Strange Bedfellows: Communist Party Institutions and New Governance Mechanisms in Chinese State Holding Corporations

CHRISTOPHER A. MCNALLY
East-West Center

ABSTRACT    Analyses of corporate governance problems in China’s state sector have mainly focused on administrative interference from state agencies. So far the influence of Communist party institutions has received little attention. Although the influence of ideology has diminished greatly, the Chinese Communist party continues to monitor and control economic actors at every level of the state sector. This article shows that the institutional structure through which the party executes its monitoring and control functions has a corrosive effect on the day-to-day governance of the vast majority of state enterprises. The party’s management structure aggravates the inadequate monitoring of managerial performance, weakens managerial incentives, and amplifies insufficient corporate transparency, thereby allowing state asset managers to carve out informal spheres of autonomy. These spheres of autonomy create opportunities for insider control, economic corruption, and the illicit privatization of state assets. Effective and sustainable privatization and corporate governance reforms in China’s state sector will thus require the party to substantially diminish its authority over state sector executives.

1. Introduction

Over the past decade it has been recognized that a successful transition from a centrally planned economy (CPE) to a market economy requires the creation of operative corporate governance institutions. The examples of Eastern Europe and the successor republics of the Soviet Union are illustrative in this respect. Rapid privatization of state enterprises was not accompanied by the establishment of effective governance mechanisms in these transition economies. The resulting corporate governance vacuum enabled managers of state enterprises to exercise insider control and strip assets during the process of privatization. In
only very few cases have globally competitive enterprises emerged in the transition economies of Eastern Europe.

The disappointing results of privatization in Eastern Europe generated criticism of privatization policies in transition economies more generally. Critics point to how the People’s Republic of China successfully implemented market reforms while eschewing rapid mass privatization. In this view, China was able to “progress without privatization.” The gradual growth of competitive forces allowed China to shed the vestiges of the CPE and improve the performance of all types of enterprises, including state-owned enterprises (SOEs). As one analyst characterizes the effects on SOEs of China’s reforms, “The profit motive appears everywhere. Even large state-owned industrial firms are pushing themselves towards the market.”

However, advocates of China’s “success without privatization” neglect the very limited progress made by its state sector in establishing effective corporate governance institutions. While the gradual reform approach generated competitive pressures and increased the productive efficiency of some SOEs, it also allowed the interference of party and state institutions in the corporate governance of state enterprises to continue. As in many of the political economies of East Asia, state agencies in China directly influence microeconomic decisions on the firm level. In the Chinese state sector this influence is particularly direct, as state agencies exercise ownership and control major corporate decisions such as mergers, investments, and competition policies. More significantly, the corporate governance of Chinese state enterprises faces an additional layer of interference not found in East Asian capitalist systems—interference by Communist party institutions.

Most analyses of governance failures in China’s state sector have so far focused on administrative interference by state institutions. No detailed analysis of Communist party institutions in the governance of Chinese SOEs has been conducted. Historically, CPEs, including China’s, integrated the entire economic system with two parallel hierarchies: the economic management bureaucracy and the Communist party’s nomenklatura. Among these hierarchies, the

---

2. For an overview of the debate on which policies best to pursue in transition economies, see Walder (1996).
3. Generally, privatization represents cases where state-owned assets are sold or otherwise transferred to private investors in full or in part. In China there have been numerous instances where the state has sold down its shares in SOEs, but not transferred control to private investors. I use the term privatization to refer to cases where control over state assets is transferred to nonstate entities.
7. Several authors have further argued that China’s reform trajectory has deferred the major costs of reform (see Sachs et al. 2000; and Sachs and Woo 2000). However, these counter-arguments lack a precise institutional analysis of exactly why China will face major economic costs due to deferred reforms.
8. See World Bank (1997) and Steinfeld (1998) on these points.
9. For examples of these analyses see World Bank (1997), Lardy (1998), and Hay et al. (1994). Steinfeld (1998) touches on how party institutions influence governance in his analysis of large SOEs in China’s steel sector, though the issue is only covered partially.
10. Literally, the nomenklatura denotes a list of names. It represents the Communist party’s cadre management system, including the party’s right to recommend and approve all appointments for managerial positions in the economic bureaucracy and state enterprises.
Strange Bedfellows

nomenklatura took precedence. The Communist party acted as the central monitoring agency, collecting information about and controlling the behavior of economic actors. However, the introduction of market reforms necessitated the decentralization of decisionmaking. As a result, the Communist party’s economic monitoring and control functions became increasingly dysfunctional.\textsuperscript{11}

In this article, I show that the continuation of the Communist party’s monitoring and control functions in the Chinese state sector has obviated fundamental corporate governance reforms. Although the role of ideology has greatly diminished, the institutional structure through which the party exercises its authority over state sector executives negatively impacts three aspects of corporate governance: personnel management, corporate decisionmaking, and corporate transparency. As a result, party management in the state sector curtails the effective monitoring of managerial behavior, distorts management incentive systems, and creates a tendency towards insider control.

To illustrate the role played by Communist party institutions in the governance of state enterprises, I utilize information gained from fieldwork conducted between 1995 and 2001.\textsuperscript{12} In particular, I analyze China’s most recent state sector reforms by investigating the corporate governance institutions of newly established state holding corporations in China’s premier industrial city, Shanghai. This analysis is divided into three sections. The following section presents a brief overview of the corporate governance problems and reforms in China’s state sector. Then, I evaluate the effects of governance reforms in China’s state sector by examining how Communist party institutions interact with newly established governance mechanisms in state holding corporations. Finally, the analysis concludes with an exploration of the implications of continued party management for the reform of China’s state sector.

2. Corporate governance reforms in China’s state sector

Comparative aspects of China’s corporate governance reforms

Over the past twenty years the People’s Republic of China’s economy has transformed radically. Market forces have grown and economic decisionmaking has been decentralized. However, while China’s economy has undergone some of the most far-reaching and fundamental changes in its history, the country’s political system has not adapted. The combination of an emerging market


\textsuperscript{12} Materials have been gathered from archival research and a series of one hundred interviews held with government officials, SOE managers, academics, and professionals in Shanghai during two periods of fieldwork: from July 1995 until early 1997; and a shorter one in September 1999. Moreover, approximately another thirty interviews were held in Chengdu, Shenzhen, Beijing, and Hong Kong during two periods of fieldwork lasting from September 1999 until October 1999, and June 2001 until July 2001. These interviews have been used to supplement the information gathered from Shanghai. All of the interviews were held in either Mandarin or Cantonese without the aid of translators. They constituted open-ended interviews aided by a set of focused questions. Interviewers were assured of utmost confidentiality.
Christopher A. McNally

Economy and Communist party management has produced contradictions. This state of affairs is particularly evident in the state sector.

