DEVELOPING ECONOMIES AND THE EMERGENCE OF NEW STAKEHOLDER GROUP: AN EXAMINATION OF STAKEHOLDERS IN THE CHINESE STOCK MARKET

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Abstract

As a consequence of the development of the Chinese economy, there has been an emergence of "new" stakeholder groups for the Chinese listed firms. New stakeholder groups include creditors, regulatory agencies, private investors, professional associations and environmentalists. With the use of secondary data, a review was undertaken to explore the emergence of these new stakeholder groups and discuss their influence over listed firms in China. The stakeholder typology developed by Mitchell et al (1997) is used to identify stakeholder attributes of each stakeholder group and assess their stakeholder power. The changes of stakeholder power over the years mirror China's transition from a centrally planned economy to a more market oriented one.

Keywords: Stakeholders, Chinese Economy, Stock Market, Investors, Stakeholder Theory

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Introduction

Since the inception of economic reforms in 1979, China has had one of the world's fastest-growing economies. The economic reforms have allowed market prices and private investors to play a significant role in production and trade, and enabled the Chinese economy to become substantially integrated into the world economy (OECD, 2010). The establishment of the Chinese stock market is a direct outcome of the economic reform in China. The Shanghai and Shenzhen Stock Exchanges were officially opened in 1990 and 1991, respectively. Since its establishment, the Chinese stock market has been transformed from a fledgling, emerging market to the largest emerging stock market in the world. It is now the biggest stock market in Asia outside Japan, with 2,342 firms listed on two stock exchanges and a total market capitalization equivalent to nearly US$3 trillion at the end of 2011 (CSRC, 2011). At the same time, there were 165 million investor accounts in the A-share market, including 162 million individual investor accounts, or 98.18% of the total (CSRC, 2011). For over a decade, publicly-listed firms have benefited most from the fast expansion of the Chinese stock market, raising more than US$96.6 billion of capital funds from public investors (CSRC, 2009). As a consequence of the rapid development of the Chinese economy, the emergence of new stakeholder groups can be seen in China, most notably private investors, creditors and professional associations. This paper aims to discuss the changes that have taken place in the Chinese economy which has given rise to these new stakeholder groups, explore the attributes of each stakeholder group and assess their stakeholder power over listed firms in China.

Stakeholder Theory

The underlying theoretical foundation for this study is stakeholder theory and stakeholder typology developed from it. Stakeholder theory suggests that firms are not just a nexus of contracts; they should go beyond shareholders and be responsible for a range of stakeholders including customers, suppliers, employees, creditors and communities (Freeman, 1984). Stakeholder management is important for firms to survive and be successful in the longterm as each stakeholder group supplies the firm with critical resources or makes a contribution to the firm(Deegan, 2006). In exchange, each group expects its interests to be satisfied by inducements (March and Simon, 1958). As Hill and Jones (1992) described, investors provide the firm with financial capital. In exchange, they expect the firm to maximize the risk-adjusted return on their investment. Creditors provide the firm with finance and, in exchange, expect their loans to be repaid on schedule. Management and employees provide firms with time, skills and human capital commitments. In exchange, they expect fair income and adequate working conditions. Customers supply the firm with revenues and expect value for money in exchange. Suppliers provide the firm with inputs and seek fair prices and dependable buyers in exchange. Local communities provide the firm with locations, local infrastructures and perhaps favorable tax treatment. In exchange, they expect corporate citizens who enhance and/or do not damage their quality of life. The general public, as tax payers, provide the firm with a national infrastructure. In exchange, they expect corporate citizens who enhance and/or do not damage their quality of life and do not violate the rules of the game established by the public through their legislative agents.

As the ultimate goal of corporate decisions is market place success, good stakeholder-firm relationship management is instrumental to assure revenues, profits and, ultimately returns to shareholders (Pfeifer and Salancik, 1978; Berman et al., 1999). However, this does not mean that all stakeholders are treated in the same way by firms due to managers' time and cognitive constraints. In order to achieve the firm's strategic objectives, Roberts (1992), suggests that one of the major roles of corporate management is to assess the importance of meeting different stakeholders' demands because as stakeholder power increases, the importance of meeting stakeholders' demands increases accordingly. This view is supported by others who consider that given the constraints faced by managers they will give their attention to the more "powerful" stakeholders (Scott and Lane, 2000; Bailey et al., 2000; and Nasi et al., 1997). Power is viewed as a function of the stakeholder's degree of control over resources required by the firm, especially financial resources (Ullmann, 1985).For example, a study by Neu et al. (1998) found that firms were more responsive to the demands or concerns of financial stakeholders including shareholders, creditors and government regulators, than the concerns of environmentalists. Another challenge to corporate management is in relation to their operating and reporting behaviors because of the expectation and power relativities of various stakeholder groups changing over time (Friedman and Miles, 2002; Unerman and Bennett, 2004).

