1 *Reform and Leadership*

"Prioritizing international business is of top importance." The chairman of China Infrastructure (CI) spoke slowly, sweat glistening on his brow as he surveyed the packed conference room in the firm's Beijing headquarters.[1] "We do not enjoy a natural monopoly," he emphasized. "Intense competition must make us become a company with competitive advantages."[2] Those of us in attendance knew all too well that he was right. Both the number and the contract value of CI's overseas projects had recently exceeded that of its domestic works. Yet further expanding the company's international business involved fierce contestation for market share with other Chinese state-owned enterprises (SOEs) as well as with foreign rivals, such as the American construction firm Bechtel and the South Korean contractor Hyundai Engineering and Construction.

Few might have anticipated such global, entrepreneurial ambitions for a SOE founded in the 1950s to advance the national industrialization efforts of the Communist Party of China (CCP). During the 1950s and 1960s, CI's nationwide network of construction bureaus built basic infrastructure projects across China, from Guizhou in the southwest to Jilin in the northeast. The government ministry to which CI belonged allocated it labor, capital, and projects. A patriotic commitment to industrializing the New China motivated the firm's activities, not profits or faraway markets. As verses from a 1965 company song exhorted workers: "Hardship is glorious and joyful, the spring of revolution is full of vigor. Resolve to strengthen one's skills, build a good start for the motherland."[3]

[1] China Infrastructure (CI) is a pseudonym. The use of pseudonyms is a standard practice in similar studies using information gathered through participant observation and company documents that are not available publicly (Ding, 2022; Hanser, 2008; Lee, 1998; Raynard et al., 2020; Zhang, 2014). See Appendix A for a detailed discussion of the book's methodology and research design.

[2] CI subsidiary annual shareholder meeting, June 2014, Beijing.

[3] Construction bureau workers song, 1965, in CI Construction Bureau yearbook, 2008.

After China's reform and opening accelerated in the late 1970s, CI was formally reorganized as an enterprise owned and controlled by the central government. As the company's operations expanded rapidly, it began targeting international markets. China Infrastructure's earliest commercial forays overseas during the 1990s were highly centralized, reflecting the company's roots in the planned economy. Headquarters dispatched delegations to foreign governments to broker deals in an approach that CI leadership termed "direct line style." Later, CI also began to bid on international projects in Asia and Africa through a tightly centralized internal process. Employees referred to overseas projects by number, just as they had for domestic projects since the Mao Zedong era. Despite challenges and missteps, the firm's early overseas business grew swiftly. Contracts for international projects more than tripled from 47 in 2004 to 171 in 2009.[4]

As the 2010s continued, CI's construction bureaus, each with a distinctive provincial home base and identity, began to act less like builders and more like entrepreneurs. The construction bureaus courted potential clients – governments and private developers in now more than fifty countries in Asia, Africa, Latin America, and Europe – and scoured host country government planning documents and local media for business leads. The construction bureaus were especially interested in smaller projects, those with a contract value under USD 50 million, that they were authorized to bid on directly and execute more independently. For larger projects, the construction bureaus required approval and greater financing support from the firm leadership back in Beijing. Construction bureau staff visited headquarters to deliver PowerPoint pitches that mixed detailed engineering specifications with maps of foreign countries and photos of CI and host country leaders smiling and shaking hands.[5]

In the second half of the 2010s, another shift occurred. The construction bureaus hit the brakes on efforts to win new clients. Instead, representatives from company headquarters in Beijing reemerged on the front lines, touching down in host country capitals for short- and long-term visits to develop local markets and relationships. Company headquarters also began to dispatch engineering teams to tour the varied

[4] "CI International: 10 Years of Overseas Development," exhibition in company lobby, Beijing, June 2014.

[5] Headquarters meeting with construction bureau employees, Beijing, 2015.

terrains of client countries and to recommend infrastructure projects to their governments. This contrasted starkly with what had occurred in previous years, when actors based on the front lines enjoyed primary responsibility for identifying potential projects. In less than a decade, CI's mode of market expansion boomeranged from centralized to decentralized and back again. What explains these changes?

