

Research on the Stakeholder Model in Chinese Corporate Governance: Normative Foundations and Empirical Landscape

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China's corporate governance reform is currently at a critical transitional stage, with the introduction of Stakeholder Theory providing a clear direction for reform. Article 20 of the 2023 Company Law of China introduced the term "stakeholders" for the first time, initially establishing a framework for stakeholder protection and reflecting the Chinese legislators' active efforts to balance shareholder interests and social responsibility. However, the definition of this concept in Chinese corporate law differs from Stakeholder Theory and the UK's enlightened shareholder value (ESV) model, and some provisions remain contradictory or lack implementation details. Judicial bodies have shown varying understandings of the theory when handling cases involving stakeholders, lacking unified standards and clear judicial guidance. In business practice, Stakeholder Theory has shown positive development potential in the information disclosure reports of representative companies in China, with considerable room for further growth.

Keywords: corporate governance, Stakeholder Theory, Chinese company law, corporate social responsibility, Environmental, Social, and Governance (ESG) Report

Introduction

Justice lies at the core of economics, yet the pursuit of justice must not be detached from its costs (Posner, 1977, p. 24). According to the analytical logic of law and economics, the value of justice includes both efficiency and fairness. For companies, profit generation is certainly the primary objective of corporate governance. However, beyond profit-making, the contributions of corporate actions to society should not be neglected by managers, as these contributions could, to some extent, be converted into economic gains for the company. In this regard, corporate laws worldwide encompass not only profit-oriented rules but also provisions on corporate social responsibility. For instance, in the United Kingdom, Section 172 of the Companies Act 2006 establishes a governance model referred to as "enlightened shareholder value" (ESV). Aside from the UK, China, as an emerging economy, now holds the position of the world's second-largest economy (Dollar, 2015). The contribution of corporate law in China is similarly significant. Moreover, given China's unique political and social system, a micro-level observation of Chinese corporate law rules is especially necessary against the backdrop of global corporate governance convergence. In this context, China's corporate law also includes

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provisions resembling the UK's enlightened shareholder value (ESV) model. For example, Article 20 of the newly enacted Company Law as of 1 July 2024 stipulates that "When conducting business operations, a company shall fully consider the interests of the company's employees, consumers, and other stakeholders, as well as ecological and environmental protection and other public interests, and assume social responsibility". Article 20(2) states, "The state shall encourage companies to participate in public welfare activities and publish social responsibility reports".¹ This provision marks the first appearance of the term "stakeholders" in Chinese corporate law since the establishment of modern corporate law in China in 1993. It also signifies the growing possibility of the stakeholder model within Chinese corporate governance. Given the revolutionary impact of this legislative provision in China, it is necessary to examine the interaction between Chinese corporate law and Stakeholder Theory.

Why Should Stakeholder Theory Guide Corporate Law Reform?

Reflections on the Negative Externalities of Corporations

The expansion of modern corporations has led to increasingly evident negative externalities. With the growing influence of neoliberal values, governments' willingness and capacity to hold global corporations politically accountable have declined. On the one hand, corporations "play a fundamental role in promoting economic growth" (Bottomley, 2016, p. 2); on the other, large corporations are often "as powerful as states yet lack corresponding accountability" (Vogel, 2010, pp. 72-73). Modern corporations can even influence the development of a nation (Keay, 2013), and this influence continues to grow (Hayden & Bodie, 2020). Given the dominance of corporations over economies and societies, it has become necessary for companies to consider and reduce the negative externalities of their actions. Contemporary academia and practice both emphasise reflecting on the relationship between traditional corporate governance paradigms and stakeholders (Donaldson & Preston, 1995).

Overcoming Corporate Short-Termism

The operations of modern corporations integrate various inputs, such as human and technological resources, forming a complex input-operation function. Some scholars describe corporations as a Common Pool of Resources (CPR), whose aggregation advantage yields benefits greater than the original inputs. Directors thus assume dual roles as resource providers and ecosystem stewards (Deakin, 2011). Labour economist Edward Lazear argues that firm-specific investments by employees sometimes manifest as "idiosyncratic combinations of skills", leading to risks, including the holdup problem (Lazear, 2009). Shareholder opportunism can erode stakeholder trust and harm corporate performance. The dilemma of shareholder short-termism can be explained by the prisoner's dilemma. In a single game with incomplete information, the optimal choice is often defection rather than cooperation (Neumann & Morgenstern, 1944). However, if the game continues indefinitely, defectors face penalties in long-term relationships (Aumann, Maschler, & Stearns, 1995). In this CPR framework, suppressing stakeholder interests inevitably diminishes overall welfare in the corporation's long-term existence. The emphasis of Stakeholder Theory on long-term corporate value incorporates the temporal dimension into cost-benefit considerations, addressing the linear logic flaws of traditional paradigms, and is worthy of approval.

¹ Company Law of the People's Republic of China, Article 20(1) and Article 20(2).

Continuation of Corporate Social Responsibility Theory

Prior to the development of Stakeholder Theory, academia had already begun exploring corporate social responsibility (CSR). CSR theory, which emerged in the mid-20th century and gained broad attention after the 1970s, posits that “corporations cannot exist in a vacuum”. Corporations, beyond pursuing self-interested activities, also bear socio-political obligations, such as environmental protection, social welfare, and employee wellbeing (Sturdivant & Vernon-Wortzel, 1990, p. 3). Corporations must redefine their objectives to alleviate the extremities of economic self-interest.² Due to its broad concept, CSR theory initially suffered from methodological confusion and a lack of application standards (Carroll, 1991). Stakeholder Theory has provided CSR research with a standardised theoretical paradigm (Clarkson, 1995). Carroll’s pyramid structure marks a critical juncture in CSR theorisation: Economic responsibilities represent the production and profit generation, legal responsibilities represent compliance with laws and regulations, ethical responsibilities represent moral standards, and philanthropic responsibilities represent contributions to social welfare. These four levels correspond to corporate behaviours, from passive to proactive (Carroll, 1979), emphasising corporate social values for stakeholders beyond economic goals (Carroll, 1991). Comparatively, CSR theory focuses more on specific social practices, providing ample empirical research results for Stakeholder Theory (Porter & Kramer, 2006), and this interaction offers managers theoretical support for balancing corporate efficiency and fairness.

