

## **Appendix: Operationalization and Measurement of Party-State Permeation**

We build upon our prior research work, presented at the SASE conference in Amsterdam in July 2022, where we investigated degrees of party-state permeation within China's Top 500 companies (Köncke et al., 2022). In this earlier study, we discuss the concept of party-state permeation extensively, and provide a thorough explanation of how we operationalized and measured party-state permeation of corporate governance. Below we give a condensed overview.

We quantified party-state permeation in corporate governance among China's Top 500 firms by differentiating two modes of party-state permeation: a) state ownership, and b) party control. In the following, we provide concise discussions of these modes and explicate the variables utilized to measure both state ownership and party control. Finally, we introduce the Party Influence Index.

### **a) State ownership**

State ownership refers to the ratio of company equity controlled by the state. In Mainland China, a 'one share, one vote' principle is in place implying that each share owned by a shareholder corresponds to one voting right in shareholder meetings. As state authorities acquire more shares in a company, their influence increases.

We thus measured state ownership by assessing the proportion of state-controlled capital within companies' equity. Ownership data were sourced from the Chinese database Qichacha (2023) and companies' annual reports. We calculated the total percentage of state-controlled capital in the equity of each Top 500 company by tracing shareholder connections of each shareholder back to its ultimate owner. We then categorized companies into four distinct ownership types: 1) fully state-owned (with 100% state-controlled capital), 2) state-controlled (50%-100%), 3) state-participated (10%-50%), and 4) privately owned (<10%).

### **b) Party control**

In addition to ownership, we quantified the level of party control over corporate governance. Within China's party-state capitalist system, various mechanisms are in place integrating CCP organs into corporate governance structures (Pearson et al., 2021). We derived key indicators of party control from lively debates in political economy literature on China's capitalism:

One key measure is the CCP membership among the most powerful company executives, often termed 'red capitalists' (Dickson, 2003). Party membership enables the CCP to monitor its members within companies and ensure adherence to CCP guidelines in corporate governance. Recruiting executives into the CCP also promotes further party-building work within firms (Dickson, 2008).

Another fundamental indicator of party control lies in the integration of 'party-building work' within companies and the existence of party cells. Since 2016, the CCP has progressively embedded 'party-building work' into the charters of Chinese firms to formalize its control over

corporate governance. This involves establishing party cells within companies that, among others, supervise the implementation of overall CCP principles in corporate decision-making. Initially concentrated on SOEs, this initiative has expanded to include private firms, with over 73% reportedly having established party cells by 2017 (CCP, 2018). In recent years, the CCP issued regulations to further harmonize private companies' governance with CCP principles, signaling a more assertive attempt to further mix party-state and private-capitalist governance principles (Lin & Milhaupt, 2021; Pearson et al., 2021).

Following the establishment of a party cell, two distinct personnel systems arise within a company: the traditional corporate management system and the party system. These systems can overlap to varying degrees, with individuals occasionally holding top executive positions (CEO and chairman of the board) while simultaneously serving in party cell roles (Leutert & Eaton, 2021, pp. 211-213). A greater overlap in personnel thus indicates a heightened level of party control exerted over the company.

In our dataset measuring party-state permeation in corporate governance, we document whether a party cell exists within each company. Additionally, we collect information on the composition of personnel in the top two positions of both corporate management and the party cell to determine the degree of overlap between these two personnel systems. Furthermore, we document whether party-building statutes are included in the company's charter and whether its top executives are CCP members. We collected this data from publicly available sources, including companies' websites, annual reports (from 2019-2021), official Weibo accounts, as well as official WeChat enterprise accounts and Weixin Sogou.

This information constitutes our Party Influence Index (PII), which assesses the degree of party control based on four parameters:

1. Presence of a party cell within the company (no = 0, yes = 1);
2. CCP membership of top company executives (CEO and chairman of the board of directors) (none = 0, either CEO or chairman = 0.5, both = 1);
3. Extent of overlap between top members of the party cell (party secretary and deputy secretary) and top company executives (no = 0, partial = 0.5, complete = 1);
4. Incorporation of a party-building statute into the corporate charter (no = 0, yes = 1).

The degree of party control for each company is calculated by summing these values and dividing the total by the maximum potential value of party control: a) 0 = no control; b)  $0 < \text{PII} \leq 0.33$  = low degree of control; c)  $0.33 < \text{PII} \leq 0.66$  = medium degree of control; d)  $0.66 < \text{PII} \leq 1$  = high degree of control.

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