Answering this question requires opening up the black box of the firm. The heady days of CI's early commercial expansion unfolded under the leadership of Chairman Chen.[6] After unveiling a strategy prioritizing international markets, Chairman Chen eschewed a top-down design approach by instead authorizing construction bureaus to identify and develop market opportunities abroad. As the construction bureaus led the charge overseas, competing with other firms and even with one another for opportunities, a highly decentralized mode of market expansion emerged. This arrangement was like that of a large family, a CI employee explained, in which the company headquarters was the mother and the subsidiaries were the sons who competed freely and fiercely – including with one another – for the family's overall benefit.[7]

Midway through the 2010s, Chairman Chen retired on schedule and was succeeded by the second in command, Chairman Wu. Chairman Wu proposed a new strategy for CI that privileged engineering and technological expertise and emphasized top-down planning, standardization, and control. He envisioned a single chain of command – originating in the Beijing company headquarters – that directed international business, instead of "many guns firing at a single bird."[8] Under Chairman Wu, CI sent headquarters' representatives to work side by side with the construction bureaus abroad. The company also dispatched engineering teams to tour foreign countries and propose integrated infrastructure packages to their respective governments.

As CI's market expansion became increasingly centralized, the balance of influence among intra-firm actors began to shift. A construction bureau manager described the change from Chairman Chen to Chairman Wu as follows: "In the beginning, we found our own projects

[6] The names of the CI chairmen provided here are pseudonyms.
[7] Subsidiaries had to be sons in this familial metaphor, he explained, because "daughters will be married to somebody else." Conversation with Sino-Construction International employee, 2016. Sino-Construction International was a subsidiary of CI.
[8] Company annual work plan, 2016.

and made our own contacts. We could develop spontaneously. … Now our room for development is greatly limited. For everything, we must listen to the holding company [i.e., headquarters]. We are being controlled to death."[9]

From the outside, it is easy to overlook Chinese SOE leaders. News about their appointments and activities is typically buried in Chinese-language company or government websites and rarely receives media coverage. Even those who are aware of these executives might readily dismiss their significance. The concept of "China, Inc." that portrays the Chinese bureaucracy as a unified, hierarchical corporation has grown in popularity. The cover of *Newsweek* magazine, for example, once depicted the commercial reach of Chinese companies – and the CCP-dominated government's presumed control of them – by caricaturing China as an octopus with its tentacles wrapped firmly around the globe.[10] In this view, SOE leaders are simply extensions of the state, interchangeable agents who execute orders from above.[11]

Yet, in other national contexts, anyone who wants to understand how a company is organized and behaves looks naturally to the company leader. Volumes such as *Jack Welch and the GE Way: Management Insights and Leadership Secrets of the Legendary CEO* (Slater, 1999) and *Matsushita Leadership: Lessons from the 20th Century's Most Remarkable Entrepreneur*, about Panasonic founder Konosuke Matsushita, fill shelves on both sides of the Pacific (Kotter, 1997). Such books highlight how the choices and actions of executives affect corporate structure and performance. Yet, when analyzing SOEs, especially in an authoritarian political context such as China, even the names of their leaders rarely earn a mention. Why is this the case?

Put simply, SOE executives and other officials like them in China often are not considered "leaders." The conventional wisdom remains

9 Interview with construction bureau employee, 2016.

10 Cover of *Newsweek* magazine, September 3, 2001. See also Thomas J. Duesterberg, "There Is a Better Alternative to Huawei," *Wall Street Journal*, February 5, 2020, www.wsj.com/articles/there-is-a-better-alternative-to-huawei-11580947530, and the illustration by Michael Morgenstern in "Australia's Chinese Entanglement," *The Economist*, April 30, 2009, www.economist.com/asia/2009/04/30/australias-chinese-entanglement.

11 Vladimir Lenin previously termed such a concept a "state syndicate"; Eastern European Communists called it "Party State Incorporated" (Wu and Ma, 2016: 22–25).

that the top national politicians in Beijing make decisions; public-sector organizations and their heads simply carry them out. This reflects a common belief that leaders engage in experimental, visionary, flexible, and creative work, while managers carry out more structured, controlled, deliberate, and orderly activities (Hickman, 1990). In reality, however, the heads of Chinese SOEs and other public-sector organizations exercise leadership every day by experimenting, formulating strategies, restructuring their organizations, adjudicating conflict, leveraging expertise to influence others, imbuing their organizations with values, and persuading or coercing others to follow their lead (Aberbach, Putnam, and Rockman, 1981; Knight, 2009). Recognizing that political authority remains highly centralized in China and that the heads of public-sector organizations do engage in managerial and administrative work should not also preclude taking individuals such as Chairman Chen and Chairman Wu seriously as leaders.