The Origins of ESG and Other Variants

In the 21st century, Stakeholder Theory has manifested in various forms. For instance, the Environmental, Social, and Governance (ESG) movement, which incorporates environmental and social factors into corporate decision-making, represents one such variant. The E dimension recognises the environment as an “indirect stakeholder”, subject to potential impacts from business decisions; the S dimension includes indicators such as labour, consumer welfare, and social disclosure, driving reforms to advance societal progress; and the G dimension involves the most direct stakeholders, the shareholders. Compared with CSR, ESG has become a more popular and broader concept (Roessingh & Boer, 2023), but its core aligns with that of Stakeholder Theory (Eccles & Serafeim, 2013). In recent years, guiding rules for corporate objectives have also reflected the consideration of multiple interests emphasised by Stakeholder Theory. A timely example is the Statement on the Purpose of a Corporation, issued by the Business Roundtable in the United States in 2019. Corporate executives collectively agree to shift corporate value orientation, and their commitment to creating long-term value for all stakeholders has highlighted the theme of responsible capitalism (Harrison, Phillips, & Freeman, 2019). It is evident that the evolution of corporate purpose is trending towards safeguarding the interests of multiple corporate constituents, moving beyond an exclusive focus on shareholders.

The Evolution of Stakeholder Theory in Chinese Corporate Governance Rules

Code of Corporate Governance for Listed Companies

In 2018, the China Securities Regulatory Commission (CSRC) amended the Code of Corporate Governance for Listed Companies (hereinafter referred to as the “CCGLC”), introducing the concept of stakeholders for the

² For example, Elkington’s Triple Bottom Line principle is considered a reform direction for the sustainable development of modern corporations.

first time and dedicating a separate chapter to stakeholders, environmental protection, and social responsibility.³ The CCGLC requires listed companies to respect the legitimate rights of stakeholders, including banks and other creditors, employees, customers, suppliers, and the community, and to establish effective communication and cooperation with them.⁴ The CCGLC also addresses matters concerning employee rights, ecological conservation, and public welfare.⁵ The publication of the CCGLC reflects the CSRC's response to international best practices, positioning listed companies as market leaders whose governance reforms set the standard within the capital market.

Civil Code

The Civil Code of the People's Republic of China (hereinafter referred to as the "Civil Code"), which took effect in 2021, continues the provisions of the 2017 General Principles of Civil Law and establishes companies as typical for-profit legal entities, providing a principle clause for ethical business standards:

Article 76(1): A for-profit legal person is a legal person established for the purpose of making profits and distributing the profits among its shareholders and other capital contributors.⁶

Article 86: In business activities, a for-profit legal person shall comply with business ethics, maintain the safety of transactions, receive government supervision and public scrutiny, and assume social responsibilities.⁷

Article 86 of the Civil Code prescribes four obligations for for-profit legal persons (companies) when conducting business activities: (1) comply with business ethics, (2) maintain the safety of transactions, (3) accept government and public supervision, and (4) assume social responsibilities. The first two obligations correspond to ethical responsibilities within Carroll's pyramid structure, while "assume social responsibilities" can be interpreted as philanthropic responsibilities (Carroll, 1979). Although Article 86 does not explicitly state the basic obligation to "comply with the law", Article 8 provides that "When conducting a civil activity, no person of the civil law may violate the law, or offend public order or good morals".⁸ A systematic interpretation of the Code reveals a more complete framework of social responsibility standards. However, this clause presents interpretative challenges. First, business activities are typically understood as a company's external commercial actions, usually involving only external stakeholders, while corporate governance activities affect not only external stakeholders but also internal stakeholders (such as employees). Thus, to some extent, the Civil Code's provisions overlook the protection of internal stakeholders. Second, this clause mentions only "business ethics", but within the Chinese legal system, moral conduct should meet both business and social ethics. However, the term "comply with social ethics" is not emphasised as a corporate code of conduct in the Civil Code. Third, it remains unclear whether for-profit legal persons are required to uphold these obligations in non-commercial activities (Xue, 2021).

Company Law

Chinese company law has focused on the interests of non-shareholder groups for nearly 20 years. The Company Law of the People's Republic of China, amended in 2005 (hereinafter referred to as the "2005 Company

³ Code of Corporate Governance for Listed Companies, see http://www.csrc.gov.cn/csrc_en/c102034/c1372459/content.shtml.

⁴ Although the legal definition of stakeholders here is enumerative, the group of stakeholders is not closed. Additionally, the specific mention of "banks" is a distinctive provision.

⁵ Code of Corporate Governance for Listed Companies, Articles 85-87.

⁶ Civil Code of the People's Republic of China Article 8.

⁷ Ibid. Article 26.

⁸ Civil Code of the People's Republic of China Article 8.

Law”), introduced a social responsibility clause, whereby Article 5(1) stipulates: When conducting business operations, a company shall comply with the laws and administrative regulations, social morality, and business morality. It shall act in good faith, accept the supervision of the government and general public, and bear social responsibilities.⁹ However, as this clause is a legal principle, it is difficult to serve as a basis for judicial practice (Dworkin, 1967), and challenging to implement in corporate governance practice. The 2023 amendment to the Company Law (hereinafter referred to as the “2023 Company Law”) introduces the term “stakeholders” and establishes two categories of “rule groups” related to stakeholder interests.

Rule Group 1: General rules for stakeholder protection. These rules are concentrated in the General Principles of the 2023 Company Law, with Article 1 directly stipulating that company law should protect “employees”, “shareholders”, and “creditors”—the stakeholders most directly affected by corporate actions. Article 1 of the 2023 Company Law also calls for the “improvement of a modern enterprise system with Chinese characteristics and the promotion of entrepreneurial spirit”.¹⁰ The “entrepreneurial spirit” reflects a spirit of innovation, generally manifested as a pursuit of improving economic development rather than merely seeking arbitrage opportunities (Schumpeter & Swedberg, 2021). Thus, protecting entrepreneurial spirit indirectly supports stakeholder protection. Additionally, the social responsibility clause is now Article 19, and a new stakeholder clause has been added as Article 20, directly following.