Although SOEs have retreated from their near-total monopoly over the means of production during the last twenty years, they still form the basic pillars of the Chinese economy. State enterprises are concentrated in heavy industry, transportation, and raw material extraction. Moreover, the cadres in line ministries, provincial bureaus, and SOE management form the most powerful and influential segment within party and state. Yet, despite its importance to China’s economy and polity, the state sector is in crisis.

The environment under which state enterprises operate has changed dramatically since 1978. Economic reforms allowed various types of nonstate enterprises to enter markets previously reserved for SOEs. As a result, the share of output produced by the state sector in the national economy fell precipitously from 75 percent in the late 1970s to 28 percent in 1999. Declining output, though, has not been coupled with declining resource use. SOEs continue to form the bedrock of urban employment and absorb a disproportionately large share of investment capital, including about three-fourths of domestic bank credit. State enterprises thus are contributing less and less to the economy, while continuing to be the main beneficiaries of resources extended by the state financial system. This implies the inefficient use of capital that, if continued, will inevitably lead to lower growth rates. Poor SOE performance and large absorption of domestic loans also undermines the already weak, state-dominated banking system.

Many of the problems in China’s state sector are due to poor corporate governance. Consequently, reforms initiated by the Chinese government in the 1990s have attempted to develop more effective governance mechanisms, especially for improving managerial monitoring and accountability in SOEs. Some of the basic corporate governance problems the Chinese government is trying to address in its state sector parallel those in capitalist economies. Large capitalist corporations tend to be owned by several unrelated individuals and/or institutions, which employ professional managers on their behalf. In a similar fashion, in China several administrative agencies situated at different levels of the government hierarchy exercise control over a single state enterprise. Ultimate ownership (by the people), practical ownership (by the central government), and control over SOEs are separated. This separation of ownership and control

---

13. For an overview of these contradictions in the economic, social, and political realm, see Goldman and MacFarquhar (1999).
14. The nonstate sector in China denotes all enterprises not designated as state-owned. This includes collectives (urban and rural), private enterprises, foreign-invested enterprises, and more recently limited liability stock corporations. In reality, a lot of these enterprises are still closely tied to regional and local governments in various forms.
in both Chinese SOEs and large capitalist corporations produces “agency problems.”

Modern capitalist economies have developed various institutional solutions to overcome agency problems. In particular, they have developed institutions to more closely align management interests with those of owners and diminish the costs of monitoring management. For example, in the German–Japanese model of corporate governance, large-block shareholders, often banks, tend to hold long-term interests in corporations, thus concentrating the burden of monitoring management on one or two dominant shareholders. The predominance of family-controlled pyramidal groups in Italy and the overseas Chinese communities of Southeast Asia have also led to concentrated shareholdings, reducing potential conflicts of interest between managers and controlling shareholders.

Among the models of corporate governance discussed, the Anglo-American model has been most prominent. In this model, corporate law has established a framework within which monitoring activities are centralized via a board of directors. Non-executive directors sitting on these boards of directors can at times act as outside voices overseeing the affairs of management. Anglo-American corporate governance is further characterized by the strong influence of capital markets. Share prices often serve as benchmarks for corporate performance, the threat of takeovers can prod failing management teams to take action, and large institutional investors tend to monitor closely corporations in which they hold substantial share blocks.

Boards of directors in English-speaking countries have also established management incentive systems, including share options and profit-related bonuses, which seek to link managerial remuneration directly to enterprise performance. Perhaps even more important has been the development of competitive markets for managerial skills and well-developed systems for recruiting, promoting, and firing top managers. Finally, a number of third-party institutions, such as accounting, financial and legal services, perform important roles in generating information to enhance the transparency of corporate affairs.

Most of the institutions discussed above, which ultimately exist to improve managerial monitoring, accountability, and incentive systems, are absent in the Chinese economy. Agency problems in the Chinese state sector are thus severe, as evidenced by reports of widespread state asset stripping and SOE mismanagement. In addition, Chinese SOEs face problems that go beyond common agency problems and are directly related to the nature of state ownership. If we were to trace the ownership of a Chinese state enterprise back to its ultimate owners, we would end up with Chinese taxpayers, who do not behave like

19. For the classical statement see Jensen and Meckling (1976).
21. In both of these cases, however, concentrated family shareholdings have also led to low corporate transparency and the neglect of minority shareholder rights. On the Italian case see Brunello et al. (2000); on Southeast Asia see The Economist (2001).
23. This introduces a further layer of agency relations, i.e., between the investors and the directors, and between the directors and the managers.
shareholders in capitalist corporations.\textsuperscript{25} Moreover, in practice the execution of SOE ownership in China is fragmented among several functionally specialized state agencies.\textsuperscript{26} Up until the late 1990s, a bureau on the central or provincial level in charge of a specific sector (e.g., chemicals, textiles, or retail) directly administered Chinese SOEs. Besides these supervising bureaus, functionally specialized government agencies in charge of labor, housing, real estate, finance, taxation, and management personnel could also directly influence SOE management.\textsuperscript{27}

As a result of its design, the state sector supervisory structure China established under the CPE tied SOEs very closely to the government and allowed supervisory agencies to interfere in enterprise affairs or shirk responsibility for management oversight by implicating other bodies.\textsuperscript{28} As the most recent round of state sector reforms commenced in the mid-1990s, China’s state ownership institutions differed from those present in capitalist systems: bureaucrats supervising SOEs held no direct financial stake in these enterprises, and the exercise of ownership rights over SOEs was fragmented among several government agencies acting both as shareholders and administrators.

\textit{Corporate governance reforms in China’s state sector in the 1990s}

The two sets of corporate governance problems discussed above—agency problems and the nature of state ownership in China—have shaped the Chinese government’s state sector reform strategy. This strategy attempts “to clarify property rights, establish clear powers and responsibilities, part government and enterprise, and establish scientific management (\textit{Chanquan qingxi, quanze mingque, zhengqi fenkai, guanli kexue}).”\textsuperscript{29} To implement this strategy, attempts have been made to transfer institutional features found in modern capitalist systems to the state sector.\textsuperscript{30} Among these features, two have been central: the corporatization of all SOEs; and the establishment of a new system for the management of state-owned assets.

