peking University in the spring of 2006. The survey, titled "The Sustainability of the Private Sector in China," was conducted on 1268 firms in 12 Chinese cities (from north to south): Changchun, Dandong, Chifeng, Beijing, Shijiazhuang, Xi'an, Zibo, Chongqing, Shiyan, Wujiang, Hangzhou, and Shunde. The choice of the 12 cities was based on the principle of representation rather than on randomness.

The NBS was commissioned to carry out the survey. In each city, around 100 firms were selected randomly from the firms that had annual sales volume of more than five million Yuan, only firms above this level does NBS include in its database. A stratified sampling strategy was adopted to select the sample firms. The first stratum was firm ownership. Firms were divided into three categories: state-owned enterprises, domestic private enterprises, and foreign-invested enterprises. The shares of these three categories of firms in a city were used in the sampling. The second stratum was firm size, which also included three categories: large, medium, and small firms. The definitions of these three size categories were the same as those used by the NBS in its routine statistics, which were defined by the State Economic and Trade Commission (SETC 2003). The shares of firms of the three size categories in a city were used in the sampling. Using this sampling strategy, the survey obtained a representative sample for the 12 cities, covering in total 1268 sample firms. Among them, 124 are state-owned enterprises, 811 are domestic private enterprises, and the remaining 333 are foreign-invested enterprises.

The local offices of China's NBS administered a questionnaire completed by the firm managers. Training was provided before the survey. The questionnaire was designed by researchers in CCER. The questions related to firms' corporate social responsibility awareness and performance in labor protection, corporate governance, quality control, and environmental protection. There were also questions about market conditions and external finance. In addition, the NBS provided data for the sample firms' employment, fixed assets, profits and taxes, and sales income for the period of 2002–2005. In 2005, the mean of sample firms' employment is 743 persons, and the mean of total sales revenue is 365 million yuan (about US$45 million). In firms of such a size, management typically enjoys a considerable degree of autonomy.

The questionnaires were completed by the firm managers. Some sections were answered by department managers and others by the CEO. One could be worried about biased self-reporting. To mitigate this concern, first the managers were informed before the survey that information of individual firms would be confidential to academic researchers and would not be accessed by either governments or business agencies except for the NBS. Managers were also informed that the data would be used only in academic works. So, there were no specific reasons that a certain type of firm would be inclined to give a certain biased report. Second, at the end of each section of the questionnaire, the survey asked the managers to estimate the conditions in other local firms. For example, the survey asked each firm to report whether they provided written contracts to their employees; then it asked them to estimate "Among other local firms in your industry, is it common for them to sign contracts with their employers? 1 = few; 2 = some; 3 = very common." By aggregating and comparing the answers from the two sources, one can get a rough sense on the seriousness of self-report biases. The work done by Shen and Yao (2009) finds that answers from different sources are generally quite consistent. Finally, this dataset has been used by several published papers that examine correlations between various firm aspects (e.g., Yao and Zhong 2013; Yang and Yao 2012; Xu and Yang 2010). If the managers have been careless in filling out the survey questionnaires and thus the data are very noisy, these papers (as well as this one) would not be able to find some strong correlations that are highly consistent with correspondent theoretical predictions. Based on these reasons, we believe that the self-report biases are not a big concern and that the data are largely reliable.

The data include detailed information of both employees' interests and corporate governance. Before analyzing the data, we introduce some institutional background and present some summary statistics regarding the two aspects.

Weak Labor Protection in China

In the past two decades, dramatic changes have happened in China's labor market. First, the enterprise reform has privatized most state-owned enterprises (SOEs); the private economy grows fast which now contributes more than two-thirds of China's industrial value-added. This has led to a dramatic switch from the state sector to the private sector in urban employment. In 1988, the state sector's share in employment was 70 %; but in 2008, the private sector's share became 77 % (MLSS 2009). The other major event was the influx of migrant workers from the countryside, which has further changed the employment relations in China's urban sectors. Since 1998, an average of 8.7

million migrant workers were added to the urban labor force each year (NBS 2010). Migrant workers do not have the local *hukou*, or residential registration, and thus are often treated with conditions inferior to those of local workers. Many local pension regulations, medical care policies, and employment practices discriminate against migrant workers. For this reason, companies often use migrant workers instead of local workers.

Accompanying those dramatic changes was a period of informalization (or casualization) of the workplace. "Informalization" refers to the phenomenon of substituting informal employment, such as temporary, seasonal, casual, and part-time or hourly paid work, for formal employment. Between the mid-1990s and mid-2000s when SOE privatization was at its highest point, policy makers and academics advocated for informal employment as an effective way to absorb laid-off workers (Cooke 2011). However, not having been effectively regulated by law, informalization of employment relations has weakened labor protection of both informal and regular workers (Friedman and Lee 2010).

In the past decade, there have been mounting spontaneous worker protests in China, including wildcat strikes (such as the strike in one of the Honda subsidiaries in 2010), sit-ins in foreign-owned factories, and street protests by laid-off workers. According to statistics from the Ministry of Public Security, the number of "mass incidents" rose dramatically, from 15,000 in 1990 to 74,000 in 2007. Even more serious labor issues have occurred in recent years, in particular the seventeen consecutive suicides at Foxconn, one of the world's largest original equipment electronics manufacturers, with major clients such as Apple.

Under such an environment, firms have large discretion in deciding the payments and treatment toward employees, with violation of *Labor Law* being common. The *Labor Law* has detailed stipulations on regular working hours, overtime, and wage payments for overtime. For example, Article 36 stipulates that regular working hours should not be more than 8 h a day and 44 h a week. Article 41 stipulates that overtime normally should not exceed 1 h a day; under special circumstances when production is urgent, overtime can be extended to 3 h a day, but should not exceed 36 h a month. Despite these stipulations, large variations exist in the sample firms' actual practices. The lowest average hourly wage paid by the sample firms for blue-collar workers[2] is merely 1.19 yuan. The highest, in contrast, reaches 51.25 yuan, while the average hourly pay is 5.90 yuan. The dataset also include information of monthly working hours. The average working hours is 181 h. However, the most demanding firm asks its employees to work for 336 h a month, or more than 80 h a week.[3] In contrast, the lowest requirement is just 80 h of work in a month.[4]

These analyses suggest how weak external labor market in China has disciplined internal employee relations. On such a market, it is easier for firms to expropriate employees' interests. But, it is also less costly to implement the "efficiency wage" approach. If employees are treated better in a firm, they are likely to work harder; as they know the bad situation and low payment practices that exist in other firms should they leave. In this paper, we examine whether corporate governance can induce managers to pursue such a policy.

Corporate Governance of Chinese Non-listed Firms

Along with its large scale of privatization process and its efforts to develop modern financial markets, China has made significant strides in improving its corporate governance standard. Since the early 2000s, related government agencies have issued various laws, rules, and regulations; among them the most notable is the 2002 *Code of Corporate Governance for Listed Companies*. Almost all of those laws regulate listed companies or companies preparing to go public. For a more detailed introduction of the reform, readers can refer to a survey by the Centre for Market Financial Integrity Institute (CFA Institute 2007) or one by the Organization for Economic Co-operation and Development (OECD 2006).