This book introduces a leadership approach to studying China's politics and economy. Leadership, I argue, helps to explain variation in reform outcomes in China's public sector.[12] Specifically, a leadership approach involves analyzing a leader's decisions about strategy and structure and their execution – relative to that of their predecessors and controlling for other factors – on outcomes at the organization level. It proceeds in four steps: (1) identifying the leader – the top-ranked individual in a given public-sector organization; (2) examining if (and how) the leader responds to a particular government goal or policy; (3) studying what tactics the leader uses to execute their decisions about organizational strategy and structure and how their subordinates respond; and (4) assessing the effects of leader's choices and their execution on reform outcomes at the organization level.

[12] The public sector is a broad realm encompassing both elected and appointed officials and organizations, including government agencies, SOEs, utilities, universities, and hospitals. Public-sector organizations, as opposed to private-sector organizations, have two key characteristics: (1) the use of public funding and/or state-owned assets, which may be employed together with private capital, to provide government services and public goods; and governmental services or public goods; (2) the pursuit of multiple social and political objectives that may include, but are not limited to, profit maximization (Downs, 1967; Thompson, 1967). Finally, even though the public sector is termed "public," there may be both private and public users of the government services and public goods that public-sector organizations supply. Imagine the cases of a state-owned utility or a subway, for example, which may exclude non-payers from the goods and services they provide.

Leadership is an important driver of Chinese SOE reform and internationalization. Specifically, leadership helps to explain (1) variation in the degree to which SOE market expansion is decentralized; and (2) changes in the balance of influence among intra-firm actors, that is, who gains and who loses during reform. Conventional analyses of reform in China's state sector remain strongly domestic in orientation. They typically center on changes in the composition of formal ownership or shifts in authority relations among enterprises and the state over long periods of time. For example, one might assess the declining proportion of state ownership in a particular industry or firm, or the devolution of authority for commercial decision-making from government authorities to enterprises. In contrast, the two indicators used here extend the analysis of reform beyond changes in the enterprise's formal financial ties and relative autonomy vis-à-vis the state to investigate actors and activity at the firm level. Additionally, they illuminate the increasingly global context and content of reform by considering SOEs' business abroad. In the following section, I first introduce the presence and purpose of SOEs in China's economic and political system.

Chinese SOEs Today

The state sector remains a critical part of the Chinese economy. SOEs account for an estimated one-quarter of national GDP – and have done so for nearly twenty-five years.[13] State firms channel investment to critical industries, providing more than three-quarters of domestic investment in infrastructure and one-half of domestic investment in coal and oil.[14] They dominate Chinese equity markets, constituting approximately 40 percent of total market capitalization and 50 percent of company revenues for the Shanghai and Shenzhen stock exchanges (Rosen, Leutert, and Guo, 2018: 9). China leads the world with the highest share of SOEs among its biggest companies (Kowalski et al., 2013), and Chinese SOEs are now among the largest global firms by revenue (see Table 1.1).

[13] Andrew Batson, "The State Never Retreats," Gavekal Dragonomics, October 2020. For another analysis of SOEs' contribution to China's GDP, see Zhang (2019).

[14] "Fiscal Monitor – April 2020," Online Annex 3.1. "China: State-Owned Enterprises Remain Key Players," International Monetary Fund (IMF), April 2020, www.imf.org/-/media/Files/Publications/fiscal-monitor/2020/April/English/onlineannexes31to37.ashx.

Table 1.1 ***Largest Chinese SOEs by revenue***

Name	Level of state ownership	Industry	Revenue (USD million)	Number of employees
State Grid	Central	Electricity	$530,009	870,287
China National Petroleum	Central	Petroleum and petrochemicals	$483,019	1,087,049
Sinopec Group	Central	Petroleum and petrochemicals	$471,154	527,487
China State Construction Engineering	Central	Construction	$305,885	382,492
Sinochem	Central	Chemicals	$173,834	223,448
China Railway Engineering Group	Central	Construction	$171,669	314,792
China National Offshore Oil	Central	Petroleum and petrochemicals	$164,762	81,775
China Railway Construction	Central	Construction	$163,037	342,098
China Baowu Steel Group	Central	Steel	$161,698	245,675
China Mobile Communications	Central	Telecommunications	$139,597	452,202

Source: Fortune Global 500 (2023), https://fortune.com/ranking/global500/2023/search/.

On the 2023 *Fortune Global 500* list, 85 of the 135 companies from mainland China and Hong Kong are state-owned.[15]

Chinese SOE performance, however, continues to lag far behind that of private firms. While SOEs do seek to make profits, they do not necessarily aim to maximize them (Lee, 2017). They frequently behave as "asset maximizers" rather than as "profit maximizers" (Lardy, 2019).