The rapid changes in the Chinese economy over the last thirty years and the growth and maturity of the stock market allows for the examination of how new stakeholder groups have emerged as a consequence of the changing market conditions and to examine the power relativities of each stakeholder group.

Methodology

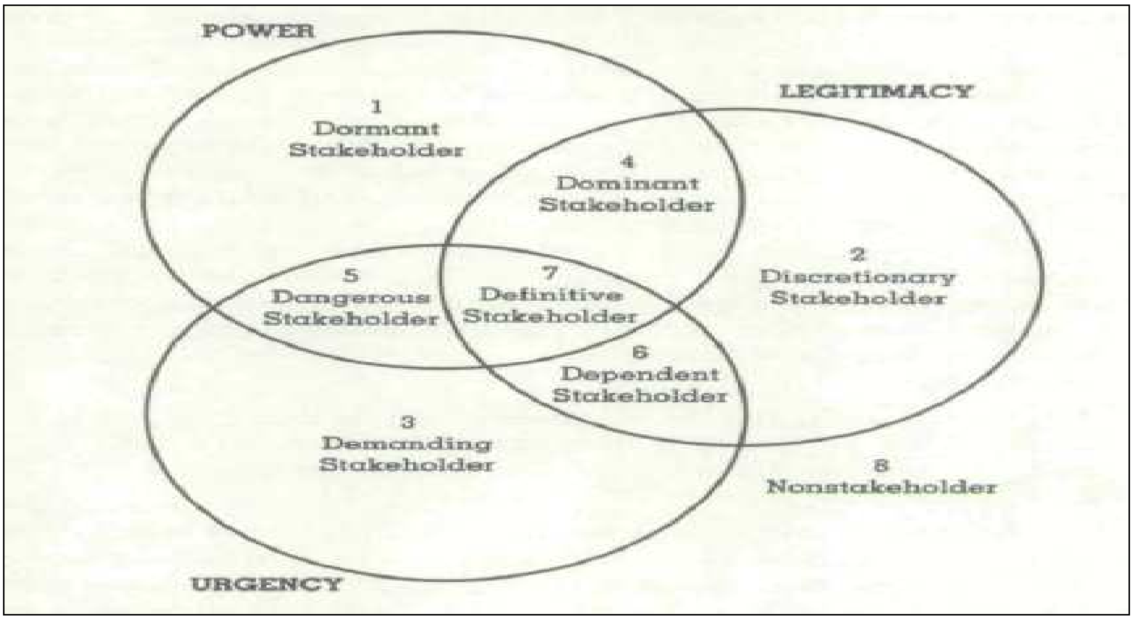
Secondary data sources will be used to identify major stakeholders and their attributes relating to the Chinese stock market. To assist with the analysis reference will be made to the stakeholder typology developed by Mitchell et al. (1997). The typology classifies stakeholders into latent stakeholders, expectant stakeholders and definitive stakeholders depending on the possession of one, two or all three relationships attributes: power, legitimacy and urgency. The power attribute refers to a stakeholder's power to influence the firm, and power is defined by Pfeifer (1981, p.3) as "a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done". The legitimacy attribute refers to the legitimacy of the stakeholder's relationship with the firm and, legitimacy in this context, is defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially-constructed system of norms, values, beliefs and definitions. Legitimacy of a claim on a firm is based on contract, exchange, legal title, moral right, at-risk status or moral interest in the harms and benefits generated by company actions (Agle et al., 1999). Power and legitimacy are defined as core stakeholder attributes. The urgency attribute refers to the urgency of the stakeholder's claim on the firm, and urgency is defined as the degree to which stakeholder claims call for immediate attention. Agle et al. (1999) further explain that stakeholder urgency is a multidimensional notion that includes both criticality and temporality, with a stakeholder claim considered to be urgent both when it is important and when delay in paying attention to it is unacceptable.

Latent stakeholders are those possessing only one of the three attributes and include dominant (power), discretionary (legitimacy) and demanding (urgency) stakeholders. Expectant stakeholders are those possessing two attributes, and include dominant (power and legitimacy), dependent (legitimacy and urgency) and dangerous (power and urgency) stakeholders. Definitive stakeholders are those possessing all three attributes. Individuals or entities possessing none of the attributes are non-stakeholders or potential stakeholders.