(1) When conducting business operations, a company shall fully consider the interests of the company’s employees, consumers, and other stakeholders and ecological and environmental protection and other public interests, and assume social responsibility.

(2) The state shall encourage companies to participate in public welfare activities and publish social responsibility reports.¹¹

This clause explicitly states that companies should bear broader social responsibilities, reflecting a positive response to Stakeholder Theory. In this clause, stakeholders are listed as “employees”, “consumers”, and “other stakeholders”. Interestingly, logically analysing the order of subjects in China’s stakeholder clause suggests that “environmental protection” and “public interest”, following “other stakeholders”, are not considered “stakeholders”. This differs from the academic perspective, which often includes “environment” and “community” as stakeholders, and contrasts with the structure of Section 172(1) of the UK’s ESV model.

Rule Group 2: Rules protecting specific stakeholder interests. This group primarily focuses on protecting the rights of two types of non-shareholder stakeholders: employees and creditors. In the 2023 Company Law, employee rights related to participation in corporate governance and expressing governance opinions are protected, such as in Article 68, which expands the scope of employee representation on the board of directors: “in a limited liability company with more than 300 employees, in addition to having a board of supervisors with employee representatives, the board of directors shall include employee representatives”.¹² Article 17(3) ensures “the right of employees to vote on specific matters”, stipulating that

⁹ Company Law of the People’s Republic of China (2005), Article 5.

¹⁰ Company Law of the People’s Republic of China, Article 1.

¹¹ *Ibid.* Article 20.

¹² *Ibid.* Article 68.

To make a decision on restructuring, dissolution, application for bankruptcy, or any important issue relating to business operations, or to formulate any important bylaw, a company shall solicit the opinions of its labor union, and shall solicit the opinions and proposals of the employees through the assembly of the representatives of the employees or in any other way.¹³

For creditors, Chinese company law primarily protects creditors' rights to debt repayment, preventing unjustified depletion of corporate assets. Following the 2005 Company Law's provisions on shareholder liability and corporate veil piercing, the 2023 Company Law has adjusted the timeframe for shareholders to make capital contributions in limited liability companies,¹⁴ added shareholder liability for breaching capital contribution obligations,¹⁵ and specified the board's duty and liability to urge capital contributions. Additionally, the 2023 Company Law introduces shareholder disenfranchisement,¹⁶ liability for the withdrawal of capital,¹⁷ along with accelerated maturity of capital contributions.¹⁸ Rules on capital responsibility transfer for defective contributions are also explicitly stipulated.¹⁹ These clauses set strict accountability mechanisms within companies, addressing creditor protection. Compared to the CCGLC, the 2023 Company Law has higher legal authority, a broader regulatory scope, and applies to all companies, not just listed ones. The trend of social reform in Chinese company law is evident, which will aid in aligning China's corporate governance rules with international standards and enhancing the competitiveness of Chinese corporate law in the global business market.

From Judicial Judgments to Business Practice: The Interaction Between Stakeholder Theory and Chinese Corporate Governance

Judicial Interaction: Judicial Review of Stakeholder Theory

Although China is not a common law jurisdiction, judicial interpretation and application of the law by judges in judicial practice can still influence subsequent case rulings.²⁰ By analysing the legal reasoning sections of existing judicial judgments, one can gain insights into the state of stakeholder protection in China. As of the writing of this article (13 August 2024), a search using "stakeholder" as a keyword in the main text yielded 308 civil case judgments in mainland China from the PKU Law and Lawinfochina database.

Selection and categorization of judicial documents. As of the writing of this thesis (13 August 2024), a search using the keyword "stakeholder" in the main text within the Peking University Law Database²¹ yielded 308 civil case judgments from mainland China. Based on the attitude of judges towards Stakeholder Theory in their judicial reasoning, these cases can be categorised into six types:

¹³ Ibid. Article 17.

¹⁴ Ibid. Article 47.

¹⁵ Ibid. Article 49.

¹⁶ Ibid. Article 52.

¹⁷ Ibid. Article 53.

¹⁸ Ibid. Article 54.

¹⁹ Ibid. Article 88.

²⁰ For example, in the judgment reasoning of case *Li Rong v Beijing Jianfang Real Estate Development Co. Ltd.*, first-instance civil judgment on company dissolution dispute, (2017) Jing 0108 Min Chu 45471, the statement that "the arbitrary termination of a company will undoubtedly adversely affect the rights and interests of the company's shareholders and stakeholders, undermining the stability of the transaction order" was echoed in almost identical wording in the rulings of 13 other cases. This indicates that the judges conducted case retrieval during the process of legal reasoning and drew from prior judgments to adopt a generally applicable approach to protecting the rights of shareholders and stakeholders in corporate dissolution disputes.

²¹ See <https://ecollection.lib.tsinghua.edu.cn/databasnav/entrance/detail?mmsid=991021498949603966>.

Direct Application (DA): The judge explicitly applied Stakeholder Theory in the judgment and used specific terminology. For example, in the lease contract dispute between Qiao and Qin and a certain center in Chongqing,²² the judge stated,

through judicial intervention to review and determine the legitimacy of related transactions, thereby regulating such transactions and preventing related parties from abusing control rights to the detriment of the legitimate rights and interests of the company, shareholders, or other stakeholders such as creditors.

This reasoning clearly indicated the judge's consideration of stakeholder rights, specifically listing shareholders and creditors as stakeholders. Such judgments demonstrate that Stakeholder Theory is directly used in judicial decisions.

