



Think Ahead



RISK CULTURE: A SPECIAL REPORT ON
CHINA'S STATE-OWNED ENTERPRISES (SOEs)

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **241,000** members and **542,000** future members based in **178** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in **our purpose**. In December 2020, we made commitments to the **UN Sustainable Development Goals** which we are measuring and will report on in our annual integrated report. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

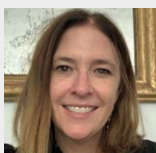
And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation.

Find out more at accaglobal.com



RISK CULTURE: **A SPECIAL REPORT ON** **CHINA'S STATE-OWNED** **ENTERPRISES (SOEs)**

This special report, about how Chinese SOEs are evolving their approach to risk management, builds on ACCA's global report and survey, [*Risk Culture: Building Resilience and Seizing Opportunities*](#) (Johnson 2023). It serves as a deeper dive into this unique sector, which in recent years after multiple stages of reform has become the 'stabilizer and ballast stone' for China's economic and political system. As our membership in the China region continues to grow steadily, currently with 29,000 members, the aim of this report is to support financial professionals both there and elsewhere in the world who take an interest in Chinese SOEs, as these entities continue to expand internationally and take on an increasingly larger role in global supply and value chains.



Author

Rachael Johnson,
Head of Risk Management and
Corporate Governance, ACCA



Co-author

Polly Lian,
ACCA Policy Manager of China,
ACCA member

Guest foreword by Lyndsey Zhang

Member of ACCA's special interest group on risk culture



Lyndsey Zhang

CPA, and Author of *Corporate Governance in China: Seen Through a Practitioner's Lens* (2022) and *Understanding Chinese Corporate Governance: Practical Guidance for Working with Chinese Partners* (forthcoming in 2024 in English and Chinese)

Chinese state-owned enterprises (SOEs) are the backbone of China's economic growth. China's 14th Five-Year Plan, covering 2021-25, further confirms SOEs' leading position in transforming the country's economic development strategy from 'high speed' to 'high quality'.

Although the country's current financial market and SOE reforms will further diversify SOEs' ownership and encourage global investment, the government's controlling ownership will remain unchanged. At the same time, with their growing variety of relationships with global partners and a growing contribution to global economic growth, Chinese SOEs' governance has attracted increasing attention over the past few decades.

To understand the close ties between the Chinese SOEs and the Chinese government and the significant roles of accountancy professionals in facilitating Chinese SOEs' global growth, we should briefly review four milestones of Chinese SOEs' reform. The first was the initiation of Chinese economic reforms in 1978. Before then, Chinese SOEs were state-operated enterprises owned and operated by government agents and Party officials and were required to forfeit all their profits to the state. The second, from 1978 to 1992, involved initiating ownership diversity and operational autonomy: government regulators introduced competition and accountability mechanisms, which established market-supporting institutions to aid the transition from a planned economy to a market-based one. Thirdly, the legalisation of corporations began in China in 1993 with the establishment of the first company law and securities law. From 1993 to 2002, Chinese SOEs underwent a corporatisation process, including rejuvenating unprofitable SOEs.

Fourthly, China's first corporate governance code was established in 2002 followed by revision of the accounting law in 2006, when the International Financial Reporting Standards (IFRS) were substantially adopted. These first three milestones were steppingstones to the final, fourth milestone, which resulted in significant progress for Chinese SOEs wanting to enter the international market. More so, converging IFRS made Chinese accountancy practitioners the first professionals whose jobs were largely guided by an international standard. Since then, accountancy professionals have made remarkable contributions toward building

confidence in Chinese companies' financial reporting, among the global trade and financial markets.

Chinese SOEs' significant economic, political, diplomatic, and national security positions are no different from those of most countries' SOEs, as are their risk-management strategies against domestic and international business, market, and geopolitical risks. Chinese SOEs' risk management has been overseen by the governmental authority, the State-Owned Asset Supervision and Administration Commission (SASAC). For a long time, SASAC's centralised risk-management approach provided confidence for anxious global investors. Although these institutional investors could not make direct influence on Chinese SOEs' governance practices, owing to their insignificant share ownership, they enjoyed these companies' fast growth by relying on Chinese SOEs' risk culture, which focuses on preventing misconduct and risky behaviours. Nonetheless, global corporate sustainability development, accelerated by sustainable movements such as corporate social responsibility (CSR), environmental, social, and governance (ESG) measures, and sustainable development goals (SDGs), has created a push for effective corporate governance mechanisms, decision making transparency, and ESG information disclosure. Therefore, the transparency of Chinese SOEs' decision making and sustainability-related information disclosures have become the central focus of global investors.

Chinese members of ACCA have enabled the present critical study of Chinese SOEs' risk culture and risk management. This study offers timely findings that have revealed accountancy professionals' important roles in Chinese SOEs' risk strategies and risk measurement and, in the process, in quantifying ESG-related risks. The study also identified that a high percentage of these professionals are involved in SOEs' ESG risk analysis and evaluation. These findings signal an evolving trend in Chinese SOEs' corporate governance practice, which will probably lead to increasing transparency in financial and non-financial information disclosures.

Contents

Unravelling the high confidence	
Chinese respondents showed the highest confidence in accountancy professionals' ability to quantify hard-to-measure risks	6
China's SOEs: a vast and diverse sector under the global spotlight	13
Organisational structure: roles and hierarchies	15
Changes from the three-year plan	16
Risk management in the post-pandemic era	19
Evolution of risk management at Chinese SOEs	21
Managing risk in today's fast-changing world	22
Great expectations: ESG¹ plus T²	24
Closing remarks by Chris Torrens, partner at Control Risks	27
References	29
Appendix	30

Unravelling the high confidence

Chinese respondents showed the highest confidence in accountancy professionals' ability to quantify hard-to-measure risks.

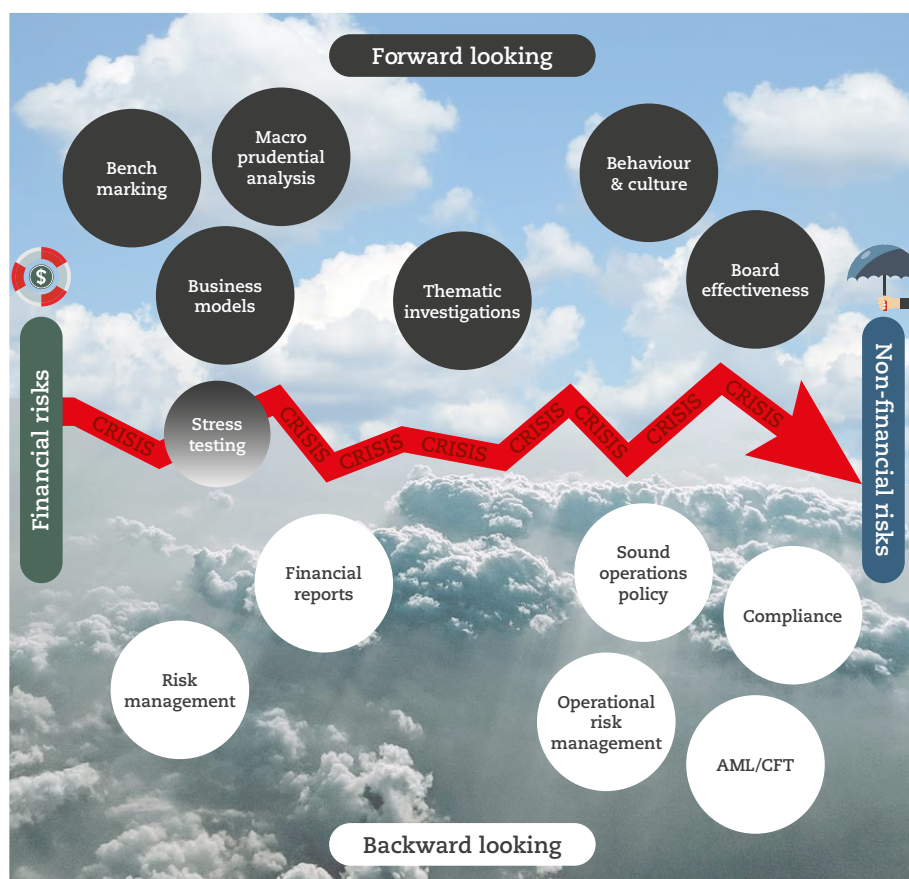
From climate change and global macro uncertainties to generative artificial intelligence (AI) and social media, today's complex, interconnected disruptions continue to force organisations to rethink how they manage risk and that is what prompted us to explore what ACCA members globally have to say about risk culture and the extent to which it affects their performance.

At the heart of this first-of-a-kind research was an online survey, which attracted 1,823 responses – more than the World Economic Forum's *Global Risks Report 2023*

(WEF 2023). Conducted during the last two weeks of October 2022, our survey was followed by an online community platform, one-on-one interviews, and other roundtable discussions, together allowing us to gather perspectives from over 2,000 ACCA members around the world and across a wide range of industries. We are also including risk questions in our quarterly Global Economics Conditions Survey (GECS) reports, so members can benchmark the data ongoing and gain a better understanding of how and where risk perception is evolving.

FIGURE 1: What is risk culture?

RISK CULTURE IS A TERM DESCRIBING THE VALUES, BELIEFS, KNOWLEDGE, ATTITUDES, CONDUCT, BEHAVIOURS AND UNDERSTANDING ABOUT RISK AND THE LEVEL OF ACCEPTED RISK SHARED BY A GROUP OF PEOPLE WHO HAVE A COMMON PURPOSE.



Source: adapted from Dr Roger Miles

While respondents all over the world ranked 'regulatory change, legal and compliance risk' as a 'top three' risk priority, Chinese respondents ranked it first by the widest margin compared to other risks. They were also the highest, 74% of Chinese respondents, for believing that accountancy professionals can quantify hard-to-measure risks at their organisation.