As mentioned earlier there is a view that managers give their attention to certain stakeholders who are deemed more "powerful" and the theory of stakeholder salience predicts that firms do not respond to all stakeholders equally, rather, managers prioritize stakeholder relationships. Mitchell et al. (1997) define stakeholder salience as the degree to which managers give priority to competing stakeholder claims. For example, shareholders and creditors place emphasis on firms' profitability and wealth creation, while public interest groups, including environmentalists, focus on the impact of firms' operations on the environment. Stakeholder salience is positively associated with the cumulative number of the three stakeholder attributes (Mitchell et al., 1997). Stakeholder salience will be high where all three of the stakeholder attributes - power, legitimacy and urgency - are perceived by managers to be present. Stakeholder salience will be low where only one of the stakeholder attributes is perceived by managers to be present. The Mitchell et al. (1997) theoretical model of stakeholder salience is tested and confirmed by Agle et al. (1999). The empirical results of Agle et al. (1999) confirm that, in the minds of CEOs, the stakeholder attributes of power, legitimacy and urgency are individually and cumulatively related to stakeholder salience. Their findings suggest that these stakeholder attributes affect the degree to which top managers give priority to competing stakeholders.

The stakeholder typology developed by Mitchell et al. (1997)is shown in figure 1 below.

Figure 1. Stakeholder typology: one, two or three attributes present



Source: Mitchell, Agle and Wood, 1997, p. 874

Discussion

Prior to 1978, state-owned enterprises (SOEs) in China were rigidly controlled by the Chinese government with all equipment and raw materials supplied by the government. As part of the central planning system, the government determined the prices of material, products, suppliers and customers of SOEs. The control of China's enterprises rested primarily with the inside nominated managers who, in turn, were often controlled and supported in various forms by the Party and ministerial associates (Tam, 2002). The function of managers, who served as the Party's agents, was solely to supervise the production process and ensure the actualization of government plans (Lin and Tan, 1999). In terms of capital resources of SOEs, state funds were collected through fiscal and other means of revenue collection and siphoned off to SOEs. The government, therefore, placed little weight on commercial banking and the capital market as active players in financial intermediation (Suzuki et al., 2008). Due to the government being the sole stakeholder of the SOEs, the Chinese economy had stagnated for a long period of time. The government gained the profits but also bore the losses as the ultimate owner of the SOEs, and managers and employees had no incentives to maximize the profitability of the SOEs (Xu and Wang, 1999). As a consequence this bred a culture of low productivity in SOEs.

As part of the economic reform in China, SOE reforms were launched in 1978. The essence of SOE reforms was a gradual relaxation of state central planning, implementation of various kinds of profit sharing schemes and increased autonomy over decision-making conferred to SOEs, and especially to the managers of SOEs (Qiang, 2003; Ren et al., 2005). As a consequence of these reforms new stakeholder groups have emerged, in particular, creditors, public investors, regulatory agencies, professional associations and environmentalists. We devote the following sections to thediscussion of these emerging stakeholder groups' stakeholderattributes and relative power base by reference to the Mitchell et al. (1997) typology.

Creditor Stakeholder Group

In respect of financing the SOEs' operations, the Chinese government in 1983 transformed the state budget allocations into loans, which were funded by four state-owned commercial banks. The state-owned bank loans, therefore, replaced the government budget allocation and the major creditor stakeholder of SOEs was changed from the Chinese government to state-owned banks. Although banks were the main financial resource provider of SOEs, banks did not have any power over SOEs in terms of whether to lend funds to them. In fact, the government prevented banks from operating on purely commercial terms with revenue generating activities, by forcing banks to provide subsidized lending to SOEs.

Since the emergence of the capital market in China in the early 1990's, some SOEs have been transformed into shareholding companies, obtaining funds for further development and expansion from public investors. However, the majority of poorly-managed and inefficient SOEs in China still relied upon bank loans. To avoid the potential social unrest caused by a high unemployment rate, the government felt obligated to support unprofitable SOEs by requesting state-owned commercial banks to extend loans or even provide the SOEs with more funds, with little consideration given to the borrowers' repayment capacity (Xu, 2005). This situation led to the many non-performing loans (NPL) which the China Banking Regulatory Commission (CBRC) reported was the equivalent US$340 billion in NPLs in the financial system by the end of 2004. Pricewaterhouse Cooper's China NPL Investor Survey 2004, however, reveals a figure as high as US$500 billion (Xu, 2005).The Chinese government assisted state-owned commercial banks to "unload" huge non-performing loans from their books. In 1999, as a solution for tackling the NPL problem, the government established four financial asset management companies (AMCs) and transferred the equivalent of US$55 billion of non-performing loans to those companies (Xinhua Press, 2005). The function of AMCs is to focus exclusively on debt collection. In addition, the four AMCs are allowed to negotiate with the borrowing state-owned enterprises and conduct a series of debt-to-equity swaps. In this way, the debts are transferred into equities and the AMCs have gained control over some enterprises (China Daily, 2005). The massive disposal of NPLs to AMCs has dramatically reduced the NPL ratio of banks and financial institutions.

