Chapter 16
An Overview of Corporate Governance and Innovation in Chinese IT and Manufacturing Listed Firms

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ABSTRACT

This study introduces the current structure of corporate governance (ownership and board structure) and innovation in Chinese IT and manufacturing listed firms. It highlights the unique features and potential issues of corporate governance and innovation in the Chinese institutional environment. This chapter helps advance the understanding of ownership and board structures, as well as innovation in Chinese IT and manufacturing industries. It is hoped that this study will encourage more research to pursue this interesting research field.

1. INTRODUCTION

China, the world's second-largest economy and one of the largest transition economies, has attracted many scholars in recent years, who have used Chinese financial data for their research and publications in top academic journals (e.g., Chen, 2014; Cheng et al., 2015; Qian & Yeung, 2015; Jiang & Kim, 2015; Hutson et al., 2019). This increase in scholarship is not surprising. Corporate governance (CG) is one of the most important topics in the research area since all firms, especially listed firms, require it. CG is central to how firms allocate resources and, therefore, it shapes the strategic choices that managers make in achieving the firm's objectives. Keasey and Wright (1993) viewed the role of CG from two broad perspectives. One emphasises the stewardship and accountability role, stressing the need for CG as a mechanism to monitor managers and enhance performance. The other emphasises the innovation role, considering innovation as providing the mechanisms that motivate management to optimise sharehold-

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ers' wealth by sustaining corporate competitiveness. Thus, the two dimensions are highly relevant to each other, as they both aim to ensure that corporate resources are used to secure the firm's long-term performance, thus protecting and enhancing shareholders' wealth (O'Connor & Rafferty, 2012).

China has recently made huge strides in innovation and become a global force in the world's digital economy and cutting-edge technologies (Lo et al., 2019; Woetzel et al., 2019). China's continued innovation is at the heart of its economic development. For example, China's Medium to Long Term Science and Technology Development Plan 2016-2020 has two bold aims. The first is to raise R&D intensity to the current OECD (Organisation for Economic Cooperation and Development) average by 2020 (increasing spending as a share of GDP from 1.3% to 2.5%) and lift the country's comprehensive innovation capabilities into the world's top 15. The second is to reduce the reliance on imported technology sharply, obtain advanced core technologies in the equipment manufacturing, and the information industry (The National Development and Reform Commission of China, 2016). China's R&D investment is now 33 times what it was in 1995 and now accounts for more than 2% (2.08%) of the country's GDP for the first time in 2013, totalling RMB 1.18 trillion. This increase of 15% from 2012 shows that China is on track to achieve its target of R&D spending, accounting for 2.2% of GDP by 2015. In 2011, China surpassed Japan to become second in the world in total R&D investment. It is also the world's second-largest publisher of research (UK Science & Innovation Network, 2015).

As to how technological advancement occurs in the modern world, the literature stresses the significance of institutions involved in industrial innovation (Lo et al., 2019). These institutions include not only the regulations, policies, markets, and networks in a company's external environment, but also institutions within a firm, especially CG structure. This study argues that CG structures play a crucial role in innovation.

There are two shortcomings in the corporate governance literature. First, the theories (resources dependence, agency, upper echelon, and institutional theories) used in many papers that study China are developed in the West (e.g. the United States) (Hung et al., 2017; Lin et al., 2011; Shan & McIver, 2011). Second, using financial data without discussions on Chinese business customer and practices, financial, legal, and regulations might lead to a superficial understanding of Chinese institutional environment as a whole (Jiang & Kim, 2015; Jia et al., 2019). Jiang and Kim (2015) conducted an exceptional study, including an in-depth review of Chinese corporate governance using data from 1994 to 2012. Chinese economic growth has been explosive during the past two decades. Many changes have taken place, for example, the strategic direction of innovation and the introduction of new rules and regulations influencing the development of corporate governance in China (see Section 2.2 and 2.3). Given these two shortcomings, the primary purpose of this study is to use current financial data to discuss the corporate governance and innovation features unique to the Chinese institutional environment.

The study is organised as follows. Section 2 presents important institutional background information of China (e.g., regulations and innovation policy). Section 3 provides and discusses a summary of statistics of important variables related to corporate governance and innovation (e.g. ownership, board, R&D investment, patent counts, and firm-level factor-related variables). Section 4 discusses the unique features of corporate governance in China. Section 5 briefly discusses using the market for corporate control in China. Section 6 provides concluding remarks.

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