Indirect Application (IA): Although the judge did not explicitly use the terminology of Stakeholder Theory, an analysis of the legal reasoning reveals that the judgment was substantively consistent with the objectives of Stakeholder Theory, reflecting a judicial emphasis on the values of stakeholder rights and corporate social responsibility. For instance, in a shareholder equity transfer dispute between Cao and Chen and Zhang, the judge upheld the "stability of corporate management". Such documents also indicate the de facto protection of stakeholder rights.²³

Concept Mentioned Only (CMO): The judge merely used the terminology of Stakeholder Theory, but the case itself was not related to stakeholder protection, and the judgment had no substantive connection to Stakeholder Theory. The value of such documents lies solely in showing the frequency of the term's usage in judicial activities.

Not Applied (NA): Although the term "stakeholder" appears in the document, the judge neither used the terminology nor referenced the principles of Stakeholder Theory in the judgment. Typically, such documents reflect instances where one party invoked Stakeholder Theory or its terminology during court debates, but the judge did not adopt it. These documents merely reflect the frequency of the theory's appearance.

Not Actively Mentioned (NAM): The judge used the terminology of Stakeholder Theory, but only in reiterating the claims of the parties involved, such as in cases where a company's articles of association included provisions related to stakeholder protection. The research significance of such documents is relatively shallow.

Not the Same Concept (NSC): Although the term "stakeholder" appears in the judicial document, its meaning and scope do not align with the concept within Stakeholder Theory. In many cases, the term was used merely to describe parties with an interest in the case or the subject matter, without any connection to the concept of stakeholders in the context of corporate governance.²⁴

²² *Qin and Qiao v A Certain Centre in Chongqing*, second-instance civil judgment on lease contract dispute, (2023) Yu 05 Min Zhong 10883.

²³ *Cao v Chen*, first-instance civil judgment on equity transfer dispute, (2023) Shaan 0104 Min Chu 10455.

²⁴ For example, in *Yuan Yu v Li Ji*, second-instance civil judgment on entrustment contract dispute, (2019) Chuan 06 Min Zhong 980, the phrase "...several bidders agreed among themselves... excluding other bidders so that a particular stakeholder wins the bid, thereby seeking illegitimate benefits" clearly has no relation to corporate governance. Similarly, in *Linyi Baihong Silica Sand Co. Ltd. v Haixing Ruixiang Logistics Co. Ltd.*, second-instance civil judgment on transportation contract dispute, (2018) Ji 09 Min Zhong 3762, the statement "Witness Li and Li Zunyan are significant stakeholders in this case, and their testimony is not credible due to their interest in the matter" and in *Beijing Huayuan Heating Network Co. Ltd. v Li Gui'e*, first-instance civil judgment on heat supply contract dispute, (2018) Jing 0112 Min Chu 21649, "... the plaintiff does not accept the witness testimony, claiming that the witness is also a heating user and a stakeholder, and the testimony lacks credibility..." both discuss procedural law issues that are unrelated to the subject of this study.

Based on the different judicial practices mentioned above, the types, quantities, and proportions of judicial documents related to Stakeholder Theory are as follows.

Table 1

Number and Proportion of Different Types of Cases

Category	Number	Percentage of total cases (%)
Direct Application	71	23.1
Indirect Application	20	6.5
Concept Mentioned Only	21	6.8
Not Applied	77	25
Concept Mentioned Passively	6	1.9
Not the Same Concept	113	36.7

Distribution characteristics of sample documents and analysis of underlying causes. Cases involving the terminology of “stakeholders” in China’s judicial realm exhibit unique distribution characteristics, primarily reflecting trends in how judicial practice approaches Stakeholder Theory across three key dimensions.

First, examining the temporal dimension, the distribution of sample documents across different years reveals notable patterns (specific data can be found in Table 2). When DA and IA cases are considered together as a single category (Applicable Cases), a significant increase in their number is observed from 2018 to 2021, maintaining a relatively high proportion. This suggests a growing judicial recognition and application of Stakeholder Theory during this period. In contrast, the proportion of CMO cases remains relatively stable, representing a minority in the judgments. NAM cases, while also few in number, show a rising trend, indicating that stakeholders are becoming more frequently cited in the claims made by litigants. The proportion of NA cases increased after 2021, which may reflect a divergence in how courts are engaging with Stakeholder Theory over time.

Table 2

Yearly Distribution of Different Types of Cases

Year	DA	IA	CMO	NA	NAM	Total
2024	1	1	0	2	0	4
2023	4	2	1	5	2	14
2022	6	4	2	6	2	20
2021	20	4	1	8	1	34
2020	10	3	1	19	0	33
2019	13	1	2	23	0	39
2018	15	2	12	12	1	42
2017	1	0	1	0	0	2
2016	0	0	1	1	0	2
2015	0	1	0	0	0	1
2014	0	1	0	1	0	2
2011	1	1	0	0	0	2

Overall, judges tend not to be particularly sensitive to the terminology of “stakeholders”, a tendency that was especially pronounced before 2018. This phenomenon can be attributed to the fact that the term “stakeholder” originated outside the legal field, and at the time of drafting judicial documents, this term had not yet been reflected in legal language. This situation has led to three primary outcomes:

(1) Substitute terminology in judicial decisions: Outside the context of DA cases, judges often chose alternative expressions that emphasised corporate responsibility, creditor protection, and employee rights instead of directly referencing stakeholders. For example, judicial reasoning might focus on the “stability of corporate management” to achieve the goal of “protecting the legitimate rights and interests of creditors and other interested parties”.²⁵

(2) Inconsistent translation of “stakeholder”: The term “stakeholder” has not been uniformly translated in the Chinese context, leading judges to sometimes use synonymous terms like “interested party”. This inconsistency is not indicative of a difference between direct and indirect applications of the theory but rather a legacy issue from the pre-2023 Company Law era. As statutory law gradually standardises terminology, this issue is expected to diminish.

(3) High proportion of NSC documents: NSC documents occupy a significant portion of the total sample. The reason for this is that the term “stakeholder” has not yet been strongly associated with Stakeholder Theory at the time, resulting in its frequent appearance in civil disputes unrelated to corporate governance. This led to a certain degree of terminological confusion in civil case rulings. However, with the growing prevalence of Stakeholder Theory, this phenomenon has shown a declining trend (Figure 1).