Corporatization connotes that Chinese SOEs cease to function as mere production units under the supervision of government bureaucracies and are transformed into firms with individual legal status. In China the blueprint for how a corporation should function is contained in the \textit{Company Law} (enacted in December 1993; effective from July 1994). Corporatization under the \textit{Company Law} involves major institutional changes for Chinese SOEs. First, a board of

\textsuperscript{25} On this point see Suleiman and Waterbury (1990).
\textsuperscript{26} Several authors have critiqued the view that the fragmentation of ownership is the main problem to be addressed in SOE restructuring. These critiques argue that this view amounts to an idealization of the real world, since the ownership of capitalist firms can be considered to be as fragmented as that of SOEs (see Stiglitz (1994) and Steinfeld (1998), chapter 2). Despite the validity of this argument, there remain major differences between how state ownership and private ownership are executed.
\textsuperscript{27} Chinese observers termed this situation as many “mothers-in-law (\textit{po po})” supervising SOEs.
\textsuperscript{28} See Huang (1989) and Naughton (1992).
\textsuperscript{30} See Tam (1999).
directors need to be formed; second, shareholder meetings to elect directors and decide on major corporate decisions should be held; and third, every limited liability corporation needs to establish a board of supervisors, which should independently oversee and evaluate the behavior of directors and managers.\textsuperscript{31}

To implement SOE corporatization, relevant state-owned assets must be clearly evaluated and their exact ownership ascertained. This requirement has necessitated the establishment of a new three-tiered system that aims to effectively exercise the state’s ownership rights over state assets.\textsuperscript{32} Under this system SOE management should be completely separated from the government bureaucracy, breaking with the CPE’s traditional mode of supervising SOEs by functionally specialized agencies. While variations of this three-tiered state-owned asset management system have emerged in China, its basic structure can be described as follows.

The first tier of the system consists of government agencies that represent the state’s property rights, such as the Shanghai State-owned Asset Management Commission (Shanghai guoyou zichan guanli weiyuanhui) or similar agencies on the provincial level.\textsuperscript{33} These agencies should represent the state’s property rights in their jurisdictions. However, in many cases they have not made much progress in the exercise of ownership functions on the state’s behalf. Rather, they have coordinated and implemented reforms to the state-owned asset management system by establishing various types of state holding corporations (guoyou konggu gongsi).\textsuperscript{34}

State holding corporations form the central tier of the three-tiered system. They have the status of an independent legal entity, though by definition they are solely owned by the state.\textsuperscript{35} The purpose of these holding corporations is to separate SOE management from the state’s bureaucracy. Moreover, state holding corporations are expected to establish what the Chinese term a rengehua (personalized) system to take responsibility for the protection and growth of state-owned assets. Thus, one of the major aims of state holding corporations is to function like institutional investors to maximize the state’s return on its assets.

Finally, the third tier of the state-owned asset management system is the operational tier. SOEs that have been converted into limited liability corporations constitute this tier. State holding corporations or their subsidiaries own these limited liability corporations in full or in part, and appoint representatives to their board of directors and board of supervisors.

\textsuperscript{31} The concept of a board of supervisors was borrowed from German corporate law. Yet, the Chinese board’s functions differ from its German counterpart.


\textsuperscript{33} At the central level no clear agency in charge of exercising the state’s property rights has emerged, although after the bureaucratic reforms of 1998 the revamped State Economic and Trade Commission (guojia jingji maoyi weiyuanhui) plays this role to some extent.

\textsuperscript{34} State holding corporations in China are also often referred to as state asset management corporations or state investment corporations.

\textsuperscript{35} For aspects of the legal status of state holding corporations see Liu (1996).
3. Evaluating the reforms: the case of Shanghai’s state holding corporations

During the establishment of the new state-owned asset management system and the ensuing corporatization of SOEs, serious problems have arisen. Inadequate accounting institutions, the strong influence of vested interests in the state sector, and the absence of crucial factor markets—such as markets for corporate control, capital, and managerial skills—have created obstacles.\textsuperscript{36} Perhaps more fundamentally, the state sector faces difficulties in clarifying property rights and ameliorating agency problems because reforms have not adequately disentangled party management from the corporate governance of SOEs and state holding corporations.

Under the newly established three-tiered state-owned asset management system, state holding corporations stand on top of the Chinese state-owned corporate hierarchy. They manage assets on behalf of the state and thus directly influence the corporate governance of all SOEs. Evaluating state holding corporations in Shanghai offers an ideal analytical window because Shanghai pioneered the implementation of the three-tiered system and completed its establishment by the late 1990s. Indeed, by 1999 the thirty-nine state holding corporations established in Shanghai controlled more than 90 percent of the city’s productive state assets.\textsuperscript{37} Almost all of Shanghai’s SOEs were thus in some form fully or partially owned by state holding corporations.

\textbf{State holding corporations in Shanghai: a brief historical overview}

In the summer of 1993 the Shanghai government established the Shanghai State-owned Asset Management Commission and its attached Office. Composed of more than thirty representatives from the leadership and economic bureaucracy of the city government and party, the commission began in late 1993 to establish state holding corporations out of large enterprise groups (qiye jituan) and SOE supervisory bureaucracies controlling whole industrial and commercial sectors. As a result, the establishment of state holding corporations allowed the Shanghai government to eliminate most of its SOE supervisory bureaucracy.

Bureaus in charge of whole industrial sectors, such as the Shanghai Textile Bureau and the Shanghai Measurement and Electronics Bureau, were directly converted into state holding corporations after streamlining their staff and undergoing some internal restructuring. A different approach was taken for abolishing the supervisory bureaucracy in charge of Shanghai’s commercial sector. Enterprise groups under the bureaucracy’s control, such as the First Department Store Conglomerate, were converted into state holding corporations headed by the top cadres of the supervisory bureaucracy.\textsuperscript{38} Finally, several large enterprise groups established in the 1980s, such as the Shanghai Automobile

\textsuperscript{36} For an overview of the problems encountered during the initial phases of the reforms, see World Bank (1997).

\textsuperscript{37} Shanghai nianjian \textit{(1998)}, p. 254.