Yet, except for 56 firms, most of our sample firms are non-listed companies. Although non-listed firms constitute the majority of Chinese firms, we know relative little about their business and governance practices. In particular, we are aware of few literatures quantitatively describing their governance adoptions. Below, we highlight several features regarding these firms' external and internal governance, which are far from being comprehensive. To begin with, Chinese non-listed firms face almost no external takeover

[2] The survey asked managers about the average monthly wages of white-collar and blue-collar workers and their monthly working hours. We obtain average hourly wages by dividing average monthly wages by monthly working hours. In this paper, we only report the wages and working hours of the blue-collar workers because they consist of the bulk of the employees. The average wage of blue-collar workers and that of white-collar workers are highly correlated. Their correlation is 76.4 %, with 1232 observations and at the 1 % significance level.

[3] This high number is not abnormal. Chan and Siu (2010) conducted a survey in 2006 in a toy factory and a garment factory that provided supplies to Wal-Mart Stores Inc. and found that the average monthly working hours of their sample workers were 302 h.

[4] This is a smelting plant in Jining. It is not like an idle plant because its monthly wage is 900 yuan per worker, which is 85 % of the average monthly wage in the sample.

threats because of an underdeveloped market for corporate control in China. Neither are institutional investors or a stock price boost a concern for these firms, unlike public firms.

These firms' internal governance practice is mainly subject to the *Company Law of the People's Republic of China*, which was issued in 1993 and revised in 1999 and again in 2004. Compared with the number of regulations for governance of Chinese public firms, the number for non-listed firms is very limited. Furthermore, as in the case of China's *Labor Law*, despite detailed stipulations in *Company Law* on governance establishment, Chinese companies may not obey them because the legal enforcement is weak. For example, Article 45 stipulates that "limited liability companies should set up a board of directors, which consists of three to thirteen members." In our sample, we can identify 511 firms organized in the business form of limited liability. Among them, 378 (74 %) have set up a board of directors, and 133 (26 %) have not. This proportion echoes comments in several related reports (e.g., Liu 2006) that, China started its governance reform in an environment where most important elements characterizing a sound institutional infrastructure (e.g., well-defined legal system, efficient regulatory agencies, and rigorous law enforcement) are missing.

However, a limited number of stipulations and weak enforcement do not imply that Chinese non-listed firms try to avoid setting up internal governance. Comparing governance of non-listed firms in Europe and in the United States, McCahery and Vermeulen (2008) suggest that the lack of a specific legal regime governing close corporations does not matter, as firms are able to modify and adapt their governance structures sufficiently.[5] Similarly, Chinese non-listed firms have their own incentives to develop internal governance. A survey of IFC noted that, as Chinese businessmen seek not just domestic leadership but global giants in their business, a growing number of them show willingness and desire to improve their governance practices to attract international investors (IFC 2005). Furthermore, based on findings from the same data with this paper, Zhong (2015)[6] claims that depending on the level of agency problems, corporate finance features, exposure to foreign products market, manager education level, and employees' power, the payoffs of governance adoption are different for sample firms that determine their observable governance set up.

The survey contains information of 19 governance structures that are all binomial variables. They all favor protecting investors and reducing managers' discretion. Detailed definitions of the 19 structures are introduced in Table 1. They are divided into four categories, namely, information disclosure and financial transparency (Panel 1-1), formalization of the CEO's contract (Panel 1-2), a board of directors and its functioning (Panel 1-3), and a firm charter and its contents (Panel 1-4). In "Findings" section, we find that different kinds of governance structures have different relationships with indicators of employees' interests. It is noteworthy that all these structures are not set up to enhance employees' power or welfare, unlike governance such as the numbers of employee representatives in the board or directors. Thus, it is interesting to find strong correlations between these structures and employees' interests.

Columns 1 and 2 of Table 2 further report the number of observations and the mean value of these measures. The presence of various governance structures varies significantly. For example, 89 % of sample firms have a firm charter, whereas only 40 % of them have set a specified length on their CEO's contract. This finding confirms that, as on the decision of paying employees, sample firms have large discretions on establishing governance structures. Shen and Yao (2009, Chap. 7) and Zhong (2015) provide more detailed descriptions of sample firms' governance structures from the perspectives of ownership, size, region, and so forth.

Findings

In this section, we present major empirical findings regarding the relationship between the 19 governance structures and the 21 indicators of employees' interests. We compare the mean of "With the Governance" group with that of "Without the Governance" group on employees' interests, focusing on whether the differences are statistically significant. We rely on basic summary statistics, rather than on regression analyses. This reliance is for two reasons. First, our analyses are based on more than 1100 correlations that are to be presented in Tables 2, 3, 4, and 5. Much more space is needed should they be presented in regressions. Second, in previous versions of this paper, we have conducted hundreds of regressions with a rich set of specifications and have found very robust effects of governance structures on employees' interests. For statistical

[5] They argue that corporate law in Europe makes it more difficult and costly for "close corporations"—a smaller corporation whose shareholders and directors are able to operate much like a partnership—to avoid onerous legal requirements as compared to the United States. But they continue to argue that the proliferation of close corporations suggests that ultimately, firms are able to sidestep these difficulties with relative ease so that corporate law is, in this context, trivial (p. 32).

[6] Zhong (2015) presents and tests seven hypotheses regarding the differences of governance between domestic private firms (DPEs) that were transformed from SOEs and DPEs that have not experienced privatization, thereby providing detailed discussions on the factors affecting governance development of Chinese non-listed firms.

Table 1 Definition of corporate governance measures

	Takes value 1 if …
Panel 1-1 information disclosure and financial transparency	
External_audit (0,1)	The firm hires external auditors
Balance_sheet (0,1)	The firm provides shareholders with an audited financial balance sheet
Regular_report (0,1)	The firm regularly reports to shareholders on important operating and strategic decisions
Risk_disclosure (0,1)	The firm regularly estimates the potential large risks, informs shareholders, and takes proper actions
Share_conference (0,1)	The firm holds a shareholders conference at least once a year
Panel 1-2 CEO contract	
CEO_contract (0,1)	The company signs a written contract with its CEO
CEO_tenure (0,1)	The length of the CEO's contract is specified
Panel 1-3 board and its functioning	
Board of directors (0,1)	The firm sets up a board
(The following three variables have values conditional on a board being set up.)	
One_share_one_vote (0,1)	The voting rule taken by the board is one share one vote, and value 0 if the rule is one shareholder one vote
Veto (0,1)	The largest shareholder has the veto right
Board_conference	The firm holds a board conference at least once a year
Panel 1-4 firm charter and its contents	
Charter (0,1)	The firm has a charter
(1) Decision processes	Conditional on a firm having a firm charter, these dummies indicate whether the charter contains the following aspects (1_Yes, 0_No): (1) decision processes; (2) internal transactions (e.g., shares transfer); (3) information disclosure; (4) profit allocation; (5) financial management; (6) manager assignment; (7) ways of dispute resolution
(2) Internal transactions	
(3) Information disclosure	
(4) Profit allocation	
(5) Financial management	
(6) Managers assignment	
(7) Dispute resolution	

significance (i.e., ignore the estimated magnitude), the findings from simple methods of comparing group means and those from sophisticated econometric models are largely similar. Interested readers are welcome to check the consistency.[7]

Distribution of Increased Wealth

The testing on the major hypothesis includes five parts. To start, we examine whether and how corporate governance affects firms' distribution of increased wealth, that is, total sales revenues. Clarkson (1995) argues that "The economic and social purpose of the corporation is to create and distribute increased wealth and value to all its primary stakeholder groups, without favoring one group at the expense of others" (p. 112). He continues by writing that "managers are accountable for fulfilling the firm's responsibilities to its primary stakeholder groups. This means that managers must resolve the inevitable conflicts between primary stakeholder groups over the distribution of the increased wealth created by the corporation" (p. 112).