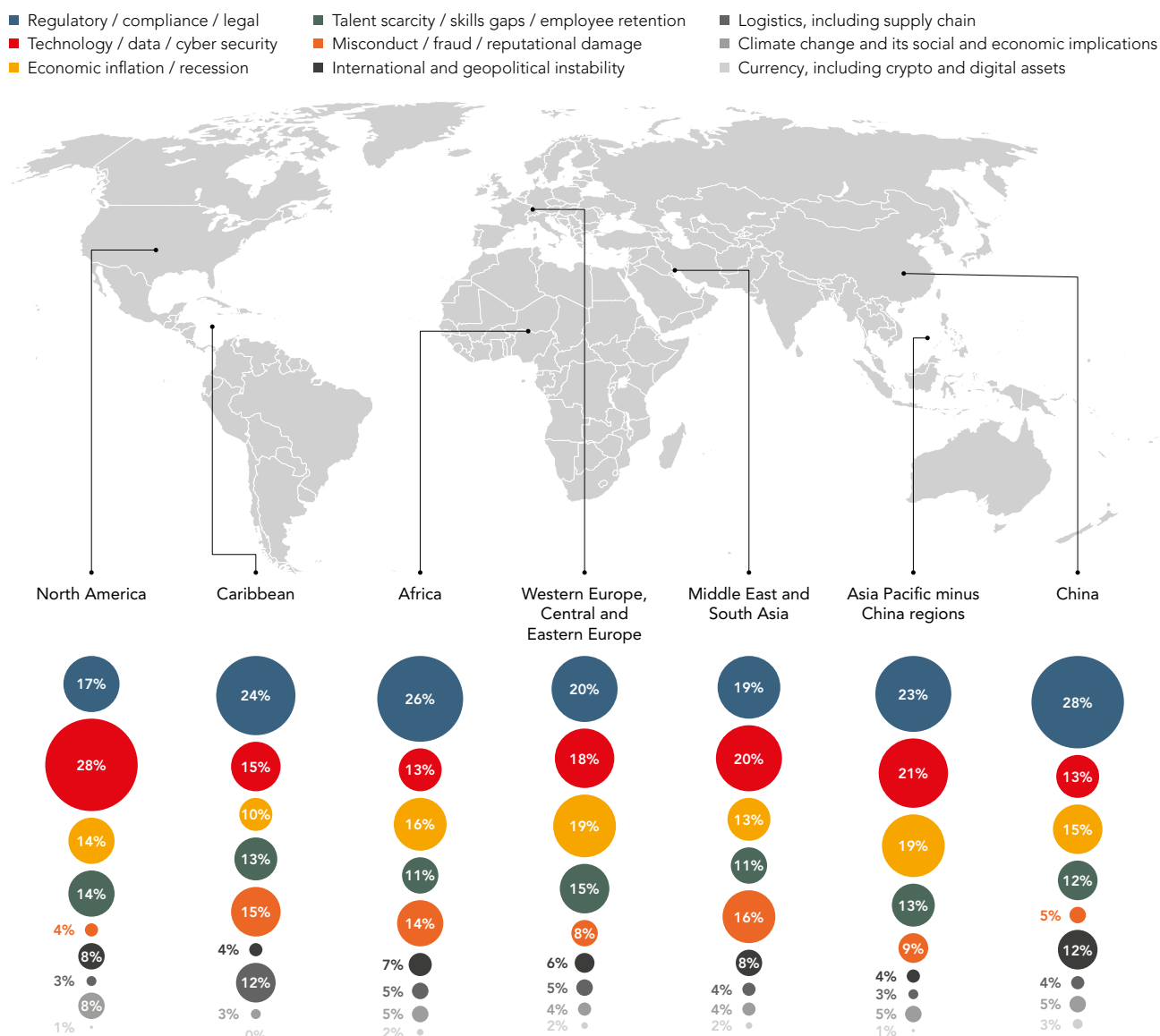
Furthermore, 69% of respondents in China believe accountancy professionals are helping their organisations assess non-financial risks better, including ESG risks.

China respondents were also the most confident in how their organisations' risk culture deters misconduct. Globally, we found that those survey respondents who were most confident about the value of accountancy professionals in assessing risk issues were also more likely to express confidence in their organisation's risk culture.

Through our engagement with members across all regions, we dug deeper to see where this confidence is coming from considering the sheer scale of risks and

69% OF RESPONDENTS IN CHINA BELIEVE ACCOUNTANCY PROFESSIONALS ARE HELPING THEIR ORGANISATIONS ASSESS NON-FINANCIAL RISKS BETTER, INCLUDING ESG RISKS.

FIGURE 2: Top risk priorities around the world



('Don't knows' remain the balancing figure for each region)

exponential change today, and despite our risk culture study concluding that while business models are shifting at an unprecedented pace, the governance – the G in ESG – is simply not keeping up. Governance at even the most profitable companies in the world with mature risk frameworks are under resourced and out of date.

Our 'Risk Conversations' with members around the world showed that roles and responsibilities need more clarification and communicating. Risk appetite is often not being employed in ways many senior risk managers had thought and different functions are not coordinating or speaking a common language when it came to putting

processes, purpose and values into practice.

Our research also reflected how the various levels of risk maturity in Chinese corporations did not differ much from Western counterparts. However, we sensed that corporate governance differences, especially on the underpinning attitudes about risk, across both regions and industries were worth exploring further. Understanding how we comprehend risk is crucial for navigating the hazards and opportunities that organisations face today, and we believe accountancy professionals could be doing more to inform major decision makers about how to take on the right risks, including where ESG issues are concerned.

FIGURE 3: Has your organisation conducted a risk assessment in 2022?

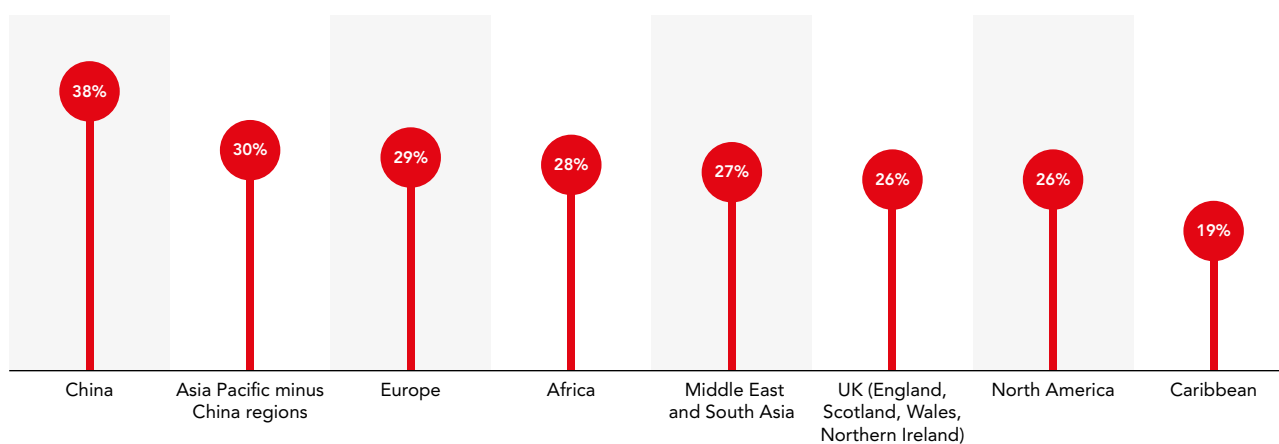
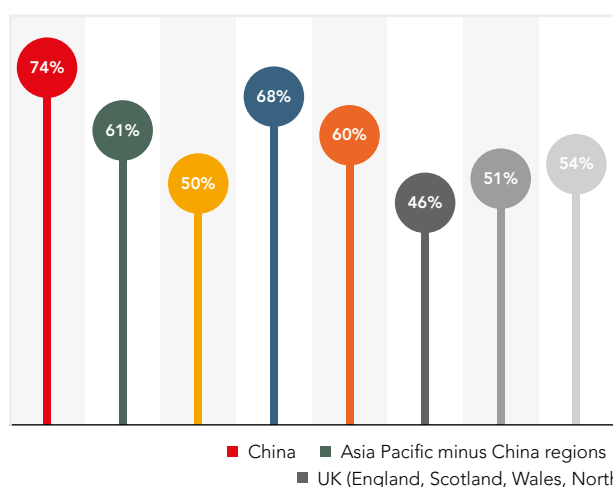


FIGURE 4: Confidence in accountancy professionals

Accountancy professionals allow us to quantify hard-to-measure risks at my organisation effectively



Accountancy professionals are helping my organisation better understand and manage non-financial risks (inc. ESG related risks)

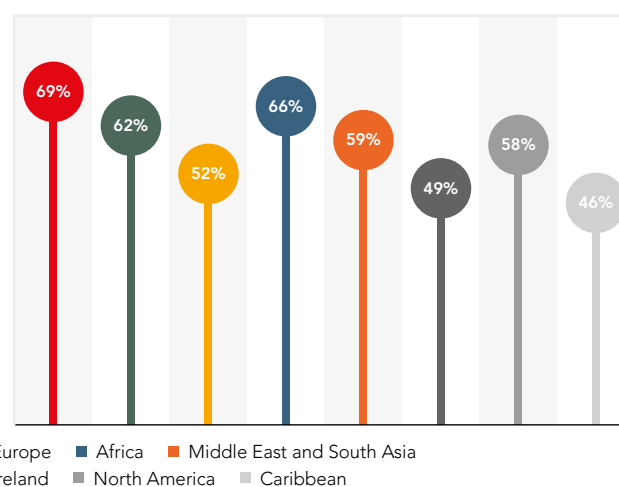
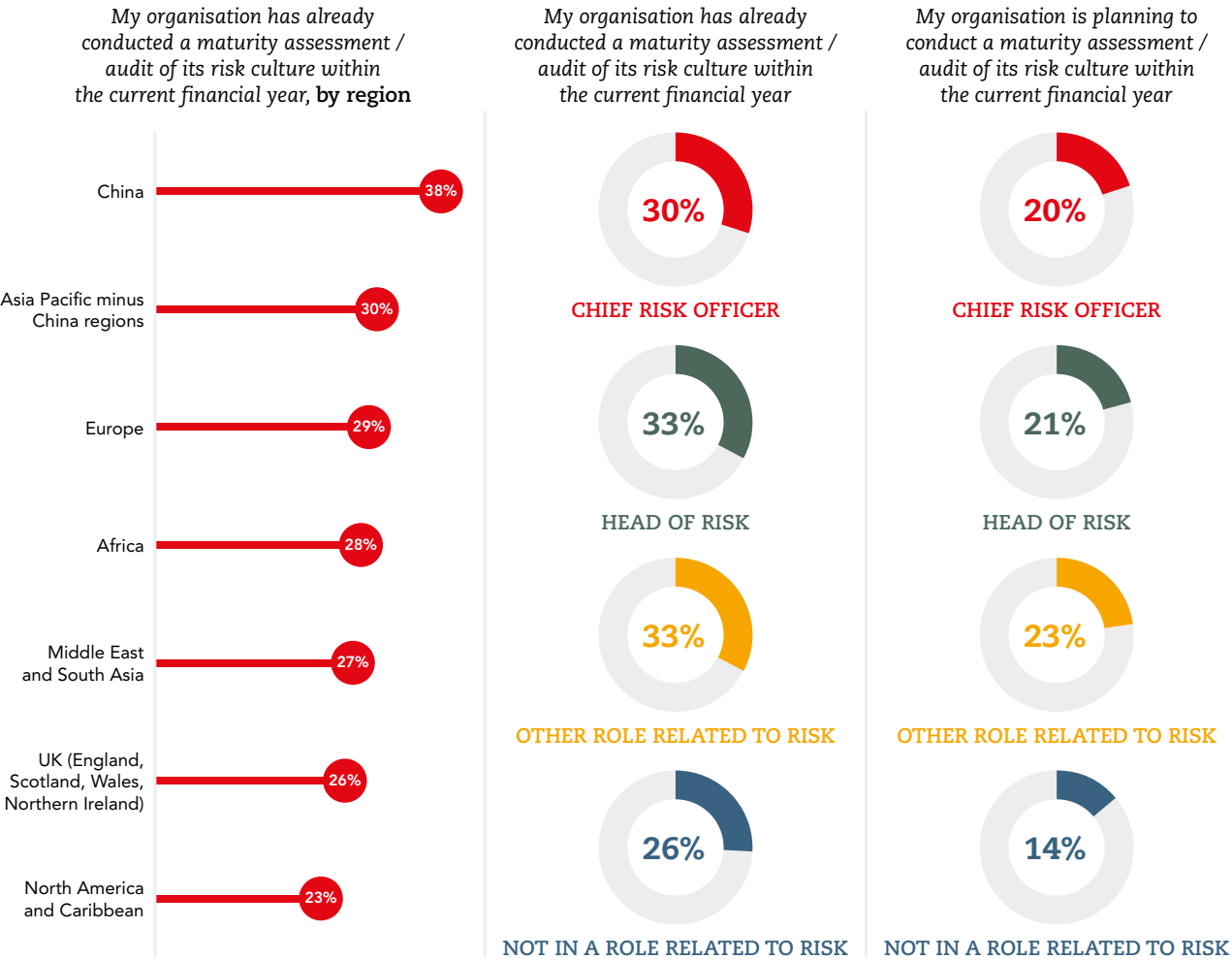