\textsuperscript{38} This has generally been the approach taken at the central level after China’s Premier Zhu Rongji initiated reforms in 1998. For example, the top leaders of the disbanded Ministry of Metallurgical Industry were transferred to the boards of directors of the four major steel enterprise groups in China, conveniently taking care of the interests of these powerful bureaucrats and increasing the status of these four enterprise groups.
Industrial (Group) Corporation, formed small core enterprises to specialize on the management of state-owned assets. Subsequently, these core enterprises gained the status of state holding corporations.

In this manner, Shanghai’s establishment of state holding corporations actively made use of former government bureaucracies and large state-owned enterprise groups. This move has aroused some controversy. Former government bureaucracies and large state enterprise groups are likely to continue their old behavioral patterns. Indeed, some observers have voiced the fear that government bureaucracies converted into holding corporations might gain in influence without being forced to implement real changes.  

The controversial nature of state holding corporations and their centrality to China’s state sector reforms require closer evaluation. Specifically, the following analysis will focus on how the institutional structure of party management has influenced two issues central to corporate governance reforms: whether reforms have remedied problems in China’s traditional system of state ownership, especially the clarification of property rights and the separation of state and enterprise; and whether reforms have adequately addressed agency problems in the governance of state holding corporations.

Clarifying property rights and separating state and enterprise

As in many other countries that have tried to restructure their state sectors by establishing holding corporations, Shanghai’s state holding corporations were created to clarify SOE property rights and to exercise more effectively the state’s ownership functions. In practice, though, SOE managers have seen little difference between the old supervisory agencies and the newly established state holding corporations other than a name change. Why? Continued party management of important aspects of the corporate governance of state holding corporations has caused different state and party agencies to perform ownership functions. This problem is most pronounced in the process by which directors and executive managers are appointed to state holding corporations. As Figure 1 shows, the decisionmaking process for appointing these key leaders is spread out among a number of party and state institutions.

First, since many appointments to corporate leadership positions in the Chinese state sector tend to be made from within an enterprise, the party

---

39. Author interviews with government official, Shanghai Economic Commission, and professor, Central Party School, Beijing.
40. These two problems are admittedly only part of the corporate governance difficulties facing China’s state sector. The structure of the financial, market, and regulatory systems also directly influence corporate governance. Unfortunately, space considerations do not allow for a comprehensive discussion of these problems.
41. For a comparative analysis of the problems of state holding corporations, see Kumar (1993).
42. Author interviews with Shanghai SOE managers and management staff; and SOE manager, Chengdu. See also Broadman (1999).
43. These key leaders include the majority of directors and key members of the management team. The party is only responsible for managing party members, but because most managers and directors in state holding corporations are party members, it effectively controls all key personnel appointments.
Figure 1. The process of personnel appointments in the Chinese State Sector.
Committees of state holding corporations are closely involved with personnel appointments. These party committees possess key knowledge regarding suitable candidates and tend to suggest potential appointees to leadership positions.44

Second, ad hoc committees are specifically convened to appoint top executives in the state sector. These committees are commonly referred to as the kou (literally, mouths) and are each responsible for one major section of China’s state sector. For example, in Shanghai the jingkou (economic mouth) discusses appointments to state holding corporations managing industrial enterprises. The membership of the jingkou varies according to the personnel decision at hand, but usually includes Shanghai’s standing vice-mayor (changwu fu shizhang), a vice-party secretary, and the heads of various key departments in charge of industry.45 In addition to the jingkou, there is a nongkou (agriculture mouth), jiankou (construction mouth), waimaokou (foreign trade mouth), and shangkou (commerce mouth) in Shanghai.46 These committees convene at irregular intervals, though frequently (generally once or twice a week), and are considered quanwei (vested with powers). Since they include members of Shanghai’s top city leadership and party committee, they constitute key decisionmaking bodies for appointing state holding corporation executives.47

Third, the Shanghai Organization Department (Shanghai zuzhibu) reviews the political backgrounds of candidates and makes recommendations on their suitability. Organization departments in China manage the personnel dossiers of party cadres central to the functioning of the nomenklatura system. Often, these agencies become directly involved in personnel decisions by sending investigative teams to conduct what is described as a “democratic process.” As one organization department official outside Shanghai put it, a small SOE normally requires three or four organization department officials on an investigative team, while the position of the chair of the board of directors of a state holding corporation requires up to ten personnel to canvass opinions from mid-ranking staff in the corporation.48

Fourth, for appointments to very sensitive positions (like a seat on the board of directors of the Shanghai Automobile Industrial Corporation), the city’s party committee tends to make the final decision. After the decisionmaking process is completed, the Shanghai State-owned Asset Management Commission rubber-stamps the appointment. Officially, this commission acts as the representative of all state property under the administration of the City of Shanghai. In practice, though, it meets only twice yearly and chiefly functions as a body to discuss and coordinate state asset management reforms in Shanghai.

44. Author interviews with various officials at Shanghai state holding corporations; academic, Development Research Council, Beijing.
45. Chinese provincial level cities generally have several vice-mayors. The standing vice-mayor is second in rank following the mayor.
46. On the prefectural and county level, the jingkou carries a different name and is commonly referred to as the Industry and Transport Work Committee (gongye jiaotong gongzuo weiyuanhui). Author interview with director, Large Group Corporation, Chengdu.
47. Author interviews with officials of Shanghai state holding corporations; director, large group corporation, Chengdu; academic, Sichuan Party School.
48. Author interview with government official, Organization Department, Sichuan.
The above description represents somewhat of a simplification of how personnel appointments are conducted in China’s state sector and is mainly applicable to state holding corporations under provincial governments. In fact, how personnel appointments are made varies according to the size and status of a state enterprise, its geographical location, and its sector. For example, large SOEs attached to the central government can undergo an even more complicated appointment process involving both central and provincial party organs.\(^{49}\)

The process of personnel appointments is also liable to go back and forth, involving various rounds of discussions and negotiations. Government officials and party cadres lamented the fact that appointments cannot be made at will.\(^{50}\) One organ or another involved in the process can easily reject executives recommended for a position. Therefore, deciding on the right executive can be an extremely protracted and cumbersome process.

Many of those interviewed further noted that unless top enterprise leaders are put under disciplinary investigation they tend to have a very significant say on who their successors will be.\(^{51}\) As noted above, in most cases the party committees of state holding corporations suggest appointments. This allows key committee members, especially the party secretary and the chair of the board of directors, to control the decision-making process tightly at the outset and skew it in favor of candidates with insider connections. A small group of decision-makers can thus circumscribe the appointment of qualified outside personnel, who are crucial for improving managerial efficiency by supervising party and state agencies.