In the spirit of these words, we study three shares in the total sales, namely, *Wage/Sale, Welfare/Sale,* and *Pre-tax profit/Sale. Wage* is the total wage expenditure of the year, including salaries, bonuses, and overtime payments. *Welfare* includes not only total wage, but also welfare expenditures. The latter is money spent for supporting collective employee facilities such as a clinic, a pubic bath, or a library in the factory; for special supports for needy families; and for purchasing holiday welfare benefits for employees. *Pre-tax profit* is the sum of total profits and total taxes. For the sample firms, the mean of *Wage/Sale, Welfare/Sale,* and *Pre-tax profit/Sale* is 7.0, 7.9, and 7.6 %, respectively.

The means of the three shares of the two groups are reported in columns 3–5 and 9–11 in Table 2. First, the

[7] Here is the website of a previous version: http://www.lepp.zju.edu.cn/upload/2013-05/13053119175200.pdf.

presence of eight governance structures is strongly related to a *lower* share of total wage and share of total welfare expenditures. Among them, *Regular_report, Risk_disclosure*, *Share_conference*, *Board of directors,* and *Information_disclosures* are all structures enhancing information disclosure to shareholders; *Veto* directly enhances the power of the largest shareholders. Next, the presence of four governance structures is significantly related to *higher* pre-tax profitability. In particular, *Regular_report* and *Risk_disclosure* are associated with an 1 % reduction in the share of total welfare expenditures and with an increase in profitability of almost the same amount. These results suggest that, when forced to provide shareholders with adequate information or when the blockholders have big power, managers tend to adjust the share of sales revenue distributed to employees downward, thereby retaining more profits for shareholders.

Key Employee Interests

Next, we want to break down the governance effects on the share of wage in sales by examining hourly wage and working hours. Unlike share of wage in sales, hourly wage or monthly wage is directly evaluated by workers. Equity theory in social psychology (i.e., Adams 1963) indicates that workers have a conception of a fair wage; if their actual wage falls short of their fair wage, they withdraw their efforts. "When people do not get what they deserve, they try to get even," write Akerlof and Yellen (1990, p. 256). We examine here whether governance affects *Hourly wages* and *Monthly working hours,* two indicators introduced previously in "Weak Labor Protection in China" section to highlight the large variation of sample firms' treatment of employees. We also include the occurrence of *Wage arrears* that happened in the firm in recent years. Wage arrears are common in China's labor markets, especially for migrant workers, and often lead to open street protests. To avoid protests, the government pays strong attention to wage arrears. China's former Premier Wen Jiabao even personally helped a female worker get her back wages.

The comparisons are presented in column 6–8 and 12–14 in Table 2. On 11 governance structures, firms with the governance pay *higher* hourly wage; seven structures are related to significantly *less* working hours in a month; furthermore, the presence of seven structures reduces the chance of wage arrears significantly. On the contrary, the largest shareholder having veto right (*Veto*) and firm charter containing specific provisions of *Profit allocation* are related to *longer* monthly working hours.

Together with previous findings on sales revenue distribution, these results suggest that (1) for most of the governance structures examined, firms with the governance pay workers a higher hourly wage, and meanwhile the firms reduce working hours and wage arrears. Considering the weak external regulations of China's labor market, these results suggest that employees' interests are improved by the presence of these governance structures. (2) These improvements are in line with the principle of "efficiency wage;" specifically, to pay employees higher and on time can probably increase employees' willingness to work harder and to reduce working hours is also a way to enhance efficiency. (3) Although the hourly wage is increased, the working hours are reduced, which causes a decline in the share of total wage in sales revenue and a boost in profitability. In brief, these results present evidence that these governance structures are inducing managers to pursue common interests of both the shareholders and the primary stakeholders by adjusting wage rate, working hours, and distribution of sales revenue toward the optimal point, thus supporting the hypothesis of this paper.

Meanwhile, we also find that the presence of *Veto* right does not generate the efficiency wage. Firms with the *Veto* right distribute significantly lower share of sales revenue to employees, nevertheless, they do not obtain higher profitability. These results seem to indicate adverse effects of superpower of blockholders not only for stakeholders but also for themselves.

Training

Training expenditures are a special kind of investment decision. For employees, training improves their skills, their knowledge, or, in general, their human capital. For shareholders, training can improve labor productivity and raise profitability if the costs of training are smaller than benefits. Some studies (e.g., Bontis and Serenko 2007) indicate that successful organizations constantly enhance employee capability, job satisfaction, and commitment through a variety of training and development programs. More important, Clarkson (1995) argues that claimed rights or interests of stakeholders are "the result of transactions with, or actions taken by, the corporation" (p. 106). Providing employees with the basis of the "stakes," training investments are such kind of actions that managers can take to strengthen stakeholders' claimed rights. If our hypothesis is correct, we expect to find that firms with sound corporate governance spend more on training for their employees.

We employ four measures of trainings. They include (1) whether a firm has *A training plan (0, 1)*, (2) whether it organizes *Pre-post training (0, 1)* to enhance workplace safety, (3) the *No. of trainings* organized annually, and (4) *Training fees* that are the answers received from the question about a firm's share of training expenditures in its sales, with 1–4 indicating below 0.1, 0.1–0.2, 0.3–0.5, and

Table 2 Effects of corporate governance on distribution of sales revenue and key indicators of employees' interests