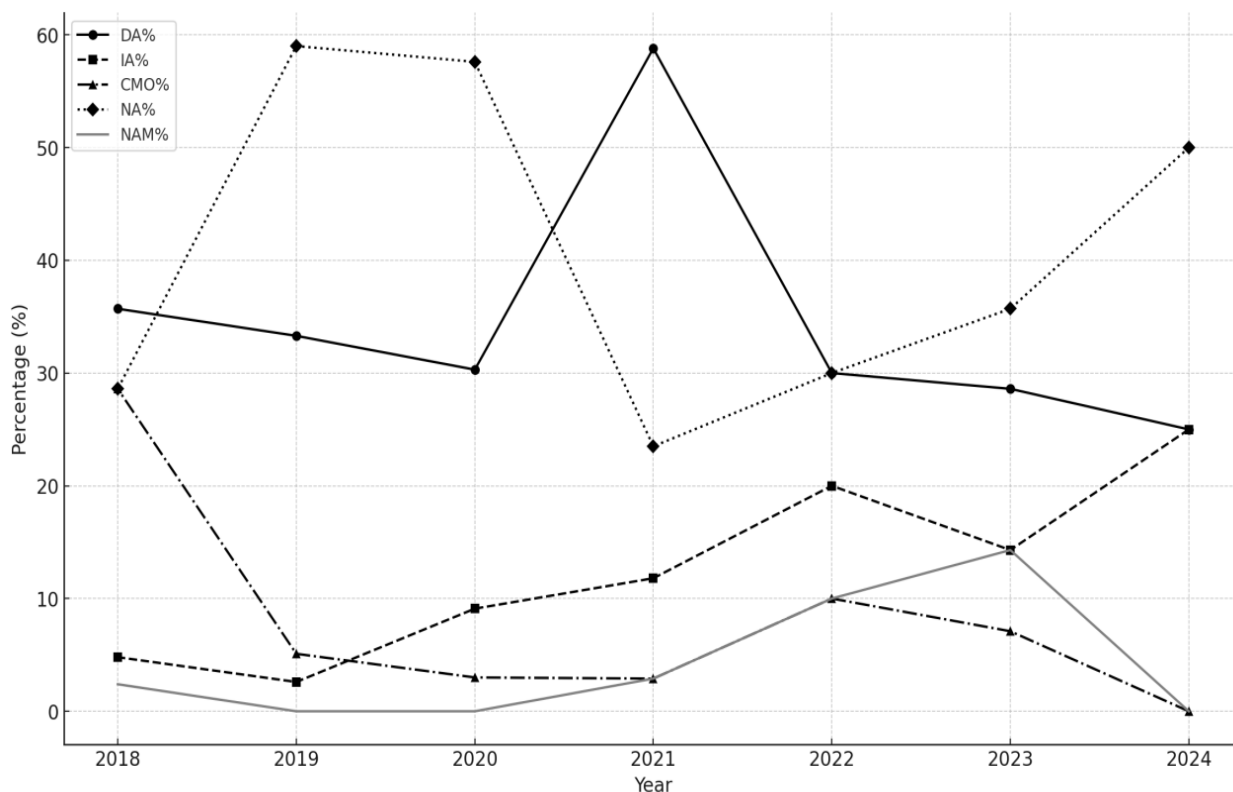


Figure 1. Annual percentage distribution of different categories.

Second, examining the nature of disputes involving stakeholder terminology by case type reveals several key trends, as reflected in the parameters on the horizontal axis of the chart (Figure 2):

²⁵ *Tao Yinkan v Li Xiguang et al.*, first-instance civil judgment on liquidation liability dispute, (2022) Shanghai 0106 Minchu 30273.