FIGURE 5: More than half have worked or are working on risk maturity assessments



**CHINA RANKED HIGHEST
IN THE WORLD FOR
CONDUCTING RISK
MATURITY ASSESSMENTS.**

Risk culture calls to action

As part of the report and overarching campaign to support our profession, ACCA created the following 10 calls to action to help organisations assess where improvements can be made:

1. Empower risk leaders to drive risk culture and influence behaviours through a common language

Risk knowledge should be shared and discussed together across functions. Risk leaders must reach out to others and not wait to be approached to discuss mutual interests that are critical to the organisation, such as the key performance indicators (KPIs), making team members feel involved in matters that affect them.

2. Resist the danger of tunnel vision when faced with a multitude of risks

We see an understandable tendency for people to focus on the immediate issues relevant to their job, meaning that larger risks are ignored and a lack of diversity of thought informing decision making materialises. Getting risk conversations happening up and down the organisation consistently is the secret sauce of a successful risk culture.

3. Assess the behaviours driving both good and bad outcomes

Behavioural analysis provides rich insights about stakeholders' attitudes that don't make it into out-of-date risk reports. Senior management should optimise that knowledge by linking it to strategy and policy, improving corporate governance, due diligence, and decision making.

4. Don't mistake a "tick the box" compliance approach as true, value-added risk management

Organisations should focus on the outcomes that rules and regulations seek to engender. In many ways, a compliance culture is the antithesis of a good risk culture. An effective risk culture enables the organisation's people to understand and take on the right risks in an informed manner and rewards them for this.

5. Consider how you define the role of accountants in risk culture, particularly on reconciling ethics with profits

The complexities of today's shifting business models mean accountancy professionals should be reviewing any conflicts with stated values and deciding whether opportunities are in line with objectives.

6. Communicate risk appetite and its purpose to help guide behaviour and inform better decision making

In the absence of a clearly defined risk appetite, decision making will ultimately be reduced to personal judgment, which can depend dangerously on inference and is subject to bias.

7. Eliminate the fear factor by creating a "hands up" culture through visibility and leading by example

Risk and accountancy professionals, in their various roles setting up risk governance processes, can intentionally affect the environment and how safe team members feel. Speaking up about risk is a behaviour that organisations can and should encourage.

8. Measure and incentivise the risk culture you want by ensuring 'everyone owns it'

Risk culture is a crucial aspect of organisational culture given today's risk landscape, and we found a direct correlation between a better understanding of risk footprint and enhanced working relationships and job satisfaction.

9. Promote good governance through role clarity and knowing who is responsible and accountable for what

Leaders must ensure there is a clear distinction between responsibility and accountability, and that staff know what they are individually liable for. It won't only be regulators stepping up their scrutiny; everyone is raising their expectations in today's digital, vox pop world.

10. Coordinate multi-stakeholder engagement for pro-society outcomes

Industry bodies must collaborate more with regulators to ensure that risk and financial professionals are well-informed and that communications between practitioners and policy makers are more meaningful and less geared to a 'box ticking, being compliant' style of management.

Overall, we found that we all need to be aware of risk because in today's highly interconnected world, even a weak risk culture is better than none.

FIGURE 6: Discussing risk culture



Source: adapted from Dr Roger Miles

A full-page background image showing a person walking a tightrope across a narrow ridge of a jagged, rocky mountain peak. The person is silhouetted against a bright, hazy sky at sunset or sunrise. The mountain's surface is rugged and textured. In the distance, a valley with a winding river and rolling hills is visible under the soft light of the low sun.

**UNDERSTANDING HOW WE COMPREHEND
RISK IS CRUCIAL FOR NAVIGATING THE
HAZARDS AND OPPORTUNITIES THAT
ORGANISATIONS FACE TODAY.**

China's SOEs:

A vast and diverse sector under the global spotlight

SOEs are in countries around the world and considering today's geopolitical and economic uncertainties, the corporate governance of them has been attracting greater attention. The OECD provides corporate governance guidance for SOEs and publishes dedicated regional reports on their economic impacts (Molnar, 2022).

China has the most SOEs in the world, and with well over 200,000 of them and their subsidiaries making waves worldwide, they serve as the building blocks of the country's economy, second only to the US (Molnar, 2022). As these Chinese enterprises take more prominence on the global stage, it is no wonder that ACCA members across the world may either work at or deal with them and their oceans of subsidiaries in some way or another.

SOEs in China are special from a corporate governance perspective since China's Communist Party has a lot to say about their overarching leadership and final say and can influence them via various channels stemming from the Company Law of the People's Republic of China.

Over the past decade the Chinese government has instigated a series of market-oriented reforms, calling corporate governance of SOEs the 'modern enterprise system with Chinese characteristics'. Since 2015, SOEs and

CHINA'S SOEs ARE LISTED ON STOCK EXCHANGES AT HOME AND ABROAD, AND AN EMERGING NUMBER OF THOSE EXPANDING INTERNATIONALLY HAVE BEEN EVOLVING INTO THEIR OWN VERSIONS OF BOTH STATE AND PRIVATE OWNERSHIP.

listed companies have been required to formalise a role for the Party committee in their corporate charters (Livingston 2021), and the government's recent three-year reform plan for SOEs has shone even more light on how they are governed, given they are China's largest group of companies and carry much weight on how business is conducted in the region.

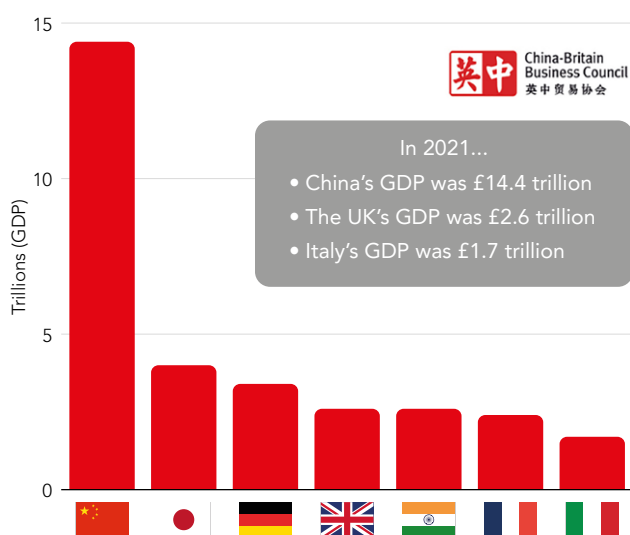
In China, there are two types of SOEs – central or local government owned. The 98 central SOEs and their thousands of subsidiaries are the biggest and most well-known as they tend to be established enterprises essential to the economy, such as banking, energy, transportation, telecoms, medicine, and food and agriculture. According to the National Bureau of Statistics of China and SASAC, 70% of central SOEs' revenue is now related to these key sectors.

Nonetheless, both central and local SOEs are spread across a breadth of industries and continue to expand their interests across different continents. SOEs can be listed in China as well as on foreign stock exchanges, and an emerging number have been evolving into their own versions of both state and private ownership.

Across the board, China's SOEs have enjoyed a revitalisation this year thanks to the request of the Party who have encouraged them to make their corporate responsibility footprints more international; in other words, think about social contributions and their broader impact on the global economy.

Since 2020, Chinese companies have made up the highest proportion of the Fortune 500 and most of these are SOEs, not private-owned enterprises (POEs), which as a group have been in decline (Qin 2022). We see more and

FIGURE 7: China's economy is nearly as big as the next six largest world economies combined



Source: adapted from China-Britain Business Council; statistics sourced from the World Bank

more how the corporate governance objective of China's SOEs is not about increasing shareholder wealth. Chinese SOEs have a clear purpose of promoting national and regional strategies and maximising social welfare.

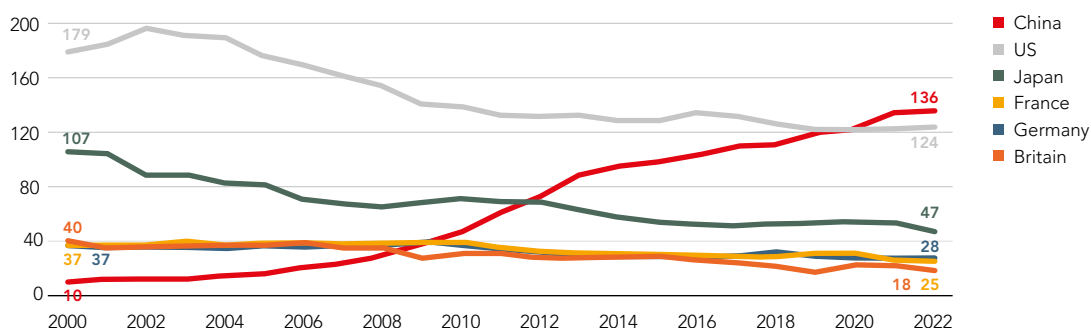
The regulatory body overseeing corporate governance at SOEs is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), which provides guidance on sustainability objectives and risk management practices, ensuring the political, social, and economic policies of the Chinese government are met.