Column	Obv.	Mean	With the governance						Without the governance					
			Total wage/ sales	Total welfare/ sales	Pre-tax profit/ sales	Hourly wage (RMB)	Monthly working hours	Wage arrears (0,1)	Total wage/ sales	Total welfare/ sales	Pre-tax profit/ sales	Hourly wage (RMB)	Monthly working hours	Wage arrears (0,1)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Panel 1-1 information disclosure and financial transparency														
External_audit (0,1)	1226	0.77	0.071	0.079	0.078	6.223***	178.3	0.129	0.068	0.076	0.074	4.966	189.8***	0.225***
Balance_sheet (0,1)	1169	0.8	0.068	0.076	0.081**	6.012***	180.4	0.14	0.075	0.084	0.064	5.274	184.7**	0.206***
Regular_report (0,1)	1149	0.82	0.067	0.075	0.081***	5.882**	180.5	0.142	0.077**	0.086**	0.061	5.486	185.4**	0.208***
Risk_disclosure (0,1)	1175	0.57	0.067	0.075	0.086***	6.255***	177.8	0.123	0.075**	0.085**	0.064	5.46	185.2***	0.196***
Share_conference (0,1)	1262	0.63	0.067	0.076	0.078	5.839	180.7	0.137	0.076**	0.085***	0.073	6.024	181.3	0.177*
Panel 1-2 CEO contract														
CEO_contract (0,1)	1159	0.51	0.066	0.074	0.081	6.110***	179	0.144	0.073*	0.082*	0.072	5.662	184.2***	0.165
CEO_contractlength (0,1)	1148	0.4	0.074**	0.084**	0.085**	6.351***	176.9	0.15	0.067	0.074	0.071	5.569	184.7***	0.162
Panel 1-3 board and its functioning														
Board of directors (0,1)	1169	0.71	0.068	0.076	0.078	6.06***	179.8	0.138	0.075*	0.084*	0.073	5.51	184.7**	0.193***
One_share_one_vote (0,1)	684	0.33	0.066	0.074	0.088	6.116	178.3	0.124	0.07	0.079	0.076	5.956	180.4	0.133
Veto (0,1)	715	0.76	0.067	0.076	0.08	5.944	181.1***	0.139	0.076*	0.085*	0.085	6.057	175.2	0.138
Board_conference (0,1)	753	0.65	0.069	0.078	0.082	5.79	178.5	0.135	0.069	0.078	0.081	6.698***	180.5	0.129
Panel 1-4 firm charter and its contents														
Charter (0,1)	1236	0.89	0.07	0.079	0.076	5.96**	180.8	0.146	0.066	0.074	0.07	5.372	183	0.201*
(1) Decision process (0,1)	1115	0.73	0.07	0.078	0.078	6.067**	180.3	0.144	0.071	0.079	0.078	5.548	182.6	0.144
(2) Internal transactions (0,1)	1108	0.44	0.066	0.074	0.08	5.976	181.5	0.137	0.073**	0.082*	0.076	5.888	180.4	0.151
(3) Information disclosure (0,1)	1110	0.43	0.066	0.074	0.078	6.108*	181	0.139	0.073*	0.081*	0.078	5.792	180.8	0.15
(4) Profit allocation (0,1)	1114	0.69	0.069	0.077	0.08	5.937	182.1**	0.142	0.072	0.081	0.074	5.919	178.1	0.15
(5) Financial management (0,1)	1115	0.8	0.07	0.079	0.078	5.98	181	0.14	0.067	0.075	0.075	5.717	180.3	0.159
(6) Managers assignment (0,1)	1113	0.75	0.069	0.078	0.079	6.070**	180.3	0.144	0.071	0.08	0.075	5.519	182.8	0.145
(7) Ways of disputes solving (0,1)	1096	0.57	0.067	0.075	0.073	6.04	180.1	0.139	0.073	0.082	0.084*	5.779	181.8	0.155

Significance levels of differences in means of the two groups are indicated by ***, **, and * for 1, 5, and 10 %, respectively; stars are marked on the group with higher values

above 0.5 %, respectively. Moreover, we include the *Accident rate* that is the workplace per-thousand-worker accident rates. This addition is to see whether the training is at a basic level aimed at avoiding accidents or is at a more advanced level.

The results are reported in columns 1–5 and 8–12 in Table 3. The differences of the two groups on training are very obvious, especially on the measure of having *A training plan* and the share of *Training fees* in total sales. In contrast, no single result shows that firms without certain governance perform significantly better on training than firms with governance. If the board of directors employs the *One share one vote* rule, the firm has a much smaller *No. of trainings* organized annually; but this result is only marginally significant. Moreover, there are few results on the differences of *Accident rate*, which indicates that more training organized by firms with these governance structures are not just for workplace safety concerns. These findings present quite strong evidence that governance induces managers to put much more emphasis on training, supporting our hypothesis that governance promotes common interests.

Average Tenures

One major benefit of managers' focusing on common interests rather than only on shareholders' interests is to keep stakeholders' continual participation or to avoid stakeholders' withdrawing from the current stakeholder relationships. High turnover rates of employees usually significantly increase firms' operation costs because finding suitable new workers and training them are often costly. On the contrary, employees' expectations of long-term participation in a firm would encourage them to make firm-specific investments. To measure the continual participation, we use the average tenures of workers and clerks. In sample firms, the mean of an average worker's tenure is 6.3 years and that of a clerk's is 7.1 years.

The comparisons of group means are reported in columns 6–7 and 13–14 in Table 3. The correlations between corporate governance and average tenures are mixed. On five governance structures, firms with the governance have *longer* tenures. But on four governance structures, including *Veto, Share_conference, Profit allocation,* and *Charter,* firms *without* the governance have longer tenures. Recall previous findings that both *Veto* and *Share_conference,* which enhance shareholders' power, are related to *lower* shares of wage and welfare expenditures in total sales revenues. And then recall that both *Veto* and provisions of *Profit allocation* being included in the firm charter, which strongly restrict managerial discretion, are related to *longer* workers' monthly working hours. One tentative conclusion we may reach is that, if shareholders are too powerful and hence managers do not have enough discretion, employees' interests could be hurt, which results in a larger chance of them quitting and thereby ending the current stakeholder relationships. In the following analyses, we find more negative impacts of *Veto* on employees' interests.

Fringe Benefits

Finally, we examine some fringe benefits such as the coverage of various kinds of insurance and severance benefits. Some standard compensation wage theories (e.g., Rosen 1986) predict that workers will match the mix of wages and fringe benefits with their preference in their decisions on job choices and labor supply, indicating that fringe benefits also affect employees' participation in the stakeholder relationships. So, if our hypothesis is correct, we expect to find that firms with certain governance provide employees with better fringe benefits.

We examine the following eight measures. *Pension Coverage*, *Accident Insurance,* government-sponsored *Medical Insurance,* and *Unemployment Insurance* are all variables whose values range from 1 to 5, representing the coverage of less than 20 , 20–40, 40–60, 60–80, and 80–100 %, respectively. S*everance payment* is reported as a share of monthly salary, with 1–4 denoting, respectively, 0–20, 20–50, 50–100, and over 100 %. Time of *Advance informing* is reported on the following scale: 1–1 week, 2–2 weeks, 3–1 month, and 4–more than 1 month. Finally, we include the existence of *A Canteen* and *A Clinic* in the firm.

The comparisons are reported in Table 4, strongly supporting our hypothesis. On most of the 19 structures, firms with the governance provide significantly better fringe benefits. However, if the largest shareholder holds the *Veto* right, the firm significantly cuts down the coverage of various insurance and has a *lower* chance of setting up a clinic. *Profit allocation* is also negatively related to *A Clinic.* Furthermore, the board of directors employing the *One share one vote* rule significantly reduces the chance of setting up a canteen.

Discussion: How Does Corporate Governance Function?

The previous results present quite strong evidence that corporate governance is strongly associated with both employees' interests and firm profitability. The positive results are mainly from governance that enhances information disclosure (i.e., those included in Panel 1-1 in Table 1) and from governance that enhances formalization of the CEO's contract (i.e., Panel 1-2) and the firm charter (i.e., Panel 1-4). On the contrary, *Veto* is strongly related to