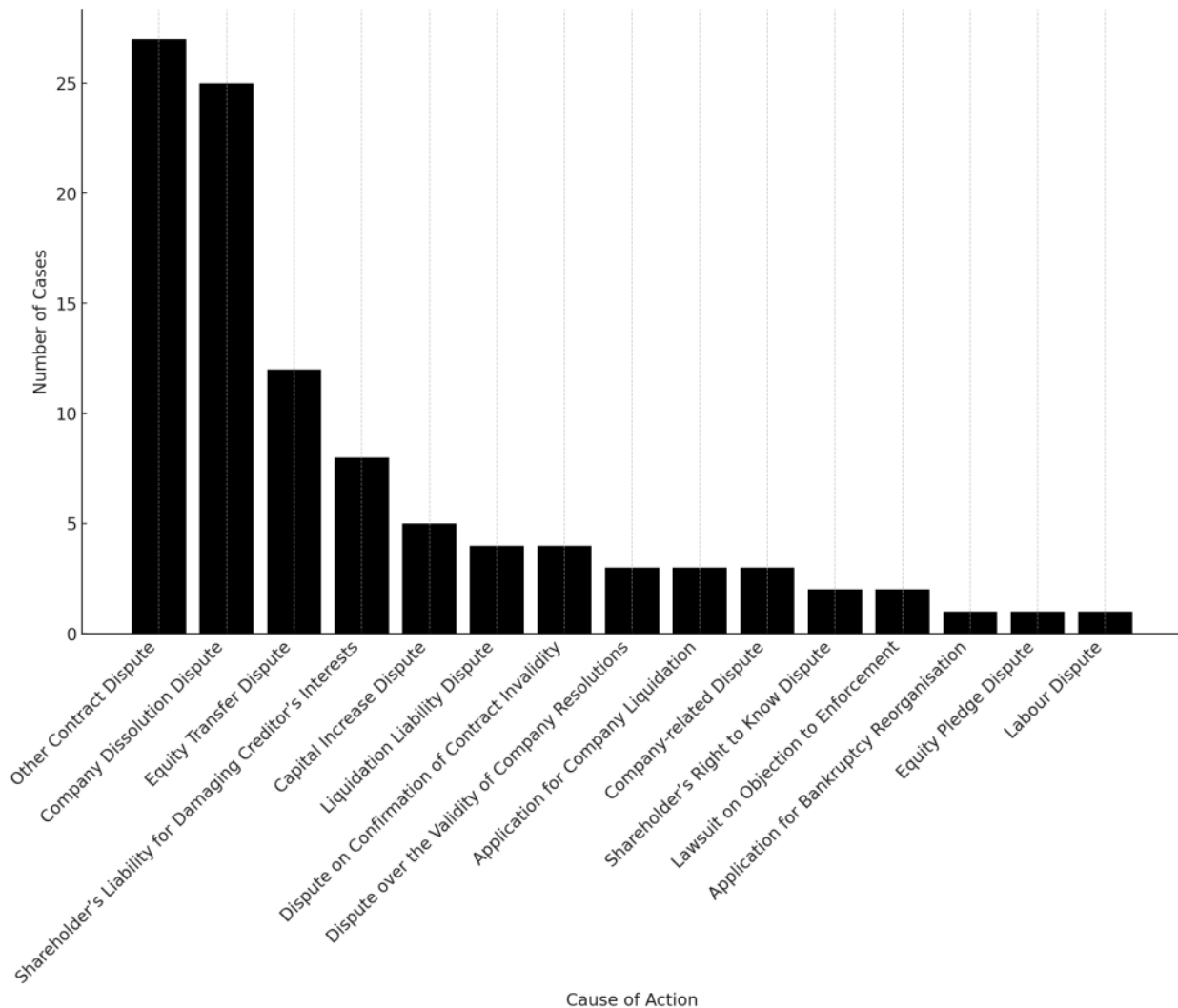


Figure 2. Proportion of cases by cause of action.

(1) High frequency of shareholder and creditor-related disputes: Cases involving disputes over shareholder liability for damaging creditor interests and equity transfer disputes are particularly numerous. Additionally, disputes concerning the validity of company resolutions and disputes over capital increases reflect the judicial focus on internal corporate decision-making and shareholder rights.

(2) Significant cases during business termination: The number of cases related to company dissolution disputes and liquidation liability disputes indicates that the termination of business operations is a critical moment for the protection of stakeholder rights. The processes of dissolving, liquidating, and reorganising a legal entity directly impact the company's creditors, employees, and other internal stakeholders.

(3) Dominance of contract disputes: Various contract disputes occupy the highest proportion, highlighting the paramount role of contracts in commercial activities.

It is evident that the cases are primarily concentrated in areas related to the protection of shareholders and creditors. Other significant stakeholder groups, such as employees, consumers, and the community, are not adequately represented. Although consumers are explicitly mentioned in the Company Law, cases that protect

consumer rights only appeared in a 2015 reference case, with no recent ordinary cases reflecting a focus on consumer protection.²⁶ The legal protection of employee rights is also insufficient, with only one document related to labour disputes.²⁷ Furthermore, legal disputes related to the communities where companies are located are not reflected, with the exception of a single document in the company dissolution category that specifically mentions stakeholders such as transaction parties, employees, and the community in a list format.²⁸

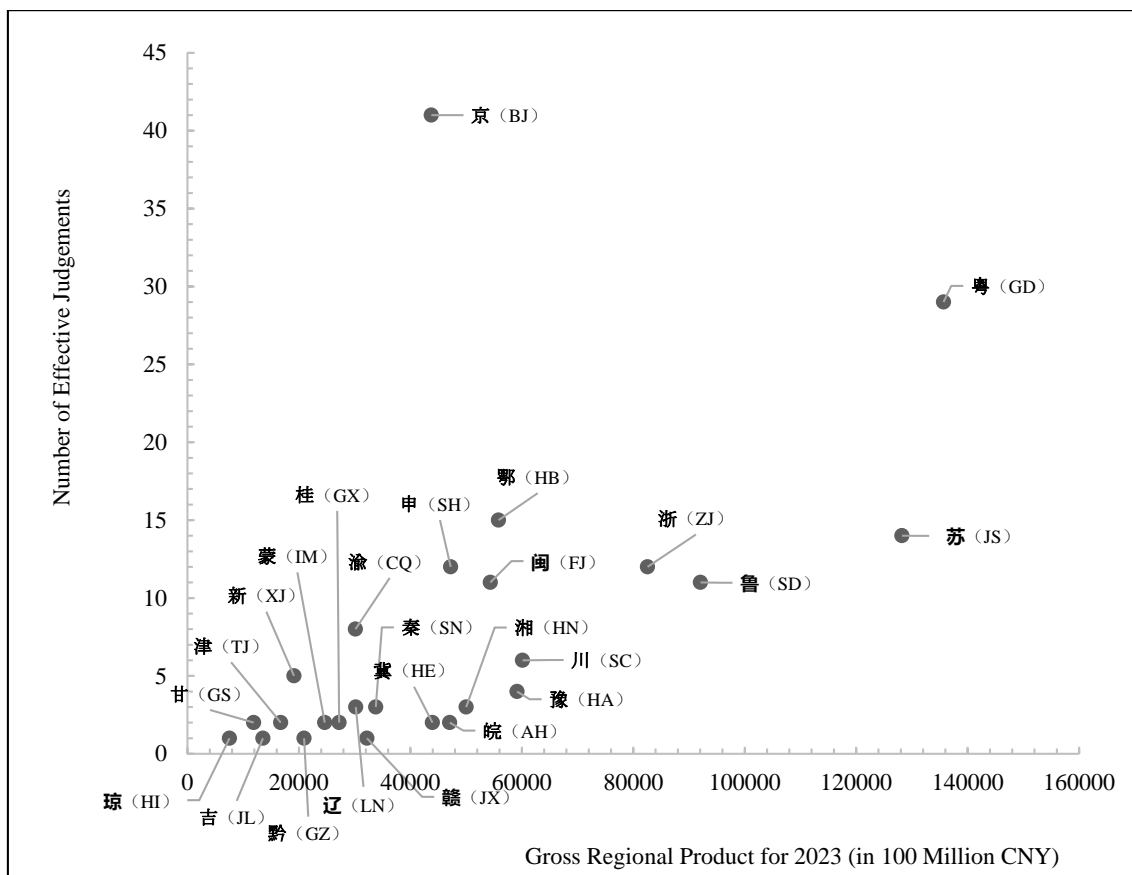


Figure 3. Geographical distribution of stakeholder-related judgements.