As a result of the World Trade Organization (WTO) agreement, China has opened the banking and financial service market to foreign financial rivals, with public listing one of the strategies to achieve these goals. This has led the banking and financial institution industry in China to be more independent, transparent and profit-driven. By the end of 2011 there were twenty-eight national and regional commercial banks listed in the Chinese stock market. The two most publicized public listings are the China Construction Bank and the Bank of China. The former was listed on the Hong Kong Stock Exchange in 2005 and the latter on the Shanghai Stock Exchange in 2006. The other two state-owned commercial banks, China Industrial and Commercial Bank and China Agrisocial Bank, were listed in 2007 and 2008, respectively.

The listing of commercial banks and the further opening up of the banking market to foreign financial institutions has led to some positive changes in the Chinese banking industry (Petkova, 2008). First, the Chinese banks began to adopt international practices regarding balance sheet criteria in which the capital ratios are based on the risk involved. Secondly, banks started to apply commercial lending criteria. In their lending activities, banks have been disconnected from the government-based policy and have shifted to lending based on generally accepted commercial banking techniques. To reduce NPLs, banks have strengthened the finances and management of SOEs. In 2007, the National People's Congress passed the new Bankruptcy Law, aiming to reduce the NPLs by ensuring better respect for creditors' rights. In the same year, some steps were taken to build national standards and networks for credit assessment. The central bank of China, the People's Bank of China (PBOC), has sought to develop a national credit information database and has urged banks to unify regulations. The China Securities Regulatory Commission (CSRC) has issued the Tentative Procedures for the Administration of Credit Ratings in the Securities Market (Petkova, 2008).

Therefore, the nature of the creditor for Chinese firms has changed significantly with the role overtime shifting from the government to private financiers. Financial Institutions have become one of the main sources of SOEs' capital when state-owned bank loans replaced the government's budget allocation in the early 1980s (Xu, 2005). As creditors for listed firms, the power possessed by this stakeholder group has changed during the past two decades. In the early stage of the economic reform, banks were under pressure from the government to provide "policy loans" to SOEs (Petkova, 2008). Banks, therefore, had no power to influence SOEs' performance and information disclosure. They also did not have an urgent claim over the actualization of their economic stake. Therefore, between the early 1980s and mid-1990s, creditors could only be classified as a discretionary stakeholder of SOEs. Factors such as the entrance of China into the WTO, the opening up of the Chinese banking market and the listing of several large commercial banks, have all contributed to the changes in the operation of the banking system in China. Now, profit-oriented banks provide firms with loans on commercial terms. Regardless of being state-owned or private, commercial banks were expected to earn interest revenue from borrowers and have their loans repaid. Creditors now have a stronger economic stake in listed firms. The power and urgency possessed by the state-owned banks over listed firms gradually increased with the disconnection between the government's loan policies and banks' commercial activities. Banks can now independently determine which enterprises they want to lend funds to and how to avoid non-performing loans (NPLs). Since the mid-1990s, the Chinese banks have developed stakeholder attributes of power and urgency. Therefore, financial institutions can nowbe classified as a definitive stakeholder of listed firms in the Chinese stock market.

Regulatory Agency Stakeholder Group

In the Chinese stock market, the regulatory agency group includes the Ministry of Finance (MOF), the China Security Regulatory Commission (CSRC) and the Shanghai and Shenzhen stock exchanges.By the use of the political process, regulatory agencies in China have political power (Freeman and Reed, 1983) over listed firms to ensure that the political stake of the Chinese government is actualized. The MOF has authoritative power over listed firms in terms of following accounting regulations and standards. The CSRC has power to regulate listed firms' conduct and information disclosure. The CSRC and both stock exchanges have employed a series of strategies and actions to achieve "investor protection". These actions include stipulating accounting and disclosure regulations, establishing a corporate governance régime, providing training for investors and independent directors, and imposing public sanctions against listed firms. These actions suggest an increased willingness by the Chinese leadership to subordinate the interests of controlling shareholders to the interests of other shareholders (Berkman, 2008). They have sent a clear and strong signal to listed firms over the years, that to legitimate their status in the Chinese stock market, listed firms need to devote themselves to protecting minority investors' interests by disclosing transparent information to investors.

Politically, a healthy capital market serves the government to further open up China's economy, enhance enterprise reform and attract more investments from both domestic and overseas investors. However, due to the problems of "one dominating state-owned share monopoly" and "insider control", the minority or public investors' interests have been expropriated by majority shareholders since the establishment of the stock market in China. Over the years, "investor protection" has been acknowledged by the regulatory agency group as one of the most important measures for supporting the steady growth of the Chinese stock market.In emerging markets with relatively weak legal systems, regulators can provide an effective substitute for ineffective judicial enforcement and provide an investor protection role (Glaeser et al., (2002; Chen et al., 2005; Berkman, 2008).In China, although the Chinese government has enacted the Company Law and the Security Law in recent years, the overall legal system is still relatively primitive by the standards of capitalist countries (Berkman, 2008). China's first civil compensation suit regarding a securities case reflects on one hand, the activism of the investment community in China. On the other hand, as Chen et al. (2005) suggest, one successful civil suit in the first 12 years of the Chinese stock market is a testament to the lack of legal redress in securities cases. Under the Security Law, a civil case against a listed firm can only be brought to the court after the CSRC has made an investigation. Class action lawsuits are not possible in China and so a lawsuit brought by an individual investor is very costly and has a low probability of success (Chen et al., 2005).