Table 3 Effects of corporate governance on trainings and average tenures

Column	With the governance							Without the governance						
	A training plan	No. of trainings	Pre-post training	Training fees	Accident_ rates	Tenure_ workers	Tenure_ clerks	A training plan	No. of trainings	Pre-post training	Training fees	Accident_ rates	Tenure_ workers	Tenure_ clerks
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Panel 3-1 information disclosure and financial transparency														
External_audit (0,1)	0.917***	5.149*	0.982***	1.594***	6.436	6.664***	7.454***	0.631	2.808	0.918	1.361	9.524**	5.069	5.75
Balance_sheet (0,1)	0.902***	5.057	0.983***	1.59***	7.29	6.035	6.825	0.642	3.159	0.901	1.374	9.479	6.288	7.009
Regular_report (0,1)	0.889***	4.815	0.98***	1.567***	7.54	5.859	6.657	0.667	3.856	0.901	1.402	8.076	6.568	7.343
Risk_disclosure (0,1)	0.922***	5.645**	0.985***	1.669***	7.699	6.417	7.146	0.758	3.131	0.946	1.369	7.518	6.168	6.966
Share_conference (0,1)	0.890***	5.033	0.98***	1.564	8.451*	5.68	6.479	0.785	3.808	0.947	1.5	5.981	7.377***	8.051***
Panel 3-2 CEO contract														
CEO_contract (0,1)	0.896***	5.18	0.978**	1.575*	6.889	6.541**	7.302**	0.8	4.057	0.957	1.498	8.569	5.732	6.498
CEO_contractlength (0,1)	0.918***	6.078**	0.976	1.632***	6.354	7.255**	8.141***	0.803	3.656	0.961	1.485	8.364	5.45	6.139
Panel 3-3 board and its functioning														
Board of directors (0,1)	0.898***	5.163***	0.978	1.575**	8.154	6.113	6.899	0.739	3.45	0.944	1.472	6.616	6.518	7.258
One_share_one_vote (0,1)	0.897	3.745	0.982	1.587	8.002	6.812**	7.585*	0.907	5.902	0.985	1.605	8.461	5.82	6.671
Veto (0,1)	0.895	4.942	0.981	1.597	7.91	5.87	6.666	0.929	5.642	0.983	1.539	7.902	7.165***	8.037***
Board_conference (0,1)	0.896	5.757*	0.988	1.63	8.032	6.635***	7.413***	0.924	4.504	0.969	1.539	8.043	5.329	6.089
Panel 3-4 firm charter and its contents														
Charter (0,1)	0.880***	4.829	0.969	1.559***	7.856	6.076	6.826	0.617	2.479	0.957	1.397	5.118	7.452**	8.078**
(1) Decision process (0,1)	0.897***	5.137	0.971	1.566	6.999	6.361	7.051	0.809	3.917	0.953	1.517	8.662	6.026	6.972
(2) Internal transactions (0,1)	0.896***	5.549	0.971	1.623***	7.124	5.995	6.767	0.854	4.258	0.962	1.496	7.643	6.518	7.269
(3) Information disclosure (0,1)	0.913***	5.764	0.973	1.588	7.134	6.11	6.768	0.842	4.108	0.961	1.526	7.635	6.413	7.249
(4) Profit allocation (0,1)	0.88	4.94	0.963	1.557	7.236	5.926	6.698	0.856	4.561	0.973	1.539	7.84	7.098***	7.826***
(5) Financial management (0,1)	0.891***	4.787*	0.971	1.557	7.183	6.194	6.976	0.797	5.005	0.948	1.526	8.516	6.613	7.272
(6) Managers assignment (0,1)	0.895***	4.777***	0.973	1.556	7.322	6.276	7.025	0.803	5	0.944	1.541	7.804	6.315	7.084
(7) Ways of disputes solving (0,1)	0.901***	5.13	0.972	1.572	7.841	6.011	6.822	0.839	4.471	0.959	1.529	6.965	6.637	7.357

Significance levels of differences in means of the two groups are indicated by ***, **, and * for 1, 5, and 10 %, respectively; stars are marked on the group with higher values

Table 4 Effects of corporate governance on fringe benefits

Column	With the governance							
	Pension coverage 1	Accident_insurance 2	Medical_insurance 3	Unemploy_insurance 4	Severance payment 5	Advance informing 6	A canteen 7	A clinic 8
Panel 4-1 information disclosure and financial transparency								
External_audit (0,1)	3.765***	4.166***	3.385***	3.580***	2.779***	2.638***	0.853***	0.254***
Balance_sheet (0,1)	3.655***	4.100***	3.215***	3.433***	2.729***	2.586***	0.859***	0.240*
Regular_report (0,1)	3.607***	4.051***	3.156***	3.376***	2.698***	2.556***	0.854***	0.233
Risk_disclosure (0,1)	3.698***	4.111***	3.291***	3.487***	2.799***	2.722***	0.855***	0.278***
Share_conference (0,1)	3.634***	4.077 **	3.167	3.341	2.714***	2.544	0.858***	0.218
Panel 4-2 CEO contract								
CEO_contract (0,1)	3.799***	4.108***	3.360***	3.561***	2.796***	2.705***	0.836	0.263***
CEO_contractlength (0,1)	3.894***	4.186***	3.461***	3.713***	2.795***	2.830***	0.851	0.273***
Panel 4-3 board and its functioning								
Board of directors (0,1)	3.729***	4.097***	3.277***	3.477***	2.776***	2.615***	0.857***	0.24
One_share_one_vote (0,1)	3.695	3.991	3.34	3.538	2.697	2.716***	0.791	0.284
Veto (0,1)	3.686*	4.027	3.169	3.301	2.775	2.467	0.858	0.224
Board_conference (0,1)	3.766	4.12	3.322	3.577	2.735	2.642	0.859	0.255
Panel 4-4 firm charter and its contents								
Charter (0,1)	3.596***	4.072***	3.154***	3.369***	2.691***	2.561***	0.853***	0.226
(1) Decision process (0,1)	3.662***	4.087**	3.199***	3.404**	2.741*	2.619***	0.849	0.227
(2) Internal transactions (0,1)	3.715***	4.167***	3.21	3.37	2.787**	2.612	0.870**	0.222
(3) Information disclosure (0,1)	3.757***	4.222***	3.310***	3.479**	2.744	2.608	0.859	0.252
(4) Profit allocation (0,1)	3.566	4.083*	3.134	3.303	2.71	2.579	0.855	0.21
(5) Financial management (0,1)	3.582	4.058	3.144	3.323	2.704	2.587*	0.849	0.223
(6) Managers assignment (0,1)	3.655***	4.105***	3.195***	3.420***	2.756***	2.607***	0.855*	0.23
(7) Ways of disputes solving (0,1)	3.638*	4.117**	3.233***	3.354	2.779***	2.587	0.858*	0.217
Column	Without the governance							
	Pension coverage 9	Accident_insurance 10	Medical_insurance 11	Unemploy_insurance 12	Severance payment 13	Advance informing 14	A canteen 15	A clinic 16
Panel 4-1 information disclosure and financial transparency								
External_audit (0,1)	2.75	3.498	2.217	2.429	2.264	2.163	0.776	0.155
Balance_sheet (0,1)	2.958	3.546	2.533	2.716	2.323	2.204	0.762	0.189
Regular_report (0,1)	2.912	3.582	2.518	2.657	2.341	2.194	0.766	0.222
Risk_disclosure (0,1)	3.289	3.838	2.811	3.002	2.433	2.27	0.798	0.172