[15] For a list of these companies, see SASAC, 《2023年《财富》世界500强揭晓，国资监管系统85家企业榜上有名》 [2023 *Fortune Global 500* Announces 85 Companies in the State-Owned Assets Supervision System Make the List], 澎湃 [*The Paper*], August 2, 2023, https://m.thepaper.cn/newsDetail_forward_24085799.

Even though SOEs account for nearly one-third of China's industrial assets, they contribute less than one-fifth of total industrial profits. Returns on assets, a standard measure of how efficiently a company generates profits from its assets, was only 3.0 percent for SOEs compared with 6.7 percent for private firms in China as of the second quarter of 2020.[16] Approximately one-quarter (by assets) or more than one-third (by number) of Chinese SOEs are loss-making.[17] As a percentage of GDP, SOE debt soared to a record high of more than 142 percent in 2020.[18] As lockdowns to contain the COVID-19 virus spread in China between 2020 and 2022, SOEs – already hit harder by the pandemic than privately owned firms – faced renewed economic difficulties (Wu and Xu, 2021).

Yet the Chinese leadership remains materially and ideologically committed to SOEs because they serve crucial functions for the state. They support stability by providing employment opportunities and by maintaining low prices for key inputs. They also serve a subnational redistributive function by expending most of their investment on infrastructure in poorer interior provinces.[19] The Chinese government routinely leverages SOEs to respond to economic, political, and social crises.[20] In addition, SOEs advance Chinese industrial policy by channeling capital to develop targeted technologies and sectors, such as nuclear power, aerospace, and artificial intelligence. They also play a leading role in domestic and international initiatives, such as the Xi Jinping

[16] Rhodium Group and Asia Society Policy Institute, "China Dashboard: State-Owned Enterprise Policy Reform," Winter 2021, https://chinadashboard.gist.asiasociety.org/winter-2021/page/state-owned-enterprise.

[17] "Fiscal Monitor – April 2020," Online Annex 3.1. "China: State-Owned Enterprises Remain Key Players," International Monetary Fund (IMF), April 2020, www.imf.org/-/media/Files/Publications/fiscal-monitor/2020/April/English/onlineannexes31to37.ashx.

[18] Karen Yeung, "China Debt: Highly Leveraged State Firms Could Threaten 'Efficient Growth,' Private Investment Post-Pandemic," *South China Morning Post*, February 8, 2021, www.scmp.com/economy/china-economy/article/3121039/china-debt-highly-leveraged-state-firms-could-threaten.

[19] Andrew Batson, "The State of the State Sector," Gavekal Dragonomics, March 2017.

[20] 《国资委采取有力措施维护股票市场稳定》 [SASAC Takes Effective Measures to Safeguard Stock Market Stability], SASAC, July 10, 2015, www.ccpnt.org/article/3763.html; Keith Zhai, "Exclusive: China Prods State Firms to Boost Investment in Crisis-Hit Hong Kong – Sources," *Reuters*, September 12, 2019, www.reuters.com/article/us-hongkong-protests-soe-exclusive/exclusive-china-prods-state-firms-to-boost-investment-in-crisis-hit-hong-kong-sources-

administration's poverty alleviation campaign, the Belt and Road Initiative (BRI), and Made in China 2025.

Strong state influence in the Chinese economy blurs the boundary between SOEs and private firms. Like SOEs, private companies today are expected rhetorically and materially to support government policies and priorities, ranging from the BRI to rural development and pandemic control (Coplin, 2019; Li, 2017). Similarly, private companies benefit from access to government subsidies and discounted factors of production, especially in sectors targeted for state promotion such as electric vehicles and biotechnology. During the reform era, private-company executives have become more embedded politically through their membership in bodies such as local legislatures and the National People's Congress (NPC) (Hou, 2019; Truex, 2016). Inside private firms, Party committees and employees who are Party members serve this embedding function (Koss, 2021). Some private entrepreneurs may attempt to evade top-down political control by engaging in behaviors including obfuscation, mutual endangerment, and financial manipulation (Rithmire, 2023; Rithmire and Chen, 2021). However, they remain subject to state oversight and discipline through regulatory actions, inspections, fines, and even arrests.

Nevertheless, overall, the Party-state controls SOEs more tightly than it controls private companies. It assigns SOEs explicit targets and tasks, directly evaluates company and leader performance, and determines executive salaries and career trajectories. Leaders of SOEs serve much shorter average terms than private-company executives, many of whom are company founders with long tenures and disproportionate influence.[21] The heads of SOEs are thus not as well-positioned as private-company executives to develop deep internal networks to obscure company affairs from external scrutiny, or to push back against administrative superiors. SOEs also assume greater responsibility for political directives and priorities than private firms (Li and Zeng, 2019). Their greater embeddedness in the Chinese bureaucracy is further evident in their highly regimented systems of internal

idUSKCN1VY08C;《央企战疫图鉴》 [Illustrated Compendium of Central SOEs' War Against the Epidemic], SASAC, April 24, 2020, www.sasac.gov.cn/n4470048/n13461446/n14326116/index.html.