Aiming to promote and protect investor interest, the CSRC introduces, on average, twenty major policies each year to address the stock issue system, trading and supervision of listed firms (People's Daily, 2005c). Since the establishment of the CSRC in 1992, more than 300 regulations, rules, standards and guidelines concerning the securities market have been stipulated by the MOF and the CSRC. In respect of its enforcement, the CSRC declares that its major responsibilities are supervising security markets and exercising vertical power of authority over the regional and provincial supervisory institutions of the market, and investigating and penalizing activities violating securities and futures laws and regulations. The CSRC acknowledges that investors are expecting stronger supervision of listed firms' information. Firms that fail to provide the capital market with timely, adequate and transparent information will face severe penalties from the CSRC (People's Daily, 2005a). In the early and mid-1990s, the CSRC enforcement actions were weak and punishment was lax. Thus, in the earlier days, the CSRC was viewed as being ineffective (Chen et al., 2005). From 1998, the CSRC gained overall regulatory power and has over-riding control over the securities industry.

To enforce the Chinese accounting standards, the MOF, jointly with the CSRC, supervise financial accounting information disclosures made by listed firms on the Chinese stock market. The CSRC has the power to punish listed firms and their auditors if non-compliance with accounting standards and audit criteria or false financial information is found. Penalties for the CPA firms that do not apply appropriate standards can include cancellation of licenses, temporarily or permanently. By the end of 2004, the CSRC had completed the investigation of 851 cases and 953 related persons had been punished, most for disobeying the accounting standards and showing false information in their reports (CSRC, 2005).

The CSRC has also publicly pledged to improve the transparency of its own work to ensure the efficiency of capital market reforms and to curb corruption. In 2005, the CSRC further implemented the stock market reform plans mapped out by the State Council and steadily opened up the market. According to the chairman of the CSRC, strong protection of the interests of public investors is the priority for the reforms, and an accountability culture needs to be developed (CSRC, 2000). The CSRC has also increased its interaction with the media and the public investors, such as offering more detailed introductions of the new policies to investors and conducting more interviews with the media.

Under the close supervision of the CSRC, Shanghai and Shenzhen stock exchanges established their own listing rules in 1998 and strengthened their roles in supervising information disclosure. While endeavoring to provide facilities for the securities trading and monitoring thereof, the two stock exchanges also participated in championing the improvement of corporate governance, especially in respect of protecting investors' interests and the transparency of information disclosure. In 2003, the Shenzhen Stock Exchange issued the *Guidelines on Protection of Investor Rights and Interests for Small and Medium Enterprises Board*. Article 12 of this guideline stresses that listed companies should "truthfully, accurately, completely and timely disclose the information that may significantly impact the price of stocks and derivatives or the decision-making of investors, and such information must not contain falsehoods, misleading statements or material omissions. The person with disclosure obligation shall, based on the principle of good faith, voluntarily disclose other information that is not required by laws, administrative regulations and rules, as well as the rules of the Exchange. Listed firms shall ensure that investors have equal access to the information disclosed and shall not make selective disclosure". Article 13 emphasizes that "when making voluntary disclosure of forward-looking financial information, listed companies shall follow the internal audit procedures, issue risk warnings to investors stating the assumption basis for such forward-looking information and any uncertainty involved and, in accordance with actual conditions and in a timely manner, modify the information previously disclosed".

In addition to releasing and implementing rules to regulate information disclosure by listed firms and safeguard the interest of public shareholders, these two stock exchanges also take some action to maintain the sustained development of the stock market. They monitor the dominant shareholders' illegal use of funds of listed companies; in conjunction with the assistance of local governments, they enforce state shareholders to return funds to listed companies to ensure the capital resources raised from the stock exchange are used for legitimized purposes. The regulatory department within the Shanghai Stock Exchange has also released reports to expose the bad behavior of some security investment companies in the stock market. It is complementary to Chinese accounting standards that disclosure is reasonable and systematically and efficiently enforced. It also helps to ensure that the Chinese accounting standards are properly implemented. Taking a similar attitude as the CSRC in respect of investor protection, the two stock exchanges also undertake strong enforcement to promote transparent disclosure in the stock market.