Table 4 continued

Column	Without the governance							
	Pension coverage 9	Accident_insurance 10	Medical_insurance 11	Unemploy_insurance 12	Severance payment 13	Advance informing 14	A canteen 15	A clinic 16
Share_conference (0,1)	3.355	3.89	3.003	3.248	2.525	2.483	0.791	0.246
Panel 4-2 CEO contract								
CEO_contract (0,1)	3.176	3.829	2.76	2.955	2.473	2.323	0.827	0.185
CEO_contractlength (0,1)	3.225	3.818	2.793	2.951	2.525	2.313	0.822	0.186
Panel 4-3 board and its functioning								
Board of directors (0,1)	3.054	3.742	2.625	2.834	2.396	2.318	0.786	0.199
One_share_one_vote (0,1)	3.802	4.167	3.264	3.449	2.799	2.52	0.870***	0.226
Veto (0,1)	3.918	4.291**	3.516***	3.920***	2.732	2.899***	0.832	0.297*
Board_conference (0,1)	3.738	4.128	3.205	3.375	2.893	2.603	0.834	0.23
Panel 4-4 firm charter and its contents								
Charter (0,1)	2.938	3.46	2.661	2.721	2.299	2.214	0.7	0.237
(1) Decision process (0,1)	3.268	3.872	2.894	3.162	2.576	2.389	0.829	0.242
(2) Internal transactions (0,1)	3.422	3.912	3.039	3.296	2.616	2.514	0.824	0.235
(3) Information disclosure (0,1)	3.408	3.888	2.972	3.229	2.651	2.518	0.834	0.213
(4) Profit allocation (0,1)	3.543	3.906	3.086	3.429	2.659	2.514	0.818	0.278***
(5) Financial management (0,1)	3.476	3.932	3.035	3.443	2.667	2.431	0.826	0.264
(6) Managers assignment (0,1)	3.242	3.788	2.878	3.08	2.517	2.409	0.81	0.235
(7) Ways of disputes solving (0,1)	3.45	3.907	2.977	3.314	2.585	2.518	0.82	0.241

Significance levels of differences in means of the two groups are indicated by ***, **, and * for 1, 5, and 10 %, respectively; stars are marked on the group with higher values

worse employees' interests and lower average tenures but *not* to higher profitability. Based on these results, we provide some additional discussions here on two specific channels through which most of the corporate governance that we examine in this study leads to enhanced common interests of both shareholders and employees. One is through preventing managers from pursuing cupidity. The other is through employees' collective opinions being formed and transmitted. We do admit, however, that our explorations on the specific channels are very preliminary and are limited by both our data and the space of this paper.

Public Policy and Private Cupidity

Part of our previous test is to see whether corporate governance affects distribution of increased wealth. Regarding this point, Berle and Means (1932) argue that managers should become "a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity" (p. 356). Corporate governance such as a firm charter containing detailed provisions clearly defines the "public policy." Governance structures with respect to information disclosure and financial transparency further guarantee the "public policy" is well implemented. Hence, these structures prevent managers from pursuing "private cupidity" and induce them to balance "a variety of claims."

It is well documented that entrenched managers pursue private benefits at the expense of firm profitability. For example, Jensen and Meckling (1976) suggest that managers are building an empire in sales volume. A larger size would bring managers more power, a higher reputation, and a bigger influence on the production markets, but it would also take the firm away from the point of maximized profitability. Moreover, entrenched managers may spend more money on advertisement or on building up market power, which involves less money being allocated to employees' interests. To check whether these arguments explain the effects of governance on both profitability and employee interests, we examine the sample firms' growth rates from 2002–2005 in five operating aspects. They include employment, fixed assets, EBT (earnings before tax, or the sum of profits and taxes), sales income, and total welfare expenditures. We study growth rates, which are the values in 2005 divided by those in 2002.

The results are reported in columns 1–3 and 7–9 of Table 5. They show that some governance structures of information disclosure and firm charter are related to *lower* sales growth, *higher* growth of profits, and *higher* growth of total welfare expenditures. There are few results on the growth rates of fixed asset and employment, which are not reported here for the sake of space. These findings suggest that managers in firms without these governance structures are likely to pursue personal objectives by expanding the size of their business through sales, which hurts both profits and employee welfare expenditures, whereas a firm charter with detailed provisions and adequate information disclosure prevents managers from doing so.

Collective Voice

Given the pluralist nature of stakeholder problems, they are best addressed dialogically. As such, Calton and Payne (2003) advocate multistakeholder dialog as a means to cope with the paradox of interdependent relations. Specific to the primary stakeholders of employees, Freeman and Lazear (1994) show that institutional arrangements such as the supervisory board and workers councils enhance the efficiency of German firms by permitting the flows of communications between management and workers. Following our theoretical discussions in "Reviews of Related Theoretical Discussions" section, the collective voice of workers being easily communicated to management would largely facilitate the searching process of the "efficiency wage." Thus, one channel through which corporate governance may enhance common interests is that of facilitating the collective option of employees being formed and transmitted.

To check this idea, we examine the relationships between corporate governance with the dummy indicating the existence of *Collective bargaining*. Freeman and Evan (1990) argue that the "right to bargain" is implicit in the stakeholder theory of the firm. In developed economies, collective bargaining is viewed as the most important way to increase workers' wages (e.g., Blair and Crawford 1984). In China, the latest version of the *Labor Contract Law* stipulates, "The employees of an enterprise may get together as a party to negotiate with their employer to conclude a collective contract on the matters of remuneration, working hours, breaks, vacations, work safety and hygiene, insurance, benefits, etc. The draft of the collective contract shall be presented to the general assembly of employees or all the employees for discussion and approval" (Article 51), and "The labor union shall assist and direct the employees when they conclude with the employers and fulfill labor contracts and establish a collective negotiation mechanism with the employers so as to maintain the lawful rights and interests of the employees" (Article 6). In reality, management has begun to settle work-related issues through collective bargaining, and wage negotiations have created a greater degree of immediate interest among workers (Lee 2009). For example, Chan (2009) documents tangible fruits that have been gained in the collective bargaining process, although

Table 5 Channels of governance effects and determinants of governance

Column	With the governance						Without the governance					
	Sale growth 0205	EBT growth 0205	Welfare growth 0205	Collective bargaining	No. of block Holder	Unionization	Sale growth 0205	EBT growth 0205	Welfare growth 0205	Collective bargaining	No. of block Holder	Unionization
	1	2	3	4	5	6	7	8	9	10	11	12
Panel 5-1 information disclosure and financial transparency												
External_audit (0,1)	2.193	2.275	3.292	0.553***	2.235	0.723***	4.413***	5.057	4.09	0.472	2.074	0.586
Balance_sheet (0,1)	2.249	3.345	3.556	0.555***	2.333***	0.711***	4.338**	0.829	2.725	0.397	1.669	0.614
Regular_report (0,1)	2.169	3.31	3.575	0.549***	2.335***	0.705***	4.993***	1.016	2.969	0.555	1.601	0.711
Risk_disclosure (0,1)	2.39	3.499	4.641***	0.6***	2.272	0.705	3.004	1.714	2.021	0.447	2.122	0.675
Share_conference (0,1)	2.217	3.487	3.427	0.543	2.501***	0.703	3.18	1.394	3.41	0.512	1.442	0.673
Panel 5-2 CEO contract												
CEO_contract (0,1)	2.073	1.831	3.013	0.572***	2.310*	0.712**	3.29	3.952	3.238	0.481	2.134	0.659
CEO_contractlength (0,1)	2.033	3.904	3.096	0.564***	2.267	0.748**	3.166	1.913	3.736	0.500	2.191	0.646
Panel 5-3 board and its functioning												
Board of directors (0,1)	2.223	2.999	3.255	0.546*	2.396***	0.732***	3.612	1.903	2.757	0.488	1.697	0.6
One_share_one_vote (0,1)	2.21	2.016	3.286	0.565	2.455	0.731	2.286	4.649	2.467	0.546	2.438	0.732
Veto (0,1)	2.316	4.266	2.73	0.546	2.41	0.726	2.006	0.26	3.087	0.560	2.553	0.805**
Board_conference (0,1)	2.345	4.438	2.653	0.589***	2.598***	0.732	1.974	1.597	4.266	0.480	2.104	0.785
Panel 5-4 firm charter and its contents												
Charter (0,1)	2.702	2.932	3.538	0.537	2.263***	0.704***	1.686	1.203	2.635	0.493	1.697	0.604
(1) Decision process (0,1)	2.218	3.195	3.671	0.542	2.26	0.716***	3.961*	1.715	2.599	0.509	2.181	0.641
(2) Internal transactions (0,1)	2.15	4.439**	4.389*	0.541	2.495***	0.738***	3.046	1.553	2.68	0.531	2.007	0.664
(3) Information disclosure (0,1)	2.293	4.625**	5.137***	0.538	2.353**	0.741***	2.868	1.585	2.228	0.531	2.128	0.666
(4) Profit allocation (0,1)	2.297	3.713*	3.72	0.527	2.356***	0.712*	3.349	0.969	2.799	0.550	1.884	0.661
(5) Financial management (0,1)	2.277	3.409	3.619	0.539	2.274*	0.703	4.025*	0.629	2.654	0.527	2.043	0.712
(6) Managers assignment (0,1)	2.173	3.427	3.732	0.538	2.298**	0.714***	4.160**	0.848	2.37	0.522	2.016	0.637