Moreover, state holding corporation leaders are rarely held accountable for bad economic performance. As one official with the Shanghai Textile Corporation described it, managers in his corporation are fired only if they commit grave transgressions of party discipline (e.g., flagrant corruption or negligence leading to the death of a worker).\(^{52}\) Consequently, top executives in China’s state sector need not fear repercussions for economic mismanagement. As long as the performance of a state holding corporation does not deteriorate massively, most executives below the retirement age of sixty are assured renewal of the usual three-year contract. Even if a corporation incurs major losses, the worst executives can expect after their contract expires is to be transferred to a “golden” post—a position with the same salary and fringe benefits but no management responsibility.\(^{53}\)

---

50. Author interviews with government officials, Shanghai; officials, Organization Department, Sichuan Province; high-ranking academic, Shanghai Academy of Social Sciences.
51. Author interviews with academics, Shanghai Academy of Social Sciences and the Development Research Council, Beijing; various Shanghai state holding corporations; Shanghai government officials.
52. Author interview with department head, Shanghai Textile Holding (Group) Corporation. Also, the research division head of the Shanghai Measurement and Electronics Holding (Group) Corporation mentioned these conditions for firing a top-ranking manager.
53. This problem has been mentioned by several interviewees, including a government official, Shanghai Economic Commission; high-ranking academic and professor, Shanghai Academy of Social Sciences; officials, Shanghai state holding corporations; Director, large group corporation, Chengdu.
The party’s personnel management system’s unresponsiveness to economic criteria has not gone unnoticed. In early 1999, organization departments of the Communist party began to draft new national evaluation standards for state enterprise cadres. These standards attempt to separate the management of state-sector cadres from administrative–political cadres by focusing the selection process of state enterprise executives on economic accomplishments. However, organization department staff noted that it is doubtful to what extent these new evaluation criteria can be effectively utilized. Organization departments are not the only bodies responsible for personnel management, and they generally lack the expertise to conduct economic evaluations.  

The underlying problem is that agencies responsible for monitoring the economic performance of state holding corporations, such as the office attached to the Shanghai State-owned Asset Management Commission, are not directly involved in personnel decisions. Conversely, party bodies responsible for personnel decisions are not directly in charge of monitoring the economic performance of state holding corporations. To ameliorate this problem, in early 2000 China’s central government established the Enterprise Work Committee (qiyegongzuoweiyuanhui). This new agency seeks to combine economic and disciplinary oversight with the powers to hire and fire executives in China’s top three hundred central SOEs and state holding corporations. So far the Work Committee has produced unsatisfactory results, however. It has been unable to function effectively due to turf wars among institutional interests, especially among central party institutions wanting to retain personnel appointment powers and central government institutions seeking to obtain these powers.  

China’s new state-owned asset management system’s fragmented exercise of state ownership rights is not confined to personnel matters. For instance, responsibility for executing financial oversight in Shanghai state holding corporations rests with several party and state institutions, including provincial and central organs such as the Shanghai Economic Commission, the Shanghai Financial Department, the Shanghai Party Disciplinary Commission, and the central State Administration for State Property under the Ministry of Finance.

The most important consequence of this fragmentation is its failure to effectively monitor the behavior of leading state sector executives. Since state holding corporations are governed by a diverse set of party and state agencies, no agency possesses sufficient incentives to monitor corporate executives. Each agency can shirk responsibility for management oversight by implicating other bodies for its failures. This situation is aggravated by a mismatch of competencies and authority among governing agencies. Party bodies that determine the advancement of state holding corporation executives do not possess the tools to assess individuals based on their management acumen, while state agencies evaluating enterprise performance have little say on personnel changes.

54. Author interview with government official, Organization Department, Sichuan.
55. Author interviews with central government consultant, Sichuan, and academic, Development Research Center, Beijing.
To ameliorate agency problems prevalent in China’s state ownership system, recent reforms have sought to establish a set of institutional checks and balances by converting all state enterprises into limited liability corporations. The blueprint for this change is contained in China’s *Company Law*, which stipulates that all Chinese limited liability corporations must establish modern corporate governance institutions, including shareholder meetings, boards of directors, and boards of supervisors.

State holding corporations are also required to establish these corporate governance institutions. However, since state holding corporations are entirely owned by the state, they generally convert into wholly state-owned limited liability corporations (*guoyou duzi youxian zeren gongsi*). These corporations have corporate governance structures that differ from those of normal limited liability corporations. With only one shareholder (the state), no shareholder meetings are held. Rather, institutions of state and party representing the state’s ownership rights hold most of the powers that would be vested with shareholder meetings. For example, these representative institutions need to be consulted on decisions that relate to mergers, divisions, dissolutions, changes in capital structure, the transfer of state-owned assets, and the issuing of stocks and bonds. Wholly state-owned limited liability corporations thus are more closely tied to the state bureaucracy than are normal limited liability corporations.

These close ties are reflected in their personnel arrangements. As in most Chinese state holding corporations, many executives in Shanghai’s state holding corporations are drawn from the economic bureaucracy that previously oversaw the state sector. For example, all members of the Shanghai Textile Holding (Group) Corporation’s board of directors were bureau directors, party secretaries, or other important officials in the disbanded Shanghai Textile Bureau. Zhu Kuangyu, the chair of the board of directors of the Shanghai Textile Holding Corporation, held the position of party secretary in the Textile Bureau. He secured his new position when the past director of the Textile Bureau retired upon its dissolution. Zhu Kuangyu also continues to act as party secretary of the Shanghai Textile Holding Corporation.

The fact that Zhu Kuangyu concurrently acts as party secretary and chair of the board of directors conveys an increasingly common pattern in China’s corporatized SOEs. During the 1980s various attempts were made to free SOE managers from the supervision of the party. These reforms attempted to circumscribe the power of party secretaries and devolve greater responsibility for enterprise operations to factory managers. However, in the 1990s the leading role of the party secretary in enterprise affairs was reaffirmed. Under the so-called Concurrent System (*jianrenzhi*), top enterprise leaders have tended to act both as party secretaries and factory directors/chairs of the board of directors.