However, one challenging aspect of SOEs and how they are governed is that they still have other regulators and government agencies to comply with, although ultimately

it is the Ministry of Finance (MOF) that overrides all financial regulatory amendments. The main objective of the MOF is to consider the national agenda and ensure that SOEs are in line with it. (Xiankun et.al. 2022). Some of the other industry regulators include: the Ministry of Industry and Information Technology, the Ministry of Science and Technology, the Ministry of Ecology and Environment, and the China Securities Regulatory Commission, just to name a few.

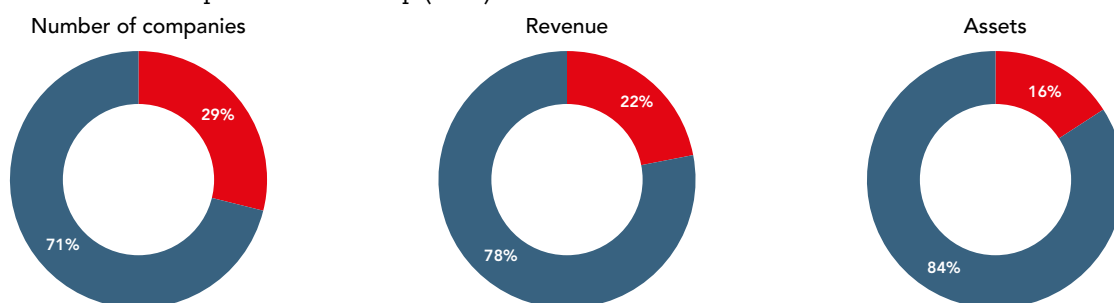
As China's SOEs have existed for much longer than POEs and small-to-medium enterprises (SMEs), they have been integral to the country's infrastructure and national security, and therefore have a history of working closely with these bodies.

FIGURE 8: Fortune Global 500 Companies, 2000-2020



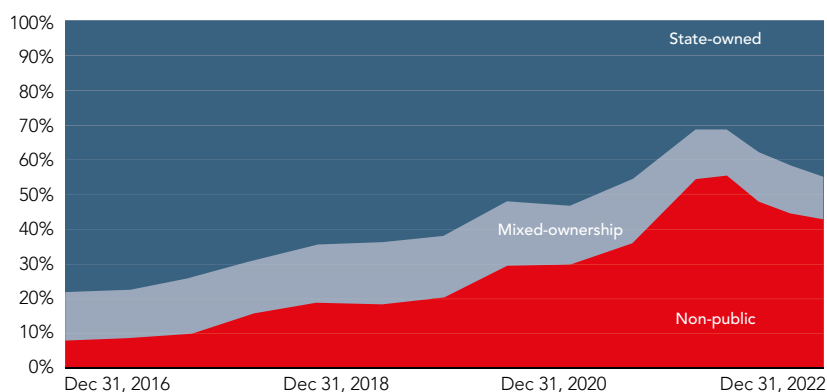
Source: Fortune Global 500, 2022

FIGURE 9: Chinese Companies Ownership (2022)



Source: Fortune Global 500, 2022

FIGURE 10: China's state versus private company tracker



Source: Véron and Huang 2023

Which sector dominates?

China's state sector grew to 57.2 percent of the country's largest listed firms in the second half of 2022, with the private sector's share dropping 1.7 percentage points from 44.5 percent in mid-2022 to 42.8 percent at year-end.

www.piie.com

Organisational structure: roles and hierarchies

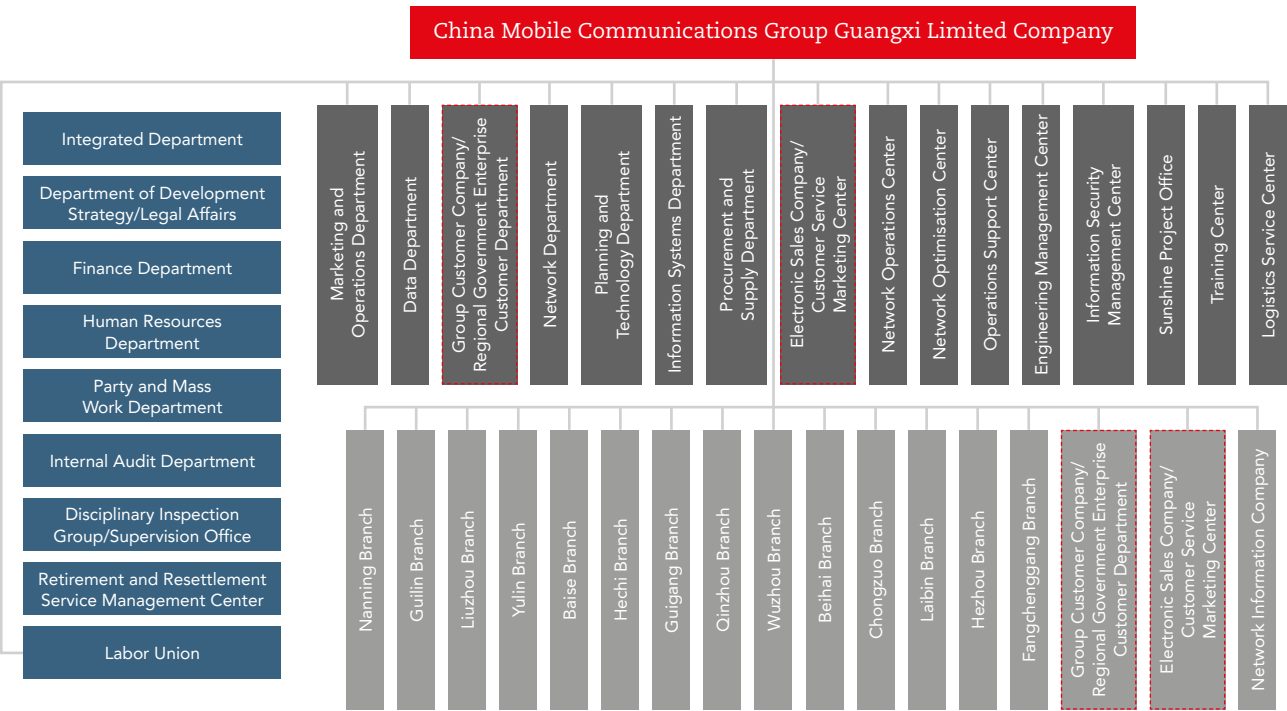
Another influencing factor on governance and risk management at Chinese SOEs is the fact that most of their senior executives are appointed by SASAC, so they are not recruited from the market in the same way that those at corporations in the West are. SASAC has the authority to transfer these executives to and from different SOEs and government bodies as it sees fit.

SASAC conducts regular performance evaluations of these Party-appointed executives and takes a holistic view of whether they are achieving a wider societal value, and how or whether they have helped the company build a stronger brand both at home and abroad. SASAC considers not only capitalisation and profitability, but also the top and bottom lines, as well as the two-year, five-year, and ten-year goals. SASAC may have varied perspectives or criteria for how they conduct these across the wide spectrum of SOEs, but the evaluations themselves can

have a significant impact on how the SOE's leaders deal with and prioritise risk. Because SASAC is tasked with protecting the government's assets, including its foreign holdings, it has a clear purpose to understand the financial health of the SOEs from the inside out, and that includes assessing the behaviours of the key decision makers.

Our risk culture study examined how risk is perceived across roles and hierarchies, and we found the 'Chief Accountant' to stand out in China. Professionals in the Western world may think of a Chief Accountant as more of a head of bookkeeping, yet it is highly valued among the majority of China's SOEs and equivalent to a C-suite position, such as the Chief Financial Officer (CFO) or Chief Risk Officer (CRO). The Chief Accountant is almost always on the board and their main responsibilities are managing the finances and risk control functions, though they also are involved in major decision making and critical changes, for example, from human resources policies and research and development to restructurings and mergers and acquisitions.