Table 5 continued

Column	With the governance						Without the governance					
	Sale growth 0205	EBT growth 0205	Welfare growth 0205	Collective bargaining	No. of block Holder	Unionization	Sale growth 0205	EBT growth 0205	Welfare growth 0205	Collective bargaining	No. of block Holder	Unionization
	1	2	3	4	5	6	7	8	9	10	11	12
(7) Ways of disputes solving (0,1)	2.23	3.545	4.335**	0.555*	2.343***	0.708	3.141	1.888	2.218	0.502	2.053	0.678

Significance levels of differences in means of the two groups are indicated by ***, **, and * for 1, 5, and 10 %, respectively; stars are marked on the group with higher values

collective bargaining often just reiterates the minimum standards promised by law.

In sample firms, 53 % have collective bargaining. Columns 4 and 10 in Table 5 show that nine governance structures are significantly related to a *higher* chance of *Collective bargaining* being allowed. They include *Ways of dispute solving* being contained in the firm charter and a *Board of directors* and the board holding a conference at least once a year (*Board_conference*). These governance structures possibly provide an outlet for employees to express their collective voice.

Future Avenues of Inquiry: Power Structure

By and large, corporate governance reflects how power is allocated inside a firm (Zingales 1998). So, the power structure of a firm should be an important determinant for its corporate governance and is a fundamental factor affecting the relationships between corporate governance and employees' interests. The relationship between power structure and corporate governance is already mentioned in the literature. For example, Gray and Wood (1991) note the need to illuminate the "power dynamics" that affect the formation of rules and the distribution of gains within a network of stakeholders. Furthermore, Calton and Lad (1995) argue that, to build up trust among the stakeholder network participants, "an equitable resolution of the problem of unequal power" is required. A detailed discussion on this issue is far beyond the scope of this paper. Here at the end of this paper, we present some preliminary discussion and evidence. Hopefully, they carry some implications for future study.

With regard to the power structure, first, columns 5 and 11 of Table 5 examine the relationships between governance structures and the *Number of Blockholders* who hold more than 10 % of the company shares. The measure is positively correlated with the presence of 13 governance structures. The rationale behind the strong correlations is probably that more large shareholders cause a bigger free rider problem for monitoring managers, which requires a higher level of governance being set up.

Apart from shareholders' power, we could also fairly assume that employee power is likely to affect the evolution of corporate governance. To the best of our knowledge, existing related evidence is mainly from Germany. For example, it is found by Jackson et al. (2004) that, employee representation in governance bodies such as the board of directors improves the quality of accounting documents and fiscal transparency. To check the relationship between employee power and governance in our sample, we employ a dummy indicating the presence of a labor union (*Unionization*). A trade union is one of the "institutions that have evolved to represent and further the interests of stakeholders," and it has worked to reduce the "information asymmetry" existing between managers and stakeholders (Hill and Jones 1992, pp. 140–141). Recent empirical studies, such as Lu et al. (2010), Yao and Zhong (2013), and Ge (2014), all find that Chinese unions have a significant effect on improving workers' welfare; and some case studies, such as Zhang (2009), find that Chinese workers do use unions for their own gains. Thus the presence of a union indicates stronger employee power in Chinese firms. Columns 6 and 12 in Table 5 shows that *Unionization* is significantly associated with the presence of 11 governance structures; on the contrary, a firm with the largest shareholder's *Veto* right has a significantly lower chance of *Unionization*. These results echo words of Becht et al. (2003) that "sharing control with employees can be achieved by letting employees participate in share ownership of the company, by giving them board representation, or by strengthening their bargaining power through, say, increased unionization" (p. 29).

Taken together, results of *Number of Blockholders* and *Unionization* provide two indications. First, powerful employees are likely to, for their own sake, promote information disclosure and formalization. Second, in these non-listed firms, large shareholders' absolute power weakens employees' power, whereas relatively more dispersed ownership facilitates the set up of governance that enhances employees' interests.[8] The latter statement, if extended, is related to some previous arguments, such as the integration of ethical concerns into management decisions can be achieved with the help of communication among stakeholders in undistorted conditions (Shrivastava 1986). One tentative conclusion we may draw, which ends this paper, is that managers are more likely to enhance common interests of both shareholders and employees in firms with a more balanced power structure.

Acknowledgments We thank the Section Editor Thomas Clarke, two anonymous referees, Sudipto Dasgupta, Vidhan Goyal, Mark Seasholes, and seminar participants at Hong Kong University of Science and Technology for helpful comments. We are also grateful to the research fund provided by Natural Science Foundation of China (with Grant number 71402123), the National Social Science Foundation of China (with grant number 13&ZD015), Shanghai Pujiang Program (with Grant number 14PJC104), the Fundamental Research Funds for the Central Universities (with Grant number 1200219243), and Shanghai Institute for National Economy at Shanghai Jiaotong University.

[8] Note that this argument may well apply only to non-listed firms that generally have concentrated ownership structure. Some studies on listed firms reach the opposite conclusion. For example, based on qualitative case studies on seven UK listed companies, Deakin et al. (2002) claim that "prevailing patterns of dispersed share ownership and rules of corporate governance appear to constrain the ability of managers to make credible, long-term commitments to employees of the kind needed to foster effective labor-management partnerships" (p. 335).

References

Adams, J. S. (1963). Toward an understanding of inequity. *Journal of Abnormal and Social Psychology, 67*(November), 422–436.

Akerlof, G. A., & Yellen, J. L. (1990). The fair wage-effort hypothesis and unemployment. *The Quarterly Journal of Economics, 105*(May), 255–283.

Becht, M., Bolton, P., & Röell, A. (2003). Corporate governance and control. In G. M. Constantinides, M. Harris, & R. M. Stulz (Eds.), *Handbook of the economics of finance* (Vol. 1, pp. 1–109). Atlanta: Elsevier.

Berle, A. A. (1931). Corporate powers as powers in trust. *Harvard Law Review, 44*, 1049–1074.

Berle, A. A., & Means, G. C. (1932). *The modern corporation and private property*. New York: McMillan. **1934 (republished)**.