Market reactions to the CSRC's actions are investigated by Chen et al. (2005) and Berkman (2008). Chen et al. (2005) provide empirical evidence on the impact of the regulatory agencies' enforcement actions on the valuation of listed firms. In their study, the authors identify 169 enforcement actions carried out by the CSRC in the period 1999-2003. Using event study research methodology, Chen et al. (2005) find that enforcement actions implemented by the CSRC have a negative impact on stock prices, with most firms suffering wealth losses of around 1-2% in the 5 days surrounding the event. Moreover, they find that firms have a greater rate of auditor change; a much higher incidence of qualified audit opinions; increased CEO turnover; and wider bid-ask spreads. The negative stock returns and the costly economic consequences for listed firms suggest that the regulatory agencies in the Chinese stock market have credibility and their actions have "teeth".

Berkman (2008) adopts an event study methodology to examine the stock market reactions to three newly-released regulations by the CSRC aimed at reducing expropriation from public investors by controlling shareholders. The three regulations were all introduced in the second quarter of 2000 and were partly motivated by China's successful attempt to gain entrance into the World Trade Organization (WTO). The first new regulation (released on May 18, 2000) substantially increased the rights of public investors at a firms' annual shareholders' meeting. The second regulation (released on June 6, 2000) prohibited the issuance of loan guarantees by a firm to its controlling shareholder, and the third regulation (released on June 26, 2000) improved the transparency and regulation of asset transfers to related parties. Berkman (2008) finds significant positive abnormal returns accrue to firms with weak governance, as proxied by the value of related-party transactions and a variety of less direct measures. These results are interpreted as evidence that securities market regulation can be effective in protecting public investors from expropriation in a country like China with weak judicial enforcement.

The regulatory agency group in the Chinese stock market has three strong stakeholder-attributes. This group legitimates its existence by establishing the regulatory framework of corporate disclosure in the Chinese stock market. The enforcement of the regulations and sanctions it has imposed show its power and urgency over listed firms in the stock market. If listed firms are de-listed by the stock exchange, not only do they lose an important source of capital, but also their reputation in society is damaged. Accordingly, the regulatory agency group can be identified as a definitive stakeholder for listed firms in the Chinese stock market.

Investor Stakeholder Group

Individual investors have emerged in Chinese society since the beginning of the 1990s, when stock exchanges were opened in Shanghai and Shenzhen. As part of the fiscal policy of the Chinese government, the interest rates in China have remained low which has led some investors to seek higher rates outside of traditional savings accounts. The prosperity of the Chinese stock market has attracted increasingly more residents to invest their savings in relatively high-risk income stocks, funds and other investment devices. As a result, many have withdrawn money from banks and given it to security companies in the form of cash deposits (People's Daily, 2005b). This is evidenced in a CSRC (2000) report which states that the Chinese stock market is primarily made up of individual investors, and who are segmented, segregated and with low shareholding ratios. As minority shareholders of listed firms, individual shareholders have, on average, no more than 0.3% of the seats on the board of directors or supervisory board, even though they are a group possessing approximately one-third of the shares (Xu and Wang, 1999). Various factors have restricted individual shareholders' participation in the management and significant decision-making of listed firms. These include low shareholdings by individual shareholders, geography and the time zone differences (CSRC, 2000). Thus, the absence of cumulative voting procedures has significantly enhanced the control rights of a firm's largest shareholder.

Chinese domestic investors have a reputation for seeking short-term trading profit rather than long-term dividend income and investment growth, which is evidenced by the short shareholding periods of 1-2 months in 1995, and 5.8 months in 2002, compared to the average 18 months share holding period in the US (Deng and Wang, 2006). Such short investment horizons indicate that small individual shareholders neither have the willingness nor the capacity to monitor the management of listed firms closely. After more than a decade of development in the Chinese stock market, the number of individual investor accounts has increased from 8.35 million in 1992 to nearly 162 million by the end of 2011. The individual Chinese investors are also increasingly interested in the performance of listed firms and macroeconomic development when investing in the Chinese stock market. The value-oriented investment ideology is becoming more acceptable; and traders have been reported as becoming more rational and mature.

The Chinese public investors have also progressively become aware that they can protect their interests through legal mechanisms. In 2001, nearly 900 compensation cases in relation to fraudulent financial statements, insider trading and market manipulation were lodged in the lower courts (People's Daily, 2001). In early 2002, two reputable law firms filed complaints in the court on behalf of 363 investors and 700 investors who suffered from financial losses caused by fraudulent financial information disclosed by two listed firms. In November 2002, eleven individual investors obtained compensation of RMB 224,096 Yuan (US$28,012) from Hongguan Shiye and a related security underwriting company after a lawsuit lasting nearly four years. This marks the success of the first civil compensation case in China over fraudulent financial information. The case reflects the attitude of government authorities and regulatory agencies towards further legal enforcement of various regulations in respect of listed companies (Shao, 2003).