Third, from a geographical perspective, we can roughly estimate the distribution of disputes involving Stakeholder Theory based on the jurisdiction of the courts. In Figure 3, provinces are ranked according to their Gross Regional Product (GRP) for 2023, as reported by the National Bureau of Statistics.²⁹ The distribution of data points logically reflects a positive correlation between the economic size of a region and the number of related cases. Coastal provinces, which are hubs for large enterprises in China, see more complex internal governance disputes, providing fertile ground for the application of Stakeholder Theory. Consequently, courts in these regions handle more stakeholder-related cases. Beijing (BJ) is a notable exception. Although its size as a

²⁶ *Li Xiuzhen v Qingdao Jesheng Real Estate Co. Ltd. and Xue Xiaoming*, retrial civil judgment on company dissolution dispute, (2015) Lu Min Zai Zi No. 5.
²⁷ *Zhang Zaoli v Guangfa Securities Co. Ltd.*, second-instance civil judgment on labour dispute, (2020) Yue 01 Min Zhong No. 9150.
²⁸ *Song Yingxin v Beijing Baoruilin Pawn Co. Ltd.*, first-instance civil judgment on company dissolution dispute, (2018) Jing 0108 Min Chu No. 63942.
²⁹ National Bureau of Statistics (Stats.gov.cn 2012), <https://data.stats.gov.cn/easyquery.htm?cn=E0103>.

municipality is smaller compared to the coastal provinces, and thus less prominent on the horizontal axis, it has a highly developed economy and is home to the Supreme People's Court. Many cases that reach their final judgment in Beijing reflect a more specialised application of Stakeholder Theory by judges.³⁰

Empirical statistics indicate that Stakeholder Theory has begun to find application in the judiciary, although its implementation is still in its early stages. This is evident not only from the lack of standardised use of stakeholder terminology but also from the long-standing challenge that social responsibility clauses related to stakeholder protection remain largely a legal principle, rarely serving as a judicial benchmark. This hinders the full integration of Stakeholder Theory into the legal framework. Judicial reform becomes increasingly crucial. Such reform should not only focus on the wording of legal texts but also on the mindset of judges. Judges need to standardise their use of terminology while accurately assessing the requirements for stakeholder protection and appropriately applying legal norms.

Commercial Interaction: Practices of Different Types of Enterprises

As the concept of social governance continues to permeate business strategies, Stakeholder Theory has gained promising potential for development within the internal governance of Chinese companies. For example, since the inclusion of A-shares in the MSCI Emerging Markets Index in 2018, some Chinese listed companies have started to adopt ESG ratings, incorporating the impact of their activities on communities and the environment into performance assessments.³¹ The primary unit for adopting Stakeholder Theory is the company itself, making the attitude of companies toward stakeholders a crucial aspect of empirical research.

Protection of stakeholders by Chinese state-owned enterprises. Chinese state-owned enterprises (SOEs) hold a dominant position in the national economy, with relatively ample capital and well-structured organizations to implement stakeholder protection measures. Additionally, the unique positioning of central SOEs necessitates their active role in promoting stakeholder rights, setting a benchmark for other enterprises in society, particularly during times of legal reform and policy shifts, by being the first to assume greater social expectations. Following the issuance of policy documents such as the Guiding Opinions on Better Fulfilling Social Responsibilities by SOEs, rules for stakeholder participation in corporate governance have been more thoroughly implemented. In 2023, the social responsibility development index for the top 100 SOEs reached 65.8 points, an increase of 10.3 points from 2022, indicating a leadership position overall.³²

For instance, the Industrial and Commercial Bank of China (ICBC), as one of the founding signatories of the Principles for Responsible Banking (PRB), consistently addresses the broad demands of stakeholders in economic and social development, aiming to maximise comprehensive economic, environmental, and social value.³³ ICBC

³⁰ For example, *Zhou Quan and Zhou Fu*, second-instance civil judgment on a company-related dispute, (2018) Zuigao Fa Min Zhong No. 930; *Heilongjiang Zhongqiyihe Real Estate Development Co. Ltd. and Wang Hui*, retrial review and judicial supervision civil ruling on company dissolution dispute, (2018) Zuigao Fa Min Shen No. 5411, and *Ma Yan v State-Owned Assets Supervision and Administration Commission of Jilin Provincial Government*, retrial review and judicial supervision civil ruling on private lending dispute, (2018) Zuigao Fa Min Shen No. 5453 all demonstrate the directly application of Stakeholder Theory.

³¹ "Banking ESG Strategic Thinking From the Perspective of Long-Term Valuation", International Institute of Green Finance, Central University of Finance and Economics (Cufe.edu.cn 2022).

³² See Research Report on Corporate Social Responsibility of China (2023).

³³ The Principles for Responsible Banking (PRB) provide a global framework that ensures that signatory banks' strategies and practices align with the needs of future societies. This framework enables the sector to align with global goals and targets outlined in the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

places particular emphasis on communication with the capital market, effectively conveying its strategic implementation, corporate governance, and operational management to stakeholders, including investors. To protect stakeholders, especially minority shareholders, ICBC proactively discloses voluntary announcements such as the Announcement on the 2023 Semi-Annual ESG Special Report, continuously enhancing corporate transparency.³⁴

China Life Insurance's social responsibility report also serves as a reference. The company prioritises communication and interaction with both internal and external stakeholders, using internet platforms to promptly understand and respond to stakeholder expectations and demands, thereby gaining trust and support from all parties and promoting sustainable corporate development in collaboration with stakeholders. The report highlights the company's role in protecting customer rights and contributing to the social security system, such as by providing a diversified range of insurance products to meet the needs of different customer groups and emphasising fairness and transparency in claims services.³⁵

China Railway Engineering Corporation (CREC), with a global business presence, focuses on enhancing employee occupational safety, participating in social welfare projects, and promoting green building technologies to demonstrate its efforts in stakeholder protection. Its social responsibility report reflects the company's performance based on stakeholder feedback and current hot topics in the domestic and international ESG fields. In 2023, the report introduced three new topics, "Three Transformations", "Contributing to Rural Revitalization", and "High-Quality Participation in the Belt and Road Initiative". In its overseas projects, CREC's management also places a strong emphasis on cultural exchange and social harmony within local communities.³⁶

Protection of stakeholders in leading internet companies. China's internet giants wield significant influence in the global market, and their governance models and practices in CSR naturally serve as strong examples. In recent years, these companies have increasingly emphasised stakeholder protection in their CSR reports, providing valuable references for the application of Stakeholder Theory in Chinese internet companies.