Blair, M. (1995). *Ownership and control: rethinking corporate governance for the 21st century*. Washington, DC: Brookings Institution.

Blair, D. H., & Crawford, D. L. (1984). Labor union objectives and collective bargaining. *The Quarterly Journal of Economics, 99*(3), 547–566.

Blau, P. M. (1955). *The dynamics of bureaucracy: A study of interpersonal relations in two government agencies*. Chicago: Chicago University Press.

Blyton, P., & Turnbull, P. (1992). Debates, dilemmas and contradictions. In P. Blyton & P. Turnbull (Eds.), *Reassessing human resource management* (pp. 2–15). London: Sage Publications.

Bontis, N., & Serenko, A. (2007). The moderating role of human capital management practices on employee capabilities. *Journal of Knowledge Management, 11*(3), 37–51.

Calton, J. M., & Lad, L. J. (1995). Social contracting as a trust-building process of network governance. *Business Ethics Quarterly, 5*(2), 271–295.

Calton, J. M., & Payne, S. L. (2003). Coping with paradox. *Business and Society, 42*(1), 7–42.

CFA Institute. 2007. China Corporate Governance Survey. Retrieved from http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2007.n3.4563.

Chan, A., & Siu, K. (2010). Analyzing exploitation: The mechanisms underpinning low wages and excessive overtime in Chinese export factories. *Critical Asian Studies, 42*(2), 167–190.

Chan, A. (2009). Challenges and possibilities for democratic grassroots union elections in China. *Labor Studies Journal*, *34*(3), 293–317.

Chilosi, A., & Damiani, M. (2007). Stakeholders vs. shareholders in corporate governance. *Icfai Journal of Corporate Governance, 6*, 7–45.

Clarkson, M. B. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. *The Academy of Management Review, 20*(January), 92–117.

Cooke, F. (2011). Labour market regulations and informal employment in China: To what extent are workers protected? *Journal of Chinese Human Resource Management, 2*(2), 100–116.

Deakin, S., Richard, H., Suzanne, K., & Frank, W. (2002). Partnership, ownership and control: The impact of corporate governance on employment relations. *Employee Relations, 24*(3), 335–352.

Dodd, M. (1932). For whom are corporate managers trustees? *Harvard Law Review, 45*(7), 1145–1163.

Freeman, E., & Evan, W. (1990). Corporate governance: A stakeholder interpretation. *Journal of Behavioral Economics, 19*(4), 337–359.

Freeman, R. B. & Lazear, E. P. (1994). *An economic analysis of work councils*. National Bureau of Economic Research Working Paper no. 4918, Cambridge, MA.

Friedman, E., & Lee, C. K. (2010). Remaking the world of Chinese labour: A 30-year retrospective. *British Journal of Industrial Relations, 48*(3), 507–533.

Ge, Y. (2014). Do Chinese unions have 'real' effects on employee compensation? *Contemporary Economic Policy, 32*(1), 187–202.
Goodpaster, K. (1991). Business ethics and stakeholder analysis. *Business Ethics Quarterly, 1*, 53–73.
Gray, B., & Wood, D. (1991). Collaborative alliances: moving from practice to theory. *Journal of Applied Behavioral Science*, *27*(1), 3–21.
Hill, C., & Jones, T. (1992). Stakeholder-agency theory. *Journal of Management Studies, 29*(2), 131–154.
IFC (International Finance Corporation). (2005). *Step by step corporate governance models in China*. Retrieved from http://documents.worldbank.org/curated/en/2005/04/6479832/step-step-corporate-governance-models-china-experience-international-finance-corporation.
Jackson, G., Höpner, M., & Kurdelbusch, A. (2004). *Corporate governance and employees in Germany: Changing linkages, complementarities and tensions*. RIETI Discussion Paper Series 04-E-008, http://www.rieti.go.jp/jp/publications/dp/04e008.pdf.
Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360.
Kelly, M. (2002). The next step for CSR: Economic democracy. *Business Ethics, 3*, 305–360.
Konzelmann, S., Conway, N., Trenberth, L., & Wilkinson, F. (2006). Corporate governance and human resource management. *British Journal of Industrial Relations, 44*(3), 541–567.
Lee, C. H. (2009). *Industrial relations and collective bargaining in China*. DIALOGUE Working Paper No. 7. Geneva: International Labour Organization.
Liu, Q. (2006). Corporate governance in China: Current practices, economic effects and institutional determinants. *CESifo Economic Studies, 52*(2), 425–453.
Lu, Y., Tao, Z., & Wang, Y. (2010). Union effects on performance and employment relations: Evidence from China. *China Economic Review, 21*(1), 202–210.
Marens, R., & Wicks, A. (1999). Getting real: Stakeholder theory, managerial practice and the general irrelevance of fiduciary duties owed to shareholders. *Business Ethics Quarterly, 9*(2), 273–293.
McCahery, Joseph A., & Vermeulen, Erik P. M. (2008). *Corporate governance of non-listed companies*. Oxford: Oxford University Press.
MLSS (Ministry of Labor and Social Security). (2009). *Almanac of labor and social security (Zhongguo laodong he shehui baozhang tongji nianjian)*. Beijing: China Statistical Press.
NBS (National Bureau of Statistics). (2010). *China Statistical Yearbook*. Beijing: China Statistical Press.
OECD (Organization for Economic Cooperation and Development). (2006). *Corporate governance of non-listed companies in emerging markets*. Retrieved from http://www.oecd.org/corporate/ca/corporategovernanceprinciples/37190767.pdf.
Rosen, S. (1986). The theory of equalizing differences. In *Handbook of labor economics* (Vol. 1, pp. 641–92). Distributed in North America, New York: Elsevier.
SETC. (2003). *Tentative standards for small and medium enterprises*. SETC document no. 143, SME Department.
Shen, Y., & Yao, Y. (2009). *CSR and competitiveness in China*. Beijing: Foreign Languages Press.
Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *Journal of Finance, 52*(2), 737–783.
Shrivastava, P. (1986). Is strategic management ideological? *Journal of Management, 12*, 363–377.
Tirole, J. (2001). Corporate governance. *Econometrica, 69*(1), 1–35.
Van Buren, H. J. (2001). If fairness is the problem, is consent the solution? Integrating ISCT and stakeholder theory. *Business Ethics Quarterly, 11*(3), 481–500.
Xu, S., & Yang, R. (2010). Indigenous characteristics of Chinese corporate social responsibility conceptual paradigm. *Journal of Business Ethics, 93*, 321–333.
Yang, X., & Yao, Y. (2012). Environmental compliance and firm performance: Evidence from China. *Oxford Bulletin of Economics and Statistics, 74*(3), 397–424.
Yao, Y., & Zhong, N. (2013). Unions and workers' welfare in Chinese firms. *Journal of Labor Economics, 31*(3), 633–667.
Zhang, X. (2009). Trade unions under the modernization of paternalist rule in China. *WorkingUSA: The Journal of Labor and Society, 12*(2), 193–218.
Zhong, N. (2015). Corporate governance of Chinese privatized firms: Evidence from a survey of non-listed enterprises. *Journal of Comparative Economics*. doi:10.1016/j.jce.2015.05.003.
Zingales, L. (1998). Corporate Governance. In Peter Newman (Ed.), *The new palgrave dictionary of economics and the law*. London: Stockton Press.
Zingales, L. (2000). In search of new foundations. *Journal of Finance, 55*(4), 1623–1653.