Based on Mitchell et al. (1997) typology, the investor group has one strong attribute, namely, urgency. Investors can buy or sell their shares freely. If they can't have the management changed via their voting powers, they may sell their shares in the stock market and this action may lead to the devaluation of a firm's share price. As investors have equity stakes in listed firms, they expect firms to make transparent disclosures to assist them in making efficient decisions in terms of how to allocate their financial resources. This group, however, does not have strong power over listed firms. Although investors in China have begun to use legal mechanisms to protect their interests from exploitation by majority owners, their actions are only strong enough to put external demands and pressure on listed firms to make transparent disclosures, rather than imposing sanctions on firms directly (Chen et al., 2005). With strong urgency and legitimacy but weak authoritative power, the investor group can only be classified as a dependent stakeholder of listed firms in the Chinese stock market.

Accounting Profession

In ancient China, in an economy which was dominated by small scale family businesses, the role of accountants in respect of strategic management and decision-making in Chinese society was not well regarded.Traditional Chinese culture considers merchants and people related to industry as inferior to other professions. Confucian philosophy suggests that "the mind of the superior man is conversant with righteousness; the mind of the mean man is conversant with gain" (Gao and Handley-Schachler, 2003). However, the function of accountants has changed since the economic and enterprise reforms in China. The rapid growth of accounting firms during the past fifteen years is the consequence of the introduction of massive new accounting regulations, standards and the trend of international accounting harmonization. The important role that accountants can play in improving business management and corporate governance has been recognized and this recognition has led to the development of a certification process for the accounting workforce (Groom and Sims, 2005).

The establishment of the Chinese Institute of CPAs (CICPA) was a landmark event in the development of the CPA profession in China (Tang and Lau, 2000). The CICPA is a quasi-government organization and reports to the MOF. The CICPA's main responsibilities include registering CPAs and public accounting firms and conducting the entrance examination. In January 1994, the *People's Republic of China Registered Accountant Law* (Certified Public Accountants Act) was promulgated by the MOF. The Act defines the scope of a CPA's role, including external auditing as distinct from internal auditing and government auditing, and other accounting consultancy work such as the design of accounting systems, performing accounting projects for management and providing advice on taxation, business registration and staff training.

A further step in the development of an independent profession has been the de-linking of CPA firms from sponsoring agents, usually government departments and institutions, since 1998. With the growth of the market economy, the government's tight control over CICPA has become impractical and now accounting firms are formed as either independent partnerships or limited liability companies. The de-linking is a sign of the intention of the government to abandon direct control over CPA practices. CPA professional services have been subject to professional, legal and market discipline since then.

An important role has been played by the independent accounting and auditing firms in boosting investors' confidence in the Chinese stock market. In 1998, a survey was conducted by the CICPA among 773 listed companies as part of an "accounting and auditing market cleaning campaign" implemented between 1997 and 1999 in China. The results show that there was a significant improvement in respect of the quality of accounting and auditing work. Of the 773 companies, there were 38 companies that received qualified auditor's opinion, 55 companies were offered an auditing opinion with the attachment of an explanation. One auditing firm released a qualified auditor report to a listed firm and one auditing firm refused to issue an audit report to a listed firm. In total, 12.29% of auditing firms expressed their disagreement to the financial information provided by the listed firms. Prior to that, the issuing of a qualified auditor report to a listed firm by an auditing firm had never previously happened. The implication of these actions is that accountants in China have improved their professionalism and sense of responsibility to public investors. A survey conducted by Chinese media in June 1998 also showed that the public's confidence in qualified accountants had improved from 45% in 1994 to 81%. The image and creditability of independent accounting and auditing firms have gradually improved. However, the quality of services provided by domestic accounting and auditing firms is still far from satisfactory, especially in respect of professional ethics. In order to make higher profits, some accounting firms assist their clients to produce fraudulent financial information. Due to a lack of any sense of risk, these accounting firms do not seem to realize that public investors rely upon an auditor's opinion to make decisions regarding capital investment. The majority of corporate scandals including Hongguan Shiye and Qiongminyuan can be related to the deceptive role played by external accounting and auditing firms(Xiao et al., 2004).

This professional body has played a positive role in improving the quality of financial disclosure in the Chinese stock market. However, as one of the stakeholders of listed firms, CICPA only possesses one of the three stakeholder sorting criteria – legitimacy. CICPA doesn't have power and urgency over listed firms and CPA firms. Rather, it is the CSRC and the MOF that possess authoritative power over listed firms and CPA firms. As mentioned previously, it is the CSRC and the MOF that can impose a penalty on CPA firms that do not apply appropriate standards and such a penalty can include cancellation of a CPA firm's license, either temporarily or permanently. Therefore, by reference to the Mitchell et al. (1997) typology the CICPA can only be classified as a discretionary stakeholder of listed firms in the Chinese stock market, as it cannot threaten listed firms' capital resources.