FIGURE 11: A model SOE organisational chart



Source: China Mobile Communications Group Guangxi Limited Company

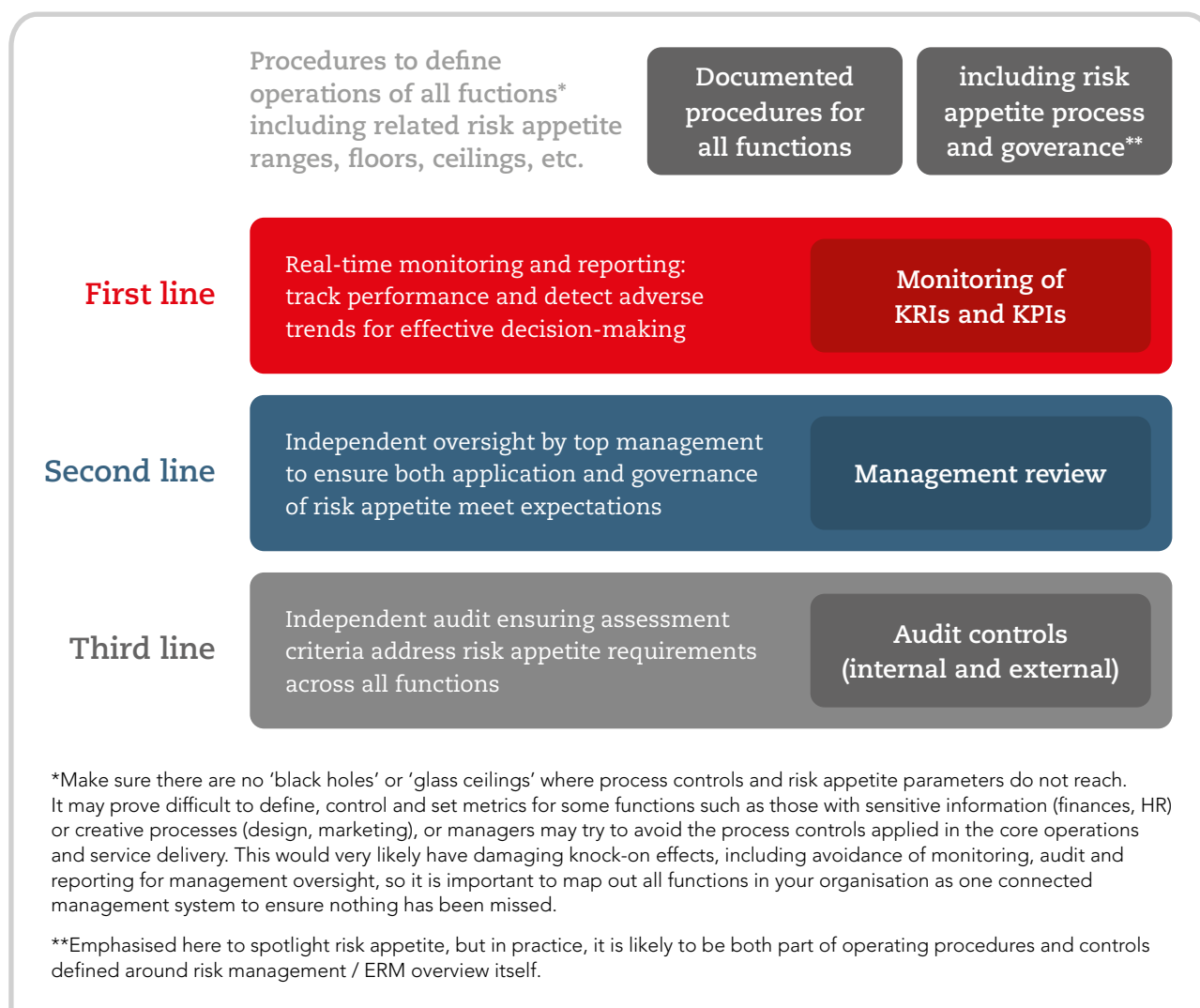
Changes from the three-year plan

Rapid digital transformations, new demands from stakeholders, and a tsunami of risk regulations and reporting requirements, are forcing revamps of corporate governance codes all over the world, with the OECD revising its G20 Principles of Corporate Governance for the first time since 2015.

In China, the three-year action plan for SOE's corporate governance reform, ending in early 2023, has led to a stream of new listings and asset restructurings with corporate responsibility in mind.¹ At the Chinese National Congress, the government described the main achievements of the three-year plan as (SASAC link):

- streamlining and reducing overlapping staff
- disposal of 'non-core' and 'non-operational' assets
- comprehensive resolution of social and historical issues within enterprises
- improvements to systems and mechanisms for ongoing technological innovation
- enhancing professionalism, systems, and rule of law in state-owned asset supervision
- establishing boards of directors – achieved with the establishment of boards of directors in 38,000 SOEs, and the proportion of independent directors has reached 98% and 99.6% respectively for central SOEs and the first-tier subsidiaries.

FIGURE 12: The 'Three Lines Model' and Risk Appetite



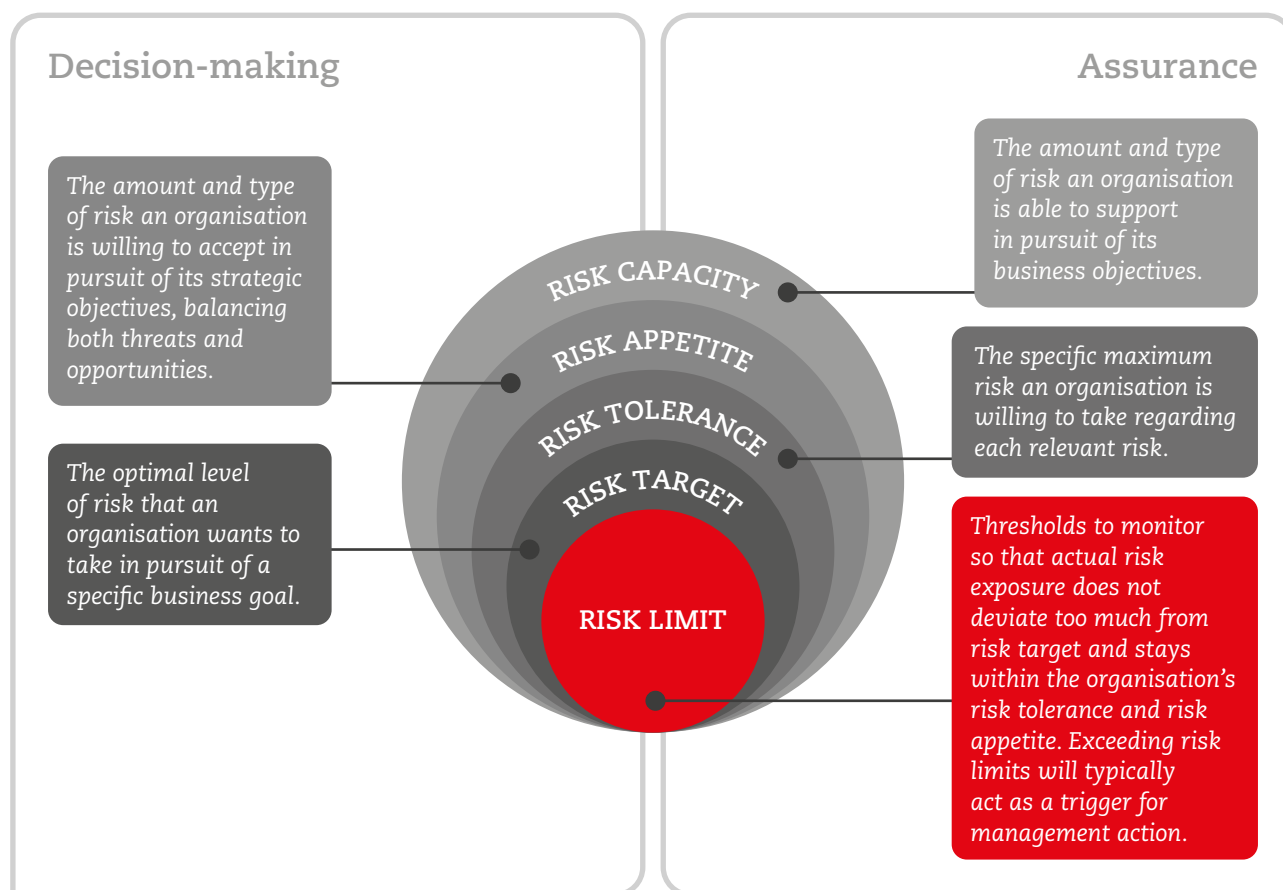
Source: adapted from Airmic-Arthur D. Little-QBE EXPLAINED Guide, Risk Appetite, 2021

1 <<https://xueqiu.com/3124818616/243543315>>.

One ACCA member at an SOE in China said that her team wants to bring best practices to their organisation 'by making processes more efficient and functionally effective' and that getting employees across all functions involved in the risk conversations has become a bigger priority.

This reflects the consensus from respondents worldwide that risk is in a vacuum at the top and not adequately discussed up and down the organisation. Similar conversations with members around the world also explained some of the overconfidence reflected in the online survey about risk appetite and how risk is perceived.

FIGURE 13: Key concepts of risk appetite



Source: adapted from Airmic-Arthur D. Little-QBE EXPLAINED Guide, Risk Appetite, 2021



RESPONDENTS WORLDWIDE SAID THAT RISK IS IN A VACUUM AT THE TOP AND NOT ADEQUATELY DISCUSSED UP AND DOWN THE ORGANISATION.

Risk management in the post-pandemic era

Respondents from all over the world overwhelmingly said they had a good understanding of their organisation's risk appetite, but China had the greatest proportion who believed that risk appetite measures were being employed effectively as part of their organisation's enterprise risk management.

Our aim was to find out more about what was happening in practice on the ground across all regions through our roundtables and one-on-one interviews. We discovered that there are diverging definitions of what 'risk' means and indeed how purpose is related to it. This was thought-provoking since the respondents globally were all risk and financial professionals. Nonetheless, respondents did agree that whether it is firefighting or chasing profit opportunities, the overconfidence in 'knowing what our biggest risks are' is just as hazardous. That individuals have different perceptions of where risk appetite fits in was also a common concern, particularly in the banking and professional services environments worldwide. This becomes most problematic when distinguishing good versus bad risk taking. Since the articulation of risk appetite helps guide and inform behaviour, and therefore culture, communicating its purpose well and defining which risks are and are not acceptable are vital to building a robust risk culture.

'Increasing training and promotion efforts will help employees in state-owned enterprises understand their own risk responsibilities and strengthen their sense of ownership. Especially in key management processes such as the 'three majors and one large areas', enhancing employees' risk management awareness promotes the true integration of risk management culture and corporate culture.'

ACCA member from local SOE

Another ACCA member in China implied that an easy way of establishing a culture of risk management for employees is to tailor what the regulator has imposed to your own organisation's needs. He described a strong risk culture as 'an early warning system for detecting not only threats but also unmissable opportunities'.

'SOEs have placed greater emphasis on risk management in the past couple years, with some revising their risk-management systems and processes. For example, one SOE has put forward the concept of risk control as the standard, internal control as the basis, and compliance as the foundation.'

Chair of a venture capital fund in China that focuses on Chinese SOEs

'Risk appetite is pretty different across [the] regions we work in. For example, in the West our branches basically have a bigger risk tolerance for trading activities but in the China region we are comfortable [taking on more risks] for real estate and R&D. I also believe there's a difference between the culture of the Chinese bank branches within Asia.'

ACCA member at a Chinese SOE bank



The 'three majors and one large' system in China refers to four important areas in decision making within Chinese SOEs:

1. 重大事项决策 (zhòng dà shì xiàng jué cè) **Major decision making:** This involves important strategic decisions that have a significant impact on the overall operations and direction of the SOE.
2. 重要干部任免 (zhòng yào gàn bù rèn miǎn) **Appointment and removal of key personnel:** This includes the selection and dismissal of important executives and leaders within the SOE.
3. 重大项目投资决策 (zhòng dà xiàng mù tóu zī jué cè) **Decision making on major project investments:** This pertains to the evaluation and approval of significant investment projects undertaken by the SOE.
4. 大额资金使用 (dà é zī jīn shǐ yòng) **Utilisation of large amount of funds:** This involves the management and allocation of substantial financial resources within the SOE.