Alibaba Group, in its 2020-2021 Social Responsibility Report, extensively detailed its focus on public welfare initiatives. For instance, the company described its philanthropic culture as one of Alibaba's most distinctive cultural traits, fostering an internal atmosphere of social good through initiatives like the "3-Hour Public Welfare Call" and organisations such as the "Happiness Group". Notably, the section titled "Sharing Value With Stakeholders" is particularly significant. Alibaba explicitly identified a group of stakeholders comprising customers, employees, shareholders, the market, government, society, and the environment, and tailored response strategies according to the expectations of each group.³⁷

Tencent institutionalised Stakeholder Theory across diverse dimensions. In the area of employee rights protection, Tencent focuses on offering flexible working hours, health insurance, and other welfare policies. Regarding user rights, the company implements stringent data encryption measures and regular reviews to ensure data privacy and security, and it has also set up mechanisms to protect minors from gaming addiction. In supply

³⁴ See <https://v.icbc.com.cn/userfiles/resources/icbcltd/download/2024/esg20240327ch.pdf>.

³⁵ See <https://www.chinalife.com.cn/chinalife/resource/cms/article/257126/261778/chinalife2022CSRreport.pdf>.

³⁶ See <https://www.crecg.com/web/10089513/10090863/10090866/index.html> [2023 Environmental, Social and Governance Report and Social Responsibility Report of China Railway].

³⁷ See <https://ali-home-data.oss-cn-hangzhou.aliyuncs.com/ecms-files/1452422558/6d500101-f723-4239-8390-4286f7421709.pdf>.

chain management, Tencent not only promotes competition among suppliers to meet risk control and compliance requirements but also clearly defines and manages the rights of suppliers considered stakeholders.³⁸

JD.com focuses its stakeholder responses primarily on comprehensive management of its logistics and supply chain. The company has established an ESG materiality analysis mechanism that formulates appropriate response policies for consumers, employees, shareholders and investors, government and regulatory bodies, value chain partners, and communities and the environment, thereby creating an open and transparent communication mechanism.³⁹

Protection of stakeholders by representative private companies. In addition to SOEs and internet companies, Stakeholder Theory is also reflected in the governance models of other well-known private companies in China. Huawei, a global leader in telecommunications equipment and smart devices, emphasises collaboration with stakeholders such as customers, partners, and government regulators in various countries. In its 2023 Annual Report,⁴⁰ Huawei highlighted its protection of multiple stakeholders, including employees, customers, suppliers, communities, and the environment. On the corporate compliance governance front, Huawei has built a sustainable development management system by referencing international standards like ISO 26000 and the Responsible Business Alliance Code of Conduct. This system enables timely identification of CSD risks and opportunities, driving continuous improvement of management systems and increasing stakeholder satisfaction.

Overall, the analysis indicates that Stakeholder Theory has already established a foothold in China's commercial practices and is undergoing continuous development. Existing business practices have demonstrated that Stakeholder Theory not only enhances a corporation's reputation and performance but also finds broad applicability when integrated with China's unique commercial culture.

Conclusion

Chinese corporate governance reform is currently at a critical transitional stage. The introduction of stakeholder theory has outlined a clear direction for reform; however, reform is a systematic endeavour, where subsystems such as legislation, judiciary, and corporate practice each bear their own goals and collaborative tasks. After all, stakeholder theory cannot take root overnight merely through amendments to the law; grand promises without practical implementation will inevitably become mere political declarations. This article has found that the enforceability of legal provisions concerning stakeholders requires further refinement, and the effective implementation of these provisions in actual corporate governance should be treated with serious consideration. Secondly, supporting mechanisms for protection are not yet fully developed, and institutional designs for stakeholder roles and channels for stakeholder voices in corporate governance remain urgently needed. Additionally, judicial practice regarding the understanding and application of stakeholder theory is still in an exploratory phase. Currently, Chinese judicial bodies lack a unified standard and clear adjudication guidelines

³⁸ Tencent also incorporates the Corporate Social Responsibility Commitment as part of its contracts, stipulating clear requirements for suppliers in areas such as environmental protection, labour rights, and occupational health and safety. See <https://www.tencent.com/zh-cn/esg.html#respon-con-7>.

³⁹ See <https://ir.jd.com/static-files/e96f9826-7558-4445-bfb0-8630a87eecd4> ["We continue to improve the structure of the board of directors, enhance risk governance, ESG governance, and compliance governance levels, and respond proactively to the needs and expectations of all stakeholders with a pragmatic attitude, working hand in hand with all parties to achieve the long-term goal of building a sustainable supply chain"].

⁴⁰ See https://www-file.huawei.com/minisite/media/annual_report/annual_report_2023_cn.pdf.

when handling cases involving stakeholders. Although China's market economy and commercial legislation developed relatively late, this lag had spared it from the historical burdens of legal development, allowing China to fully leverage its late-mover advantage by dialectically absorbing lessons and experiences from other jurisdictions. In the future, Chinese enterprises will undoubtedly place greater emphasis on social benefits, contributing Chinese insights to the concept of sustainable development. It is also worth noting that reforming only one side of the coin may prove detrimental (Gelter, 2009); China's economic system, ownership structure, corporate culture, and social traditions differ significantly from those of early-developed countries like the UK, the US, continental Europe, and Japan. Therefore, reforms based on the introduction of foreign ideas should proceed cautiously. In grafting onto a new stock, careful examination of the scion is essential.

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