21 For example, sixty of the seventy-two interviewed executives in private Chinese companies were company founders who were still leading their companies as of 2015 (Useem et al., 2017).

approvals and rank-based promotions, with some state firms having as many as fifty different levels of employee rank.

China's largest and best-known state firms are central SOEs (中央国有企业). Central SOEs refer to companies operating in nonfinancial sectors that are owned by the central government and administered by the State-owned Assets Supervision and Administration Commission (SASAC), a special commission of the State Council.[22] Central SOEs are concentrated in industries with high strategic value and barriers to entry, such as defense, electricity, petroleum, and telecommunications (Hsueh, 2011). They also operate in more commercially oriented and competitive sectors, ranging from automobiles to metals and electronics. Local SOEs owned by governments at the provincial level and below are much more numerous than central SOEs, but they are also much smaller.

The Chinese government formally separates central SOEs into two groups based on their size and strategic importance.[23] The first group is a batch of "core" firms termed "important backbone SOEs" (重要骨干国有企业). This group includes China's largest and best-known state firms, such as China Mobile, State Grid, and Sinopec. The second group, which includes the remaining central SOEs, is more diverse, with a mix of global industry leaders like Sinosteel and China Railway Engineering Corporation, lesser-known companies like China National Salt Industry Corporation, and state-run research and design institutes like the General Research Institute for Nonferrous Metals.

Central SOEs are typically structured as enterprise groups (企业集团). At the top of each enterprise group is a holding company, an administrative entity wholly owned by SASAC. Below the holding company is a multilayered pyramidal constellation of as many as 100 to 200 or more subsidiaries, including joint venture firms, research institutes, finance companies, and other bodies. Each member entity

22 SASAC administered 97 central SOEs as of November 23, 2023, down from 189 at SASAC's establishment in 2003. For a list of these firms (in Chinese), see http://wap.sasac.gov.cn/n2588045/n27271785/n27271792/c14159097/content.html.

23 《一文看懂138家央企级别和管理》 [Understand the Level and Management of 138 Central SOEs in One Article], 澎湃新闻 [*The Paper*], May 3, 2016, www.thepaper.cn/newsDetail_forward_1464250;《解析央企一把手：前54家多为副部级 中国新闻周刊》[Analysis of the Top Leaders of Central SOEs: Most of the Top 54 are at the Vice–Ministerial Level], 中国新闻周刊 [*China Newsweek*], June 3, 2013, https://m.huanqiu.com/article/9CaKrnJALKI.

may itself have subsidiary companies or hold stakes in numerous other enterprises (Lin and Milhaupt, 2013). As Child and Warner (2003: 35) describe the typical top-down organization and operation of Chinese SOEs, "[a] large 'power distance' tends to be maintained between top managers and other members of the organization, with relatively little delegation of authority and a strong emphasis on vertical links within hierarchies."

Central SOEs are subject to both government and Party authority. All central SOEs are formally under SASAC's administration; however, the Central Organization Department (COD), the CCP's powerful personnel affairs agency, appoints and assesses the leaders of the core central SOEs. Given their differences in size and strategic importance, central SOEs and their leaders have varying formal administrative standings. The standing of core firms and their executives is equivalent to a vice-ministerial (副部级) rank; the remaining central SOEs and their heads have a department-level (正厅级) rank equivalence.[24] Figure 1.1 depicts the administrative hierarchy and organizational structure of Chinese central SOEs.

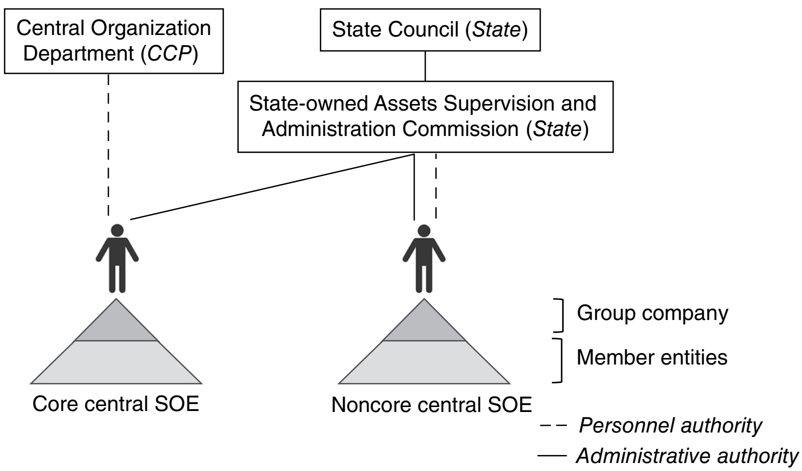

Figure 1.1 Central SOEs in China's administrative hierarchy
Source: Author.