One area for improvement mentioned most among our survey respondents in the China region was how to act on risk maturity assessments in building greater resilience, and many spoke specifically about supply chain issues. SOEs tell us that since COVID they have been forced to rethink how supply chain disruption affects their financial positions as well as their reputation with suppliers and other third parties. They reported that during the lockdowns, SMEs in their supply chains had faced significant challenges, so we found that members in larger SOEs were working on how they could update their due diligence processes for managing potential disruptions and make them more visible.

'We have established a conceptional culture of risk management for employees. This awareness is built up from the general risk-management requirements of [SASAC] on the one hand and includes the basic business logistics of our company in the process of business development, on the other. This is to ensure the long term development of the company in a safe and stable internal and external environment and to achieve its business objectives and vision.'

Deputy general of an SOE in China

We found strong risk cultures around the world to vary. There is no single right or wrong risk culture and how they are framed depend on the organisation, what industry it is in, what regulations it must follow, who the stakeholders are, as well as how its purpose and tolerance for risk are defined. Structures within any single organisation might also constantly change as the likelihood that risks will materialise increases. Nevertheless, a given culture's implications for diversity, cohesiveness and good governance cannot be overlooked.

A RELATED POINT MADE BY A CRO AT AN INTERNATIONAL SUBSIDIARY OF A CHINESE SOE BANK IS THAT THERE CAN BE VERY GOOD REASONS WHY RISK APPETITE NEEDS TO CHANGE, GIVEN TODAY'S SUDDEN SURPRISES AND SHIFTING BUSINESS MODELS, AND IF IT DOES THEN CULTURE AND COMMUNICATION SHOULD BE CAREFULLY ADJUSTED TO ENSURE THAT ALIGNMENT REMAINS.

Risk cultures of subsidiaries compared to headquarters naturally vary but still cannot be siloed given the threat of contagion in today's highly digital, interconnected world.

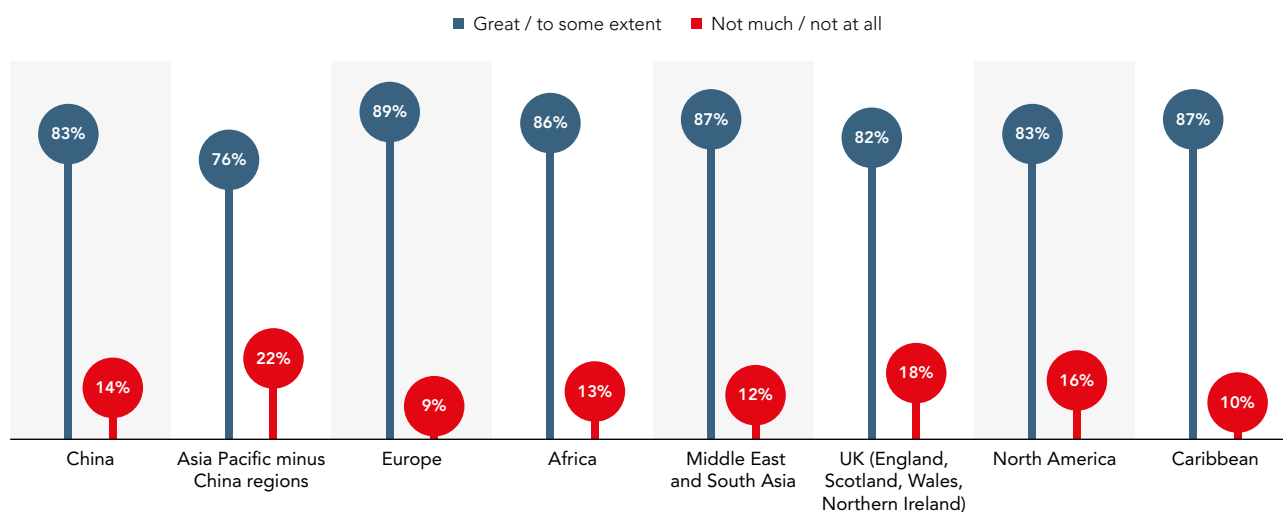
One ACCA member in Beijing said when it comes to innovation the China 'wants to be seen as a leader and pioneer on the world stage' and that SOEs are comfortable taking on more risks to make sure that happens. This includes testing how AI can isolate emerging risks, including those affecting sustainability initiatives. She said the difference she sees from the West is that Chinese corporations are better at conducting impact assessments of their activities and having interval timelines to help them achieve objectives.

When asked what the biggest risks facing your SOE are, this ACCA member replied:

'First is the risk of a complex management structure leading to slow actions or limited agility to external reactions and inadequate capacity to adapt to external changes. Second is the risk of incentive mechanisms being detached from the market, not even closer to the private-sector standards'

ACCA member

FIGURE 14: To what extent do you understand your organisation's risk appetite?



Evolution of risk management at Chinese SOEs

Risk management at SOEs has been driven by multiple phases of regulatory reform, but there are also budding opportunities to enhance risk management through new trade agreements with other countries, such as the Regional Comprehensive Economic Partnership (RCEP) (Australian Government n.d.), many of which contain modernised provisions for ESG matters.

One respondent argued that when it comes to SOEs versus privately owned entities, the former is focused on guidance and national objectives and therefore SOEs tend to be more prudent.

ACCA MEMBERS IN CHINA OVERALL AGREED THAT SOEs HAVE BEEN TAKING ON A MORE COMPREHENSIVE CONSIDERATION OF RISK FACTORS, STRICTER RISK CONTROL PROCESSES, AND GREATER RISK-FOCUSED INVESTMENT SINCE THE PANDEMIC.

'In this new [perma-crisis] norm, and against this background where the Party has been advancing SOE's purpose and mandate and withdrawing more from the private sector, SOEs appear to be gradually become more comprehensive in their understanding of risks, not only considering the combination of national industrial policies and opportunities, but also actively pursuing returns on risk, for example, through strategic investment, acquisition, reorganisation, and forex management.'

ACCA member in Beijing

'SASAC plays a certain role, mainly by introducing the concept of risk management. However, regulatory forces alone cannot drive enterprises to truly enter the risk management stage. Ultimately, it relies on the enterprises themselves. The management team needs to recognise the necessity of risk management and combine it with their own capabilities to adopt necessary risk management measures and tools.'

ACCA member from SOE

Established in 2003, SASAC has issued a series of risk-management-related policies, such as the 'Central Enterprise Comprehensive Risk Management Index', 'Notice on Matters Concerning Launching the 2008 Central Enterprise Comprehensive Risk Management Report Pilot Work', and 'Implementation Opinions on Strengthening Central Enterprise Internal Control System Construction and Supervision'. Additionally, it has nudged central SOEs to consider how they allocate resources in their main business activities.

ACCA members spoken to for this research say that while there is a way to go in terms of coordination and cooperation of risk management across the entire enterprise, they believe that accelerated economic and social implications of the pandemic have accelerated SOEs to think beyond risk mitigation and rather see how they can create a more value-added approach to risk.

'An effective supervision system is needed to guide risk management in state-owned enterprises in a healthy manner. From the perspective of corporate governance, it is important to strengthen organisational leadership, ensure the independence of 'legal persons', and enhance the effectiveness of supervisory boards. In terms of external supervision, state-owned enterprises need to take responsibility and proactively disclose their performance in fulfilling social responsibilities. Improving information disclosure and timely sharing the company's business and risk management status with the public is crucial today.'

ACCA member from local SOE

One respondent also pointed out how SOEs should be able to leverage their brand reputation and market influence when negotiating with third party partners to secure more favourable cooperation agreements and use resources, such as their governmental and policy support, to reduce the risks and costs of cooperative projects.

SASAC conducts extensive audits, often monthly, of SOEs, and through constant monitoring asks a lot of questions that ACCA members are often involved in addressing. SASAC's purpose of protecting the state's assets means it also has been the one publishing the most guidance on how to improve risk governance through regular risk assessments.

'We have revised our liquidity risk management measures, solvency stress testing management measures, and solvency risk management measures, and these revisions have made our risk management system more aligned with operational requirements. Through comprehensive risk rating, Solvency Aligned Risk Management Requirements and Assessment [required by the China Insurance Regulatory Commission], self-assessment of anti-money laundering, money laundering risk, compliance, and corporate governance – we control the overall financial business risks of the company within acceptable limits. This ensures that the risks assumed by the company are commensurate with the returns obtained and creates necessary conditions for the company's sustainable development.'

ACCA member from local SOE



Gao Xiang, general manager of the finance department, Shandong Electronic Port Co. a local-government-owned SOE (provincial level), shares his view on keeping risk governance up to speed in today's fast-changing world.



What board committees do you have, and which one is assigned to risk oversight?

The company is currently exploring the establishment of committees for compensation and assessment, nomination, strategic planning, and audit risk management. The board of directors serves as the highest authority and decision making body for risk management, bearing responsibility for its effectiveness.

The management team is responsible for the overall development and operation of risk management, reviewing matters related to comprehensive risk management, and being accountable to the board of directors for the effectiveness of comprehensive risk management.

To ensure the effectiveness of risk management, the company has established a three-tier risk control mechanism, with each business department taking responsibility as the main body, the management team overseeing daily risk management operations, and the board of directors maintaining overall control of risks.

How would you describe the risk culture at your company?

Risk culture serves as a crucial foundation for risk management, and [in] state-owned [enterprises] risk culture constitutes an important part of corporate culture. It is the essence of the risk management system and, together with risk-management tools, systems and processes, and governance structure, forms the entirety of risk management.

More specifically, state-owned [enterprises'] risk culture consists of risk awareness, behavioural guidelines, and specific actions. Among these, risk awareness is the core and foundation of risk culture in state-owned enterprises, determining behavioural guidelines and regulating specific actions.

State-owned enterprises strive to enhance the risk awareness of key individuals, including top leaders, and strengthen supervision and constraints on power. Employees of state-owned enterprises learn and understand the company's risk policies and processes through various forms of risk prevention and control-policy theory, learning, participating in enterprise compliance risk management, and internal control management construction.

Do you think SOEs are different from other Chinese corporations in how they perceive risk?

State-owned enterprises are crucial forces in enhancing the overall strength of the country and safeguarding the common interests of the people. They are a key element in maintaining

the socialist nature of our country. Identifying and addressing the bottom line of risks ensures the non-erosion of state-owned assets and their value preservation and appreciation. The fundamental guarantee for adhering to the Party's leadership lies in identifying and addressing risks, and the method and path of identifying and addressing risks necessitates adhering to the principles of 'safety first, prevention-oriented, and comprehensive supervision' in risk prevention and control construction. The different reasons for this are mainly due to the mission of state-owned enterprises, which play a vital role in achieving China's modernisation. State-owned enterprises bear significant responsibilities and missions in enhancing the competitiveness of state-owned economy and maximising the functions of state-owned capital.