Environmentalists

Another stakeholder group of listed firms are environmentalists and the environmental authority. The State Environmental Protection Administration (SEPA) has issued several regulations and provisions related to environmental disclosure and reporting. The *Management Provision on Reporting and Registration on Pollutant Emissions* (1992) was the earliest regulation, requiring enterprises to report to the government the details of the pollutants they are responsible for and how they are managed. The *Environmental Management Provision for Construction* (1998) requires enterprises that run construction projects to produce an Environmental Impact Assessment report (EIA). The *Bulletin on Information Disclosure for Corporate Environmental Performance* (2003) stipulates that non-compliant enterprises should disclose their corporate environmental performance to the public. Local environmental protection bureaux must release corporate non-compliance lists periodically to the public through newspapers and television. This regulation requires that listed firms must disclose their environmental performance information for the previous year by March 31st every year. Another regulation released in 2003, Regulations on the Environmental Inspection of Companies Accessing or

Refinancing from the Stock Market, aims to prevent environmental risk associated with listed firms from certain heavily polluting industries such as metal, chemicals, oil, coal, thermal power and construction materials. The CSRC requires firms wanting to be listed on the Chinese stock exchanges to include their environmental risk and how they meet environmental standards and environment-related measurements in their prospectus of Initial Public Offerings (IPO), application files for IPO and legal statement and working reports of lawyers for IPO.

The survey of annual reports of 1195 listed firms conducted in 2003 by Guo (2005) concludes that firms in China pay less attention to corporate environmental reporting and disclosure compared to some of their western counterparts. As most of the regulations in the Chinese stock market focus on improving corporate disclosure and reporting of firms' financial performance rather than social and environmental issues, environmental disclosure is not popular, and annual reports of listed firms rarely include environmental issues. Although possessing legitimacy attributes, environmentalists do not have strong power and urgency over the financial resources of listed firms and therefore can be classified as discretionary stakeholders of listed firms in the Chinese stock market.

Based on the discussion above concerning the emergence of new stakeholders and the changing power of particular stakeholder groups, Table 1 summarizes stakeholders and their attributes in the Chinese stock market.

Table 1. Stakeholders and stakeholder attributes in the Chinese stock market

Stakeholder group	**Power**	**Legitimacy**	**Urgency**	**Classification**
Creditor	High	High	High	Definitive stakeholder
Regulatory agency	High	High	High	Definitive stakeholder
Investor	Low	High	High	Dependent stakeholder
Accounting Profession	Low	High	Low	Discretionary stakeholder
Environmentalist	Low	High	Low	Discretionary stakeholder

Conclusion

As a consequence of the development of the Chinese economy, there has been an emergence of "new" stakeholder groups. New stakeholder groups include creditors, regulatory agencies, investors, professional associations and environmentalists. Applying Mitchell et al.'s (1997) stakeholder typology, the assessment of stakeholder attributes clearly shows the regulatory agency group is the most powerful stakeholder group for listed firms in the Chinese stock market. The MOF, the CSRC and the Shanghai and Shenzhen stock exchanges can be jointly identified as definitive stakeholders, as they possess three strong stakeholder attributes, namely, power, legitimacy and urgency over the capital resources of listed firms. Although the creditor group is also considered a definitive stakeholder, the regulatory agency group has political power which we consider gives this group the number one position. To be continuously listed in the Chinese stock market and obtain financial resources from shareholders, listed firms must follow the rules and regulations enforced by those regulatory agencies.In relation to the creditor group the changed banking environment in China has transferred this stakeholder group from a discretionary stakeholder to a definitive stakeholder. The creditor group now possesses three stakeholder attributes that are closely related to the economic stake creditors have in listed firms. Being profit-oriented itself, this group possesses power to control the capital resources relied upon by listed firms. Investors are dependent stakeholders and, due to relatively weak legal mechanisms, have limited power over listed firms. However, investors strongly exhibit one of the attributes, namely, urgency. They can take immediate actions by selling their shares when they feel their legitimate interests are not being served by the management of listed firms. The professional association, CICPA, exhibits strong legitimacy but lacks power and urgency over listed firms in the Chinese stock market, which makes it a discretionary stakeholder. Environmentalists have emerged as a stakeholder group more recently with the greater awareness given to corporate environmental performance and disclosure to the public. Like the professional associations, Environmentalists would be considered discretionary stakeholders as they only have the legitimacy attribute. Therefore, as a result of the economic reforms in China we can see the change in ownership structures of firms from state-owned enterprises where the sole stakeholder was the Government to a westernized capital market with listed firms and multiple stakeholders. This change will prompt the management of listed firms in China to be more aware of the need for stakeholder management to be successful into the future.

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