56. The legal status of these wholly state-owned limited liability corporations is laid out in the *Company Law* under article 21 and articles 64 to 72.
57. Author interview with department head, Shanghai Textile Holding (Group) Corporation.
58. For an overview of some of these reforms, see You (1998).
Shanghai government regulations uphold the prevalence of the Concurrent System by stating that, where possible, the party secretary of state holding corporations should act as the chair of the board of directors. If this requirement cannot be fulfilled, then the chair should act as vice-secretary and the secretary as vice-chair of the board of directors (i.e., the positions are held crosswise). As a result of this arrangement, the role of party secretary has been fused with that of the state’s property rights representative.

State holding corporation provisions codify the position of party committee members in the corporate hierarchy. For example, several Shanghai state holding corporations have stipulated that the percentage of party committee members sitting on the board of directors cannot fall below 50 percent. Moreover, the Shanghai Textile Holding Corporation has set the proportion of party committee members serving on the management team at one-third or above.

The centrality of party committee members in the governance of state holding corporations has blurred the division of labor envisaged between the board of directors and the management team. The Shanghai Textile Holding Corporation, like other state holding corporations following China’s Company Law, states clearly that no members of the management team other than the general manager should sit on the board of directors. However, key members of the Shanghai Textile Holding Corporation’s management team have concurrently been directors, including one vice-general manager and several heads of important administrative departments (finance and asset administration). Indeed, in several corporatized SOEs, the chair of the board of directors also acted as the general manager of the corporation. As one observer put it, “the leaders of these enterprises like to wear many hats, acting concurrently as chairs, party secretaries, and executive managers.”

In addition to fusing the membership of the party committee, management team, and board of directors, state holding corporations in Shanghai also integrated party and supervisory board functions. In China, the main purpose of the board of supervisors is to monitor the behavior of directors and managers to assure that owner interests are sufficiently protected. Reflecting this purpose, the members of supervisory boards in Shanghai’s holding corporations tend to be drawn from three sources: (1) government departments, such as the Shanghai Economic Commission and the Shanghai Department of Finance; (2) outside government service, such as economists or accountants; and (3) within state holding corporations, most often the chair of that corporation’s party disci-

---

60. Internal materials, Shanghai State-owned Asset Management Commission.
61. Author interview with department head, Shanghai Textile Holding (Group) Corporation.
62. Internal materials, Shanghai Textile Holding (Group) Corporation; and author interviews with department head, Shanghai United Electrical (Group) Corporation, and government official, Shanghai Economic Commission.
63. Internal materials, Shanghai Textile Holding (Group) Corporation.
64. Internal materials, Shanghai Textile Holding (Group) Corporation.
65. Author interview with department head, Shanghai Textile Holding (Group) Corporation.
66. Author interviews with management consultant, Huangpu Real Estate Corporation; government official, Shanghai Economic Commission; sales executive, Shanghai Advertising Agency; and director, Shanghai Pearl Oriental Corporation.
plinary commission (dang jilu jiancha weiyuanhui) and one staff and worker representative.

These three sources convey clearly the two major objectives of boards of supervisors. First, these boards are meant to further institutionalize the oversight of key government departments over how state holding corporations are managed, thus assuring the protection of state assets. Second, the functions of boards of supervisors run parallel to those of party disciplinary commissions. In several state holding corporations, the head of the party’s disciplinary commission acts as the vice-chair of the board of supervisors.67 This allows the functions of the board of supervisors to overlap with the party’s traditional role as the primary organ in charge of managerial discipline.

Besides the party apparatus, the official trade union of state holding corporations has been incorporated into the new corporate governance institutions. Generally, one union representative (typically the head of the union and a member of the party) sits on the board of directors, while another acts as the vice-head of the board of supervisors.68 Despite its official representation on the two new governing boards, however, the role of the union has changed little. The head of the union sitting on the board of directors is also present on the party committee. Under this arrangement, union interests remain closely aligned with those of a corporation’s party committee.69

Figure 2 expresses in schematic form how new and old governance institutions have been melded in state holding corporations. The party committee constitutes the central institution, since its members hold most of the important positions in the new governing institutions. Chinese analysts have also emphasized the party’s centrality in its two key roles in the corporate governance of state enterprises.70 First, the party remains the political center of an enterprise, and as such handles all political affairs. This includes the party’s insistence on managing cadre appointments, enforcing ideology, and ensuring that corporate decisions take into account national policies and conditions. The party also handles party discipline, including the detection of corruption and financial irregularities committed by party cadres. Second, the party retains the right to involve itself in all major corporate decisions of an enterprise, which it accomplishes through the occupation of important leadership positions in the corporation, including those of chair and general manager, by party cadres.

The primacy of the party in the governance of Shanghai state holding corporations tends to produce a similar decisionmaking pattern. First, the party committee (of which all the major managers and directors are members) reaches the basic decision.71 Then, by filtering the information through party channels, the union and staff and workers are consulted. For important matters the decision

67. Author interviews with department head, Shanghai Textile Holding (Group) Corporation, and management consultant, First Department Store (Group) Corporation.
68. Author interviews with Party Secretary, Three Gun (Group) Corporation, and academic, Shanghai Academy of Social Sciences.
69. On the passive role of the union in China’s enterprises see also Zhao and Nichols (1996).
70. See An (1996).
71. Author interview with government official, Shanghai Commission for the Restructuring of the Economy.
is relayed to higher government authorities for further ideas and approval. Finally, the board of directors ratifies the decision.

The party committee’s central role in the corporate decisionmaking process aggravates a common governance problem: the division of labor between institutions representing ownership (boards of directors) and management is
illusory. Similarly, China’s establishment of an additional oversight institution, the board of supervisors, has had limited effect. As one official put it: “It is better to have a board of supervisors than none. However, we still have not solved how the board of supervisors can effectively monitor and constrain management behavior.”72 Finally, the institutional structure of party management means that state holding corporation executives lack the power to hire and fire subordinates.