What do you think would be the most material non-financial risks that your company faces and to what extent do you believe accountancy is helping you comprehend the consequences of these harder-to-measure risks?

The state-owned enterprise risk report includes a comprehensive review of risk management in the previous year, the construction of the comprehensive risk management system in the previous year, the management of significant risks in the previous year, the relevant work of enterprise-wide risk management in the current year, the arrangements for comprehensive risk management in the current year, current work challenges, existing problems, and suggestions.

In my opinion, the most significant non-financial risk faced by state-owned enterprises is investment risk. Investment risk mainly refers to the uncertainty that arises when enterprises experience losses due to untimely, unscientific, or deviated investment decisions during processes, such as identifying investment opportunities, project feasibility studies, due diligence, valuation assessments, and deliberations. [Owing] to the nature of state-owned enterprises, the leadership of the Party is integrated into various aspects of corporate governance.

For 'three major and one large' investment decisions, prior research by the Party organisation is necessary, and after Party organisation research, it is reported to the board of directors, with voting conducted according to the rules and procedures of board meetings. Major investment projects involve departments such as the investment department, operations management department, audit department, and finance department. The finance department analyses financial data of the investment project to predict its funding requirements and profitability.

**SINCE THE ARTICULATION
OF RISK APPETITE HELPS
GUIDE AND INFORM
BEHAVIOUR, AND
THEREFORE CULTURE,
COMMUNICATING ITS
PURPOSE WELL AND
DEFINING WHICH RISKS
ARE AND ARE NOT
ACCEPTABLE ARE VITAL
TO BUILDING A ROBUST
RISK CULTURE.**



Great expectations: ESG¹ plus T²

China's SOEs have come a long way in raising ESG risk awareness, particularly among those that are listed, and this includes those on the Shanghai and Shenzhen exchanges, which are part of the United Nation's Sustainable Stock Exchanges Initiative (SSEI n.d.). This year's edition of 'China's ESG Listed Companies Pioneer 100' serves as good evidence (Liu 2023) of the progress many are making, and the greater interest investors are taking in identifying those SOEs driving change.

There is a lot at stake for SOEs and their numerous subsidiaries in keeping their sustainability strategies on track. SOEs account for half of China's emissions and, as the largest group of companies in the country, inevitably play a crucial role in the country's green reform agenda, which calls for carbon peaking by 2030 before achieving carbon neutrality by 2060 (Song 2023).

While some of our survey respondents in China said that their organisations are hiring or outsourcing talent to help them address ESG matters, our risk culture study also showed that, like everywhere else in the world, the G in ESG needs more modernising if these companies are to address key environmental and social issues – and the opportunities they present – relevant to their organisation. Without the G, organisations cannot influence the behaviours necessary to achieve sustainability goals.

'Risk management reports in state-owned enterprises have had room for improvements, and we are working on ensuring they bring more practical value.'

SOE in China

ESG reporting in China has been relatively fragmented and mostly voluntary, but the needle is turning in the right direction. Several ACCA members at SOEs referred to ESG disclosure guidelines published by China's State Council-backed thinktank, China Enterprise Reform and Development Society, in 2022 (Xinhua Silk Road Information Service 2022). A larger focus on ESG reporting has also no doubt been accelerated by MSCI as it increases the inclusion of China companies in its indices, including ESG themes, over recent years. This momentum was reflected in the answers to the open-ended questions in our risk-culture survey, which showed an overwhelming majority of respondents from China describing ESG as 'the most important priority for accountancy professionals today'.

ACCA MEMBERS ALL OVER THE WORLD HAVE ALSO POINTED TO THE ETHICAL ASPECTS OF HOW CORPORATIONS DELIVER THEIR PRODUCTS AND SERVICES, WITH ONE FROM A CHINA CHEMICALS COMPANY ADDING THAT THE ADOPTION OF ADVANCED TECHNOLOGIES, SUCH AS AI, WILL CHANGE HOW EVERYONE EVERYWHERE MANAGES ESG.

Another ACCA member in Beijing who has worked for two SOEs and now advises them on enhancing culture and governance, also said:

'Central SOEs will be expected to set an example, so there will be a lot of effort to get this right and that means experimenting in their own way to make sure it is beneficial for their enterprise and its mission, which are in line with the state's.'

ACCA member in Beijing

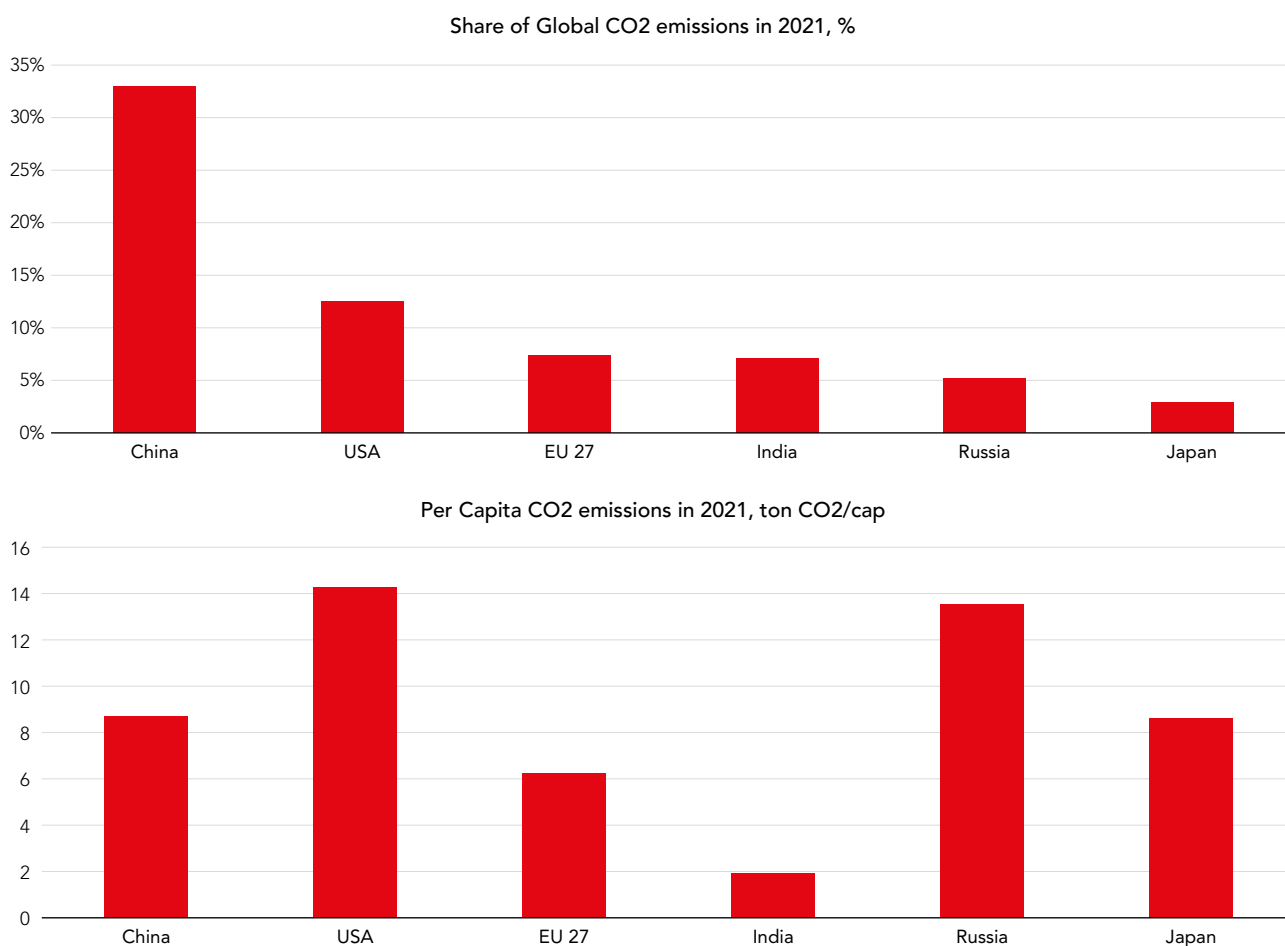
Moreover, the IFRS Foundation now has an office in Beijing, with strong support from China's MOF. It is the first International Sustainability Standards Board (ISSB) office in the emerging and developing markets since the launch of the ISSB initiative, announced at COP26 in November 2021 in Glasgow, Scotland (IFRS 2021), and is expected to pave a global baseline for ESG reporting requirements and application.

Our risk-culture study found that many of those SOEs already making headway are driven by sustainability goals proposed by the MOF, including the protection of its exceptional biodiversity areas (Huld 2022). For example, China National Cereals, Oils and Foodstuffs Corporation (COFCO), China's largest food processor, which is one of a growing few SOEs that have published a sustainability strategy, has been actively engaged in MOF policy priorities from waste pollution and global food security to deforestation, emission reduction, and supply chain traceability (COFCO Intl. 2022).

Rising expectations from stakeholders in supply and value chains are also driving forces, and in several cases, have led to enhanced product quality and workforce safety at SOEs and their subsidiaries. With stricter sustainability due diligence and ESG reporting requirements from other countries, not only in Europe and North America but also other countries signatory to the RCEP, Chinese companies will be indirectly affected by the vast number of ESG regulations coming out around the world and will come under pressure to comply with changing demands if they want to remain competitive. From consumers and talented workers to lenders, investors and suppliers, stakeholders inside and out of China are stepping up their scrutiny and want to see more evidence, not only the disclosures, on how corporations address existential issues, such as water preservation, biodiversity, GHG emissions, and social equity.

ACCA members must stay in monitoring mode to understand the implications of sudden changes and disruptions because global macro risks are proving to be just as material. Through scenario analysis, accountancy professionals, in their different roles, can weigh the short-term versus the long term to understand the interconnectedness of financial and non-financial risks and their potential impacts on the organisation and its key stakeholders. Accountancy professionals play a vital role in planning, forecasting as well as telling the story, making sure that major decision makers are informed about how different scenarios are likely to play out and affect the enterprise's ability to achieve its mission and objectives.

FIGURE 15: CO2 emissions, by country



Source: <<https://www.iea.org/data-and-statistics>>

A full-page background image showing a mountaineer in a red jacket and orange helmet climbing a metal ladder on a snowy mountain peak. The climber is wearing a large orange backpack and is secured by ropes. The scene is set against a backdrop of jagged, snow-covered mountain ridges under a clear sky.