[24] Central SOE heads are not civil servants (公务员), but they do have formal administrative rank equivalence.

Central SOE Leaders

This book focuses on central SOEs and their leaders. Like other high-ranking officials in China, almost all central SOE leaders are ethnically Han men in their fifties.[25] Today, nearly all of them are college graduates, and many also hold advanced degrees in science, education, or management (Leutert, 2018a). They meet routinely with foreign dignitaries and international executives, and some are fluent in at least one or more foreign languages. From the perspective of the Chinese bureaucracy, however, central SOE leaders remain a somewhat insular group. Most have spent their entire careers in the state sector, and some have worked in local or central government. However, virtually none have private-sector experience. Central SOE leaders also move around less within the Chinese bureaucracy compared to their same-ranked peers, although the rotation of leaders among core central SOEs has occurred more frequently under Xi (Leutert, 2018a, 2018b).

Boards of directors exist formally in Chinese SOEs, but they have little ability to check executive authority. Importantly, this is because SOE boards lack the critical powers of executive selection, assessment, compensation, and standard-setting. For any "state-invested enterprise," regardless of the amount of state ownership, SASAC has the authority to propose directors and supervisors (Ozery, 2021: 950). There are few independent directors on SOE boards, and they cannot monitor executive decision-making effectively because the controlling state shareholder nominates and appoints them (Jiang and Kim, 2015).[26] Furthermore, many nominally independent directors have ties with SOE insiders that fall short of formal standards for relationships of interest and that formal standards fail to capture (Lin, 2013b). Standard economic incentives to align executive and shareholder interests, such as executive compensation and shareholding, are absent in most Chinese SOEs because of CCP-imposed curbs

[25] Between 2003 and 2017, only 2 out of 243 – less than 1 percent – of central SOE leaders with vice-ministerial rank equivalence were women: Wang Yinxiang of China Aviation Group Corporation and Xie Qihua of Baosteel (now Baowu Steel) (Leutert and Vortherms, 2021).

[26] In theory, independent directors are able to monitor executive leadership more effectively because their lack of overlapping interests makes them more likely to report abuses.

(Jiang and Kim, 2020).[27] Most central SOE leaders concurrently also serve as chairmen of the holding company or as chairmen of a key subsidiary, thereby further strengthening their internal authority.

The Party-state governs central SOE leaders primarily through its executive appointment authority and target-setting. As discussed in the previous section, the COD, in conjunction with the higher Party authorities, appoints the leaders of the core central SOEs; SASAC appoints the leaders of noncore central SOEs. It also sets yearly targets for certain metrics, such as operating revenue, profits, economic value added (EVA), and total new contract value. Every year, SASAC evaluates all central SOEs and their leaders based on these targets and assigns them a grade from A to E.[28] Target fulfillment determines the compensation of the SOE leaders relative to a fixed baseline and affects their professional advancement. Political considerations likely also factor into SOE executive performance assessments; however, information about this is not publicly available.

Extant research explicitly addressing leadership in Chinese SOEs focuses primarily on smaller, local SOEs. Jing and McDermott (2013), for example, in an examination of three SOEs in Sichuan in the 1990s, find that top managers could generate institutional change through negotiation, manipulation, and coercion. Ma (2011) shows that managers of SOEs owned by the Chinese Academy of Sciences during the 1990s and 2000s who had closer authority relations to their superiors were less likely to be demoted or laid off, and their firms were less likely to be divested or dissolved. Buckley, Clegg, and Tan (2005) highlight the importance of managerial initiative during the transformation of

[27] In 2015, the Politburo cut SOE leaders' pay by up to 50 percent in a policy dubbed the "pay ceiling order" (限薪令). Since then, boards of directors have not gained authority to determine top executives' compensation. Senior government or Party agencies continue to set and approve the salaries of SOE leaders. 中央管理企业负责人薪酬制度改革方案 [SOE Executive Compensation Reform Plan], January 1, 2015 (Politburo. CCP Central Committee, 2015); 国务院关于改革国有企业工资决定机制的意见 [State Council Opinions on Reforming SOE Salary Decision Mechanisms], May 25, 2018, www.gov.cn/zhengce/content/2018-05/25/content_5293656.htm.