Ideally, in order to separate the functions of state and enterprise, directors should be able to freely select the executive managers best suited to run an enterprise. Shanghai state holding corporations officially strive for this ideal in their process of appointing executive managers. According to this process, the state holding corporation’s board of directors suggests a candidate, and then the Shanghai State-owned Asset Management Commission officially appoints him or her. Some state holding corporations, such as the Lansheng (Group) Corporation, have even been allowed to pioneer a system whereby their boards of directors can appoint top executive managers without seeking official government approval.73

However, in reality state and party agencies of the City of Shanghai (see Figure 1) directly influence the selection and appointment of about a dozen positions in state holding corporations, including the chair and vice-chair of the board of directors, the chair and vice-chair of the board of supervisors, the general manager, vice-general managers, the party secretary and vice-party secretary, the union chair, and the heads of important departments such as finance and personnel. Taken together the positions under the control of Shanghai’s party apparatus encompass all significant personnel in state holding corporations.74

The result of the extensiveness of the appointments under Shanghai’s party apparatus is that the party not only decides who sits on the two governing boards, but also determines the composition of the management team, including important department heads. Under these circumstances, state holding corporation directors possess little leeway in appointing executive managers, and executive managers in turn do not have the power to appoint deputies and department heads. Executive managers and directors, although vested with substantial influence by their official capacities, are robbed of an important tool to enforce managerial discipline—the prerogative to hire and fire.75

Therefore, despite corporatization the party apparatus wields considerable influence over the governance of state holding corporations. As one official characterized this state of affairs, “dang guan yiqie” (the party manages everything).76 In particular, the party committee tends to form the nucleus of power in state holding corporations, centralizing the corporate decisionmaking

72. Author interview with department head, Shanghai Textile Holding (Group) Corporation.
73. Internal materials: Shanghai State-owned Asset Management Commission.
74. Author interviews with government official, Shanghai Economic Commission; department head, Shanghai Textile Holding (Group) Corporation; department head, Shanghai Agriculture and Industry (Group) Corporation.
75. Author interviews with government official, Shanghai Economic Commission, and department head, Shanghai Textile Holding (Group) Corporation. See also Steinfeld (1998) pp. 101–106.
76. Author interview with director, Large Group Corporation, Chengdu.
process. The party’s role in the new governing institutions of China’s state sector creates several pronounced governance problems.

First, the predominant influence of party bodies, especially in personnel appointments, leads to skewed management incentives. In general, Communist ideology now plays a minor role in executive appointments and corporate decisionmaking. However, the party’s personnel management emphasizes the political reliability of the state sector’s executive corps. Managers of state assets thus tend to spend considerable effort presenting the right political image and nurturing good relations with superiors in the party hierarchy. Effectively managing state assets is secondary, especially since there are few negative consequences of economic mismanagement. The party’s influence over corporate decisions also gives primacy to strictly adhering to national economic guidelines. Under these circumstances, following policy directives generates better potential rewards for state sector executives than seeking innovative solutions to increase efficiency.

Second, since all corporate decisions are either made by a corporation’s party committee or handed down through party channels, the system of internal checks and balances within a corporation envisaged by China’s *Company Law* has failed to take root. Aggravating this condition is the scope of the party’s control over the appointment system. Superiors cannot easily fire their subordinates, since these decisions involve party and state institutions in a protracted and cumbersome process.

In the case of Shanghai’s state holding corporations, insufficient checks and disciplinary tools within their corporate structures leave provincial-level party and state institutions to control managerial behavior. This system can work well for a small number of high-profile holding corporations about which the leaders of Shanghai are especially concerned. For example, the Shanghai Automobile Industrial Corporation is one state holding corporation that has benefited from close oversight. Many of Shanghai’s leaders and a sizeable number of central leaders have had stints at this company, creating a direct link between its management and the highest echelons of power. The corporation thus remains at the center of national industrial policies and is one of Shanghai’s most technologically advanced enterprises. This example is the exception rather than the rule, however.

As noted previously, the exercise of state ownership functions is divided among a number of party and state institutions. These institutions hold only partial responsibility and face insufficient incentives to monitor and supervise the performance of state holding corporation executives. In addition, the party and state agencies’ oversight of state holding corporation management has obviated the development of effective third-party oversight. Information regarding the performance of state holding corporations is viewed as highly sensitive, because

77. Author interviews with general manager, Foreign Trading Corporation, Shanghai; professor, Shanghai Academy of Social Sciences; and government official, Shanghai Commission for the Restructuring of the Economy.

78. In the state sectors’ of other countries the same phenomenon can be observed. A few national champions do quite well, while the majority of SOEs suffer from inadequate corporate governance mechanisms (see Waterbury (1993)).
Christopher A. McNally

it reflects how the state sector as a whole performs. Only a limited number of party and state organs are granted access. Under these circumstances corporate transparency remains very low, a situation further aggravated by China’s weak accounting and legal institutions.

Finally, the monopolization of executive appointments by the party apparatus has set back the development of markets for managerial skills. The continued importance of the nomenklatura system in selecting candidates for corporate leadership positions severely limits the available pool of talent. In addition, efforts to marketize executive appointments within the confines of the nomenklatura have been unsuccessful. For instance, the Shanghai Party Organization Department and the Shanghai Personnel Department established the Shanghai Corporate Personnel and Search Company (Shanghai changzhang jingli rencai gongsi) in September 1995. Registered as a corporation and functioning as a nonprofit organization, the Corporate Personnel and Search Company should act like a headhunter to intermediate between enterprises seeking managers and potential executive appointees. However, most enterprise units continue to rely on internal appointments or networks established via party organizations to search for enterprise leaders.

In the final analysis, the case of state holding corporations in Shanghai shows how the institutional structure of party management hampers the creation of effective corporate governance mechanisms under China’s corporatization policy. On the one hand, state sector executives continue to be severely constrained by the structure of party management. Internal management appointments, career advancements, and disciplinary actions are all strictly controlled by party agencies. On the other hand, executives do enjoy more autonomy than is officially sanctioned. The central role of party committees in corporate decision-making gives top executives enormous internal autonomy. Inadequate monitoring by external party and state institutions, and insufficient corporate transparency and third-party oversight further enable top executives to carve out informal spheres of autonomy, which in turn have led to the widespread emergence of insider control.

While insider control may deliver efficient performance under certain circumstances, it also has severe costs and risks, including opportunistic management behavior, poor investment decisions, and corruption. Specifically, insider control in China allows state enterprise cadres and managers to surreptitiously self-privatize state assets. Indeed, state asset losses in China are actually far larger

79. The secrecy surrounding the performance of state holding corporations has also been a major problem in conducting fieldwork. Even internal materials made available by several key sources contained contradictory and incomplete indicators of economic performance.
80. Author interviews with foreign investor, Shanghai, and top leader, Shanghai State Holding Corporation. This problem was also evident in the former communist regimes of Eastern Europe. See Winiecki (1991), p. 4.
82. Author interviews with various government officials, Shanghai Economic Commission and Organization Department, Sichuan.
83. See Tam (1999), p. 75, on this point.
Strange Bedfellows

than most observers have realized. A recent survey of 1290 large and medium state enterprises by China’s state auditors has put state asset losses at 22.88 billion Rmb ($2.8 billion), or 3.4 percent of their total assets for the year 1999 alone. As He Qinglian, a Chinese analyst writing on this topic, argues, SOE corporatization combined with continued party management is allowing Communist party cadres to enjoy “the big free lunch of socialism.”