**ACCOUNTANCY PROFESSIONALS PLAY A VITAL
ROLE IN TELLING THE STORY, MAKING SURE
THAT MAJOR DECISION MAKERS ARE INFORMED
ABOUT HOW DIFFERENT SCENARIOS ARE LIKELY
TO PLAY OUT AND AFFECT THE ENTERPRISE'S
ABILITY TO ACHIEVE ITS OBJECTIVES.**

Closing remarks

Control Risks

化险集团

by **Chris Torrens**, partner at Control Risks

Chinese companies have expanded overseas at an impressive rate over the past decade, thanks in large part to the state-backed Belt and Road Initiative (BRI).

Initially driven by energy and infrastructure companies, China's overseas investment now encompasses numerous sectors where Chinese multinationals are emerging as market leaders – notably in clean energy, electric vehicles, and software. Outbound direct investment (ODI) growth continued through the tough COVID years of 2020–2022, even edging upwards 0.9% year on year to US\$146.5 bn in 2022 [EY] – a year beset by local lockdowns.

As they expand beyond China, the country's multinational SOEs and privately-owned enterprises (POEs) investing overseas are typically moving into emerging markets – often referred to as the 'Global South'. Here political and economic conditions can be fast-moving, security and social conditions not firmly established, and the legal, regulatory and compliance environments for foreign businesses still evolving. Yet all markets, regardless of economic development, can present political, regulatory and compliance challenges for Chinese organisations.

Long overlooked as a part of broad business risk, geopolitical risk analysis is now increasingly essential to best-practice risk management for multinational organisations. Companies are more attuned to heightened geopolitical tensions and monitor efforts to de-risk critical supply chains. SOEs and POEs operating in strategic and high-tech sectors face rising political risks, though many in less sensitive industries continue to experience business-as-usual conditions.

Meanwhile, national security risk remains high on the risk register of all multinational companies. Although the impact of the Ukraine–Russia conflict is less direct on Chinese organisations, the complex commercial, operational, reputational,

supply chain and sanctions risks arising from this conflict are reverberating across all markets. Beyond this theatre of conflict, proxy conflicts and perennial flashpoints can potentially disrupt trade and energy security. Meanwhile, extremism in some high-risk markets can pose a direct threat to Chinese organisations and their people, across certain countries. Domestic political conflicts in some countries and regions create high-risk security conditions that must be considered.

Experienced Chinese SOE and POE risk-management teams typically follow best-practice measures benchmarked against those of other foreign investors. These measures can help to mitigate geopolitical, security and operational risks to their operations overseas. They include:

- **market entry:** conducting targeted sector risk assessments of geopolitical issues, local political issues
- **security risk management:** carrying out security risk assessments, putting in place mitigation measures, updating business continuity planning, and practising crisis management plans
- **business intelligence:** carrying out pre-investment due diligence, stakeholder mapping, partner intelligence and location benchmarking.

In the absence of operational certainty and predictability across many markets, Chinese SOEs and POEs transitioning into new business environments can also find themselves struggling to comply with a range of legal, regulatory and compliance challenges. Regulatory risk is being driven by government responses to tougher economic conditions and fiscal fragility, with governments the world over targeting revenue and trying to stabilise



Chris Torrens, Partner at Control Risks in Beijing

state finances. Such responses may take the form of long-term structural changes to taxation, investment rules and trading restrictions, all of which can increase the compliance burden for Chinese global organisations.

Digital risk – specifically cybersecurity and data-compliance risk – presents an additional regulatory compliance challenge for organisations with international footprints. Global networks are fragmenting into distinct regional or even national architectures, caused by a clash of national interests shaped by geopolitical and economic pressures. The growing complexity of cross-border data requirements and increasing concerns about cybersecurity have contributed to a slowdown in data harmonisation, with national governments now putting in place increasingly stringent data security regulations that can vary significantly by region.

Finally, Chinese SOEs and POEs are expanding their risk-management strategies to focus more closely on ESG regulatory risks. Driven by geopolitical tensions and in part by economic sluggishness worldwide, ESG enforcement and tighter regulation by national governments present a growing compliance challenge for Chinese and all foreign companies operating overseas. Organisations need to

evaluate their exposure to sector-specific socio-economic, environmental and governance dynamics in the markets where they operate. Among other considerations, the most effective organisations typically: 1) identify, classify, and rate their ESG exposures in line with their operating environment and planned projects; 2) rate the country risk in their supply chain screening programme; and monitor risks – including emerging risks – across their projects and investment portfolio.

Overall tips for Chinese companies:

- assess geopolitical trends and identify the top risks for your business
- carry out scenario planning and impact analysis and identify triggers and escalation points
- monitor policy and regulatory developments affecting your key markets
- check your business continuity planning and incident response capability and train your stakeholders – business leaders need to be clear on their roles and responsibilities.

Chris Torrens, Partner at Control Risks in Beijing

FIGURE 16: Overall tips for Chinese companies

					
Don't let the western news distract you	Understand your risk exposure	Develop scenarios and triggers	Have a response plan ready	Update your strategy	Ongoing internal and external communication
Sensationalist and/or negative media headlines are inevitable: Chinese companies should not over-react to them.	Chinese companies should consider how opportunities and challenges differ across their geographic locations and sectors.	Scenarios and triggers allow companies to track risks more precisely, giving them time to make key decisions appropriately.	Companies can not predict or prevent every crisis. Instead, companies should prepare so that their response reduces recovery time.	Operational and geopolitical risks will continue to affect Chinese business. Chinese companies can identify the regions with the most opportunities or which are the most resilient to geopolitical risk.	Internal and external triggers. Avoid escalating crises unnecessarily.

Source: adapted from Control Risks

References

- Australian Government (n.d.), 'Regional Comprehensive Economic Partnership Agreement' [webpage] <<https://www.dfat.gov.au/trade/agreements/in-force/rcep>>, accessed 23 June 2023.
- 'China's ESG listed companies Pioneer 100', <<https://finance.sina.com.cn/chanjing/gsnews/2023-06-13/doc-imyxeezz1214434.shtml?cref=cj#>>, accessed 7 July 2023.
- COFCO Intl (2022), *Sustainability Report*, available at <<https://www.cofcointernational.com/sustainability/sustainability-reporting/>>, accessed 26 June 2023.
- Global Regulation, SASAC's list of Chief Accountant responsibilities, <<https://www.global-regulation.com/translation/china/160396/chief-accountant-responsibilities-of-central-enterprises-interim-measures-for-the-management-of.html>>, <<http://www.sasac.gov.cn/n2588035/n22302962/n22302967/c22704938/content.html>>, accessed 13 July 2023.
- Huld, A. (2022), 'China Lays Fiscal Policy Foundation for Reaching Carbon Targets' [website article], 16 June <<https://www.china-briefing.com/news/chinas-environmental-policy-new-fiscal-support-for-green-development/>>, accessed 26 June 2023.
- IFRS (2021), 'FRS Foundation Announces International Sustainability Standards Board, Consolidation with CDSB and VRF, and Publication of Prototype Disclosure Requirements' <<https://www.ifrs.org/groups/international-sustainability-standards-board/>>, accessed 25 June 2023.
- Johnson, R. (2023), *Risk Culture: Building Resilience and Seizing Opportunities*, <<https://www.accaglobal.com/gb/en/professional-insights/risk/risk-culture.htm>>, accessed 22 June 2023.
- Qi, W., Mengdi, L. and Bing, Z. (2022), 'Do State-Owned Enterprises Really Have Better Environmental Performance in China? Environmental Regulation and Corporate Environmental Strategies', *Resources, Conservation and Recycling*, 185, October <<https://www.sciencedirect.com/science/article/abs/pii/S0921344922003433#!>>, accessed 25 June 2023.
- Qin, M. (2022), 'Fortune Favors the State-Owned: Three Years of Chinese Dominance on the Global 500 List' [blog post], 7 October <<https://www.csis.org/blogs/trustee-china-hand/fortune-favors-state-owned-three-years-chinese-dominance-global-500-list>>, accessed 22 June 2023.
- Song, Z. (2023), 'China's Two Sessions of 2023: Trend for Green Development, Green Finance, and Belt and Road Initiative (BRI)' [website article], 15 March <<https://greenfdc.org/chinas-two-sessions-of-2023-trend-for-green-development-green-finance-and-belt-and-road-initiative-bri/>>, accessed 26 June 2023.
- SSEI (n.d.), 'Stock Exchange Database' [webpage] <<https://sseinitiative.org/exchanges-filter-search/>>, accessed 26 June 2023.
- WEF (World Economic Forum) (2023), *The Global Risks Report 2023*, 18th edition <<https://www.weforum.org/reports/global-risks-report-2023/>>, accessed 22 June 2023.
- Xiankun, J., Liping, X., Yu, X. and Ajay, A. (2022), 'Political Governance in China's State-Owned Enterprises' [online article]. *China Journal of Accounting Research* 15 (2), June (unpaginated) <<https://www.sciencedirect.com/science/article/pii/S1755309122000168>>, accessed 22 June 2023.
- Xinhua Silk Road Information Service (2022), 'Organizational Standards of Enterprises ESG Evaluation System Published in Beijing' <<https://en.imsilkroad.com/p/331187.html>>, accessed 26 June 2023.
- Bray, C. and Tudor Ackroyd, A. (2021), 'Ant Group's IPO Could Be Revived After "Problem Solved"; Hints China's Central Bank Governor' [online article], *South China Morning Post*, 26 January <<https://www.scmp.com/business/banking-finance/article/3119333/ant-groups-ipo-could-be-revived-after-problem-solved-hints>>, accessed 27 June 2023.
- Livingston, S. (2021), 'The New Challenge of Communist Corporate Governance' [website brief], <<https://www.csis.org/analysis/new-challenge-communist-corporate-governance>>, accessed 27 June 2023.
- Molnar, M. and Lu, J. (2019), 'State-owned Firms Behind China's Corporate Debt' *OECD Economics Department Working Papers* 1536. Downloadable from <<https://ideas.repec.org/p/oec/ecoaaa/1536-en.html>>, accessed 27 June 2023.
- Molnar, M., Wang, B. and Chen, W. (2017), 'Corporate Governance and Firm Performance in China', *OECD Economics Department Working Papers* 1421, <<https://ideas.repec.org/p/oec/ecoaaa/1421-en.html>>, accessed 27 June 2023.
- OECD (2022), *OECD Economic Surveys: China 2022*. Available from <<https://doi.org/10.1787/b0e499cf-en>>, accessed 27 June 2023.
- Véron, N. and Huang, T. (2023), 'China's State versus Private Company Tracker: Which Sector Dominates?' [