[28] The SASAC's widely known system of annual grades discloses a list of the highest performing firms; however, the grades for all firms and executives are not publicly available. For a recent list of A-rated firms, see SASAC 《2019年度央企企业负责人经营业绩考核A级企业名单》 [List of Central Enterprise Business Leaders' A-Level Performance Assessments for 2019], July 20, 2020, www.sasac.gov.cn/n2588030/n2588954/c15165394/content.html.

Sinotrans, a central SOE, into an integrated logistics service operator in the 1990s. Raynard, Lu, and Jing (2020), in an analysis of a small state-run Chinese factory between 1996 and 2016, explain how the leaders' "values work" overcame their subordinates' initial ideological opposition to corporate restructuring.[29]

This book advances existing scholarship in several ways. Its focus on central SOEs broadens the substantive scope of previous work, which mainly analyzed local SOEs (Bai et al., 2016; Jing and McDermott, 2013; Lee, 2007; Nolan, 1998). To my knowledge, it is also the first published research to employ data gathered through long-term participant observation in a Chinese central SOE.[30] This book's examination of SOEs during the 2010s extends the time span of previous studies, which mostly address the 1980s and 1990s and less frequently the 2000s (Ma, 2011; Raynard et al., 2020; Steinfeld, 1998). It further complements extant longitudinal studies spanning multiple decades by tracing fine-grained organizational change occurring during a period of years and within the tenure of a single national leader (Bai et al., 2016; Ma, 2011; Raynard et al., 2020). In addition, it investigates interactions among different intra-firm entities as well as leader–subordinate relations (Ma, 2011; Raynard et al., 2020).

Multiple factors make central SOEs and their leaders a least-likely case for the argument that leadership affects reform outcomes (Eckstein, 1975; George and Bennett, 2005).[31] First, central SOEs are embedded in the administrative hierarchy of the Chinese state at the highest levels. Unlike local officials, who are distant from the center of political power in Beijing, most central SOEs are headquartered in the capital and their leaders interact regularly with central-level government and Party authorities. Central SOE heads are CCP- and government-appointed officials with formal administrative rank

[29] The authors define "values work" as "a category of actions directed at (re) articulating what is right or wrong, good or bad, in the design and operation of an organization" (Raynard et al., 2020: 1301).

[30] Other studies involve only short-term participant observation in Chinese central SOEs. For example, Zhang Lu conducted participant observation for two months in a central state-owned automobile company in June 2004 and September 2006 (Zhang, 2014); Raynard et al. (2020) observed eleven executive meetings in a central SOE between March 2001 and October 2015.

[31] Extending the logic of "crucial" cases, a least-likely case is one in which a theory fits a case in which it is least likely to be true, thereby providing strong evidence in support of the theory.

equivalence. As such, they are subject to CCP personnel control and its strong emphasis on hierarchy, authority, and conformity. For all of these reasons, if leadership is found to influence reform outcomes for central SOEs, it may also be an important factor affecting reform outcomes in other parts of the Chinese bureaucracy that are subject to less centralized control.

Moreover, widespread entrepreneurialism among leaders in China's public sector may make central SOEs more representative of other public-sector organizations than one might initially expect. In education, for example, Ang (2016: 103–4) describes the case of "Principal Zhou," the head of a public school in China who raised funds exceeding a million dollars in value by borrowing from teachers and taking out bank loans using the teachers' property as collateral. As Ang observes: "Notably, such behavioral norms are not exclusive to top leaders in the political hierarchy like party secretaries and mayors." At lower levels of government, local leaders' entrepreneurial initiative is well-documented (Blecher and Shue, 2001; Duckett, 1998; Oi, 1992, 1999). Although additional investigation is needed to assess whether this book's findings about leadership can be extended beyond central SOEs, widespread entrepreneurialism in China's public sector suggests there are plausible grounds for further research.

Argument, Overview, and Contributions

This book's core argument is that leadership helps to explain variation in reform outcomes at the organization level. Empirically, I analyze the effects of Chinese central SOE leaders' decisions about strategy and structure and their execution on company reform during the 2010s. I examine two specific reform outcomes: (1) the degree to which a company's market expansion is decentralized; and (2) changes in the balance of influence among intra-firm actors – who gains and who loses during reform. A leadership approach highlights the elite agency linking broad government goals with these reform outcomes at the organization level.