4. Conclusion

Several authors analyzing the trajectory of Chinese economic reforms argue that the Communist party’s authority has buttressed the power of the central state, allowing for the implementation of contentious reform initiatives and macro-economic stabilization measures. These authors further emphasize that the key to the Communist party’s power is its control over the appointment of major political and economic actors.

Arguments concerning the beneficial nature of the party’s power for economic reform have mainly concentrated on the relationship between central party authorities and provincial leaders. In contrast, this article focuses on the relationship between provincial party authorities and newly established state holding corporations. The findings of this analysis show that party management of state assets, while capable of effectively managing a small number of high-profile corporations, has corrosive effects on the day-to-day corporate governance of the whole state sector.

In essence, the party personnel appointment process constitutes the backbone of the Chinese political system. It functions like mucilage, the main source of systemic coherence, binding the state sector, bureaucracies, and the party leadership together. Thus, the party’s nomenklatura system can strengthen central authority by creating incentives for political cadres to adhere to central policies. However, several steps below the central authorities in the corporate realm, the party’s mucilage tends to have the opposite effect. Without effective external oversight, the centrality of a corporation’s party committee in the process of information management and corporate decisionmaking can create conditions for insider control. In other words, the central authorities’ most powerful weapon of control becomes a liability for the establishment of effective corporate governance mechanisms.

Continued party interference in the governance of state holding corporations also holds important implications for solving the woes of China’s state sector. In his recent analysis of Chinese steel enterprises, Edward Steinfeld suggests that massive SOE privatization would be counterproductive, because China lacks the institutional underpinnings necessary for effective corporate governance.

84. See Ding (2000), p. 1. Ding also notes how the underlying dynamic of state asset losses in China is similar to the one that unfolded in Eastern Europe and the successor republics of the Soviet Union.
88. This point is made most explicitly in Huang (1996).
Christopher A. McNally

mechanisms to function. In Steinfeld’s view, the only viable solution to China’s state sector woes is to enforce “hard” budget constraints, which would stop the flow of cheap credit into the state sector and make it increasingly difficult for state enterprise managers to steal assets. The enforcement of hard budget constraints, however, would necessitate more capable and direct state involvement. As Steinfeld puts it, “one must bring the state in to get the state out.”

This article casts doubt on his argument. Continued interference by party and state organs in the corporate governance of state enterprises makes it highly unlikely that budget constraints can be hardened. As long as state and party manage the commanding heights of both industry and finance, it will be almost impossible to stem the flow of cheap preferential credit form state banks to state industry. The Communist party’s insistence on retaining its monopoly over key personnel appointments, its command over the state bureaucracy, and its control over information flows also further aggravates the impracticality of effective state sector reform. Bringing the state in to get it out might just create more governance failures.

While efforts to establish effective corporate governance mechanisms by strengthening the state’s capacities are unlikely to succeed, inoperative mechanisms of corporate governance also continue to persist when the ownership of a Chinese state enterprise is partially privatized. For example, the Hongguang Television Tube Corporation listed on the Shanghai stock exchange became notorious after it was revealed in 1998 that its management had concealed major problems in its operations and falsified accounts for several years. At the time, Hongguang was considered as one of the listed corporations with the most diversified ownership. Only 34.6 percent of its shares were owned by a state holding corporation of the same name under the government of Chengdu City in Sichuan. However, despite this relatively small state share, the directors of the listed entity were identical with those on the state holding corporation’s board of directors. The example of Hongguang reflects how most Chinese firms listed on stock exchanges continue to be controlled either inside the shareholding structure by a SOE or through a state-owned majority shareholder. Either way, the listed state enterprise, even if only partially owned by the state, remains subject to interference by party and state institutions.

Neither “hard” budget constraints nor the partial diversification of state enterprise ownership promises to offer effective solutions to the woes of China’s state sector. Ultimately, the implementation of effective state sector reforms in China is a political problem. China’s Communist party has tried to maintain the framework of party management in the state sector in case it is needed for reimposing political controls, as in the aftermath of the June 4 incident in 1989. Yet, party management has allowed vested interests to become deeply

91. See also Waterbury (1993) and Bienen and Waterbury (1989) on this point.
92. Author interview with director, Large Group Enterprise, Chengdu.
93. See also Steinfeld (1998) and Freund (2001) on this problem.
entrenched in the institutional framework controlling state holding corporations, state financial institutions, and SOEs. Continued insistence by the party on managing key aspects of state enterprise governance is thus encumbering fundamental changes and stimulating abuses of power by party cadres in charge of managing state assets.\(^\text{94}\)

Therefore, the involvement of party institutions in the economic arena must be reconstituted to enable sustainable reform. The first step would be to centralize the oversight and management of state holding corporations, including personnel appointments, in one government institution. However, the experience of the central Enterprise Work Committee shows that this is politically difficult.

In the final analysis, the most direct means to diminish party influence over the corporate governance of state enterprises would be the implementation of a comprehensive and far-reaching privatization program. As several authors argue, majority privatization of state enterprises remains the most effective long-term remedy to large-scale economic corruption, politically motivated resource allocation, and state asset losses.\(^\text{95}\) Large-scale majority privatization, however, would directly threaten the dominance of party control over economic actors.

The continuation of economic reforms will necessitate a tradeoff. Either the party insists on retaining its political control over state sector executives while continuing the present corporatization and marketization policies (and thus the illicit privatization of state assets will continue without generating benefits for state coffers), or the party loosens its political grip over the economy and enables the implementation of far-reaching corporate governance reforms coupled with the full privatization of state assets. Either way, China’s political economy will lurch towards capitalism.

References


94. In a related vein, Zheng (1999) argues that party leaders’ insistence that the leading role of the Chinese Communist Party not be weakened obviates the building of viable state administrative, legislative, judicial, and military institutions.

95. See Shleifer (1998) and Stiglitz (1994) on this point.


Strange Bedfellows