Chapter 2 outlines a leadership approach to studying China's politics and economy. It explains how the autonomy of Chinese public-sector leaders originates from multiple sources: the discretion built into the CCP's cadre management system, *guanxi* (关系) with superiors and allies, decentralization of authority in the Chinese bureaucracy, and policy ambiguity and uncertainty. It critically reviews recent studies of China's politics and economy to uncover the importance and influence of leadership. It concludes by discussing how a leadership approach also helps to account for divergence, inaction, and subversion.

Chapter 3 surveys enterprise reforms in China since the late 1970s to highlight evolving constraints and space for leadership in SOEs. It examines five periods: emergence and decline of "dual track" economic reform (1978–91), establishment of a socialist market economy (1992–4), retrenchment of state ownership in the "commanding heights" (1995–2001), internationalization and consolidation of the state sector (2002–12), and combination of limited economic liberalization with increased political control (2013 to present). Since the late 1970s, SOE leaders have transitioned from managing production to determining how to restructure their firms, managing state-owned capital, and expanding in both domestic and international markets. Although the overall trend has been toward expanded space for leadership, the current Xi administration has significantly tightened political and commercial control.

Chapter 4 opens up the black box of the firm to assess the effects of leadership on reform outcomes in CI, a central SOE in the construction industry. I conducted paired comparisons of the consecutive tenures of chairmen and process tracing of original data gathered during fifteen months of fieldwork inside the company, primarily in its Beijing headquarters. I carried out this fieldwork between January 2014 and June 2016, with follow-up visits in June 2018, December 2019, and December 2023. I find evidence that the chairman's leadership generated variation in the degree to which market expansion was decentralized and shifts in the balance of influence among intra-firm actors. I also evaluate and rule out alternative explanations: *guanxi* with and intervention by higher-level officials, shifts in policy by administrative superiors, and changes in industry competition in domestic and international markets.

Chapter 5 extends the analysis beyond CI to examine the effects of leadership on reform outcomes in four other central SOEs: State Grid, China General Nuclear Power Group, Sinochem, and China Railway Engineering Corporation.[32] I select these companies to

[32] These company names are not pseudonyms because the analysis for these cases does not involve data collected through participant observation or from internal company documents.

capture full variation along two key dimensions: industry strategic importance and firm type. For each, I compare the consecutive tenures of their chairmen to assess the effects of leadership on reform at the company level. This survey provides additional evidence that successive leaders' decisions about organizational strategy and structure are an important driver of variation in reform outcomes. Cross-firm analysis further suggests that the effects of leadership on reform are a matter of degree and are conditioned by existing institutions, policies, and economic factors.

Chapter 6 develops an integrated framework of leader–subordinate dynamics in Chinese SOEs. How do leaders interact with subordinates to execute their agendas, and how do subordinates respond? Grounded in reward, coercion, and legitimate bases of power, I identify a set of SOE leader tactics: leveraging position authority, conducting personnel ploys, emphasizing material and status gains, invoking external threats, underscoring superiors' directives and policies, and appealing to subordinates' personal duty and morality. Subordinates may react by praising and supporting the leader or by expressing alternative views, delaying or subverting implementation, shirking, engaging in critical expression, or quitting. Leader–subordinate interactions are iterative and evolve over time.

Chapter 7 concludes by summarizing what a leadership approach contributes to the analysis of China's politics and economy. I introduce what I term the "intra-organizational politics of reform": the daily dynamics of cooperation and conflict between leaders and their subordinates inside public-sector organizations. While elite politics and bargaining among different parts and levels of the Chinese bureaucracy have received much attention, the internal world of public-sector organizations is also a crucial arena for reform politics. Such intra-organizational politics both constitute the everyday substance of reform and shape its ultimate course. Next, I discuss the increasingly global context and consequences of leadership in Chinese SOEs. Finally, I explain why leadership continues to matter despite the ongoing centralization of political authority under Xi, and I outline several directions for future research on leadership in China's public sector during the Xi era.

By developing and applying a leadership approach, this book makes three contributions to existing research about economic reform in China. First, it identifies leadership as a key variable and shows how to analyze its effects by linking individual leaders' decisions about organizational strategy and structure and their execution with differences in reform outcomes. Second, it provides empirical evidence that leadership helps to explain variation in contemporary reform outcomes in Chinese central SOEs. Third, it illuminates and foregrounds the "intra-organizational politics of reform": the daily dynamics of cooperation and conflict between leaders and their subordinates inside public-sector organizations such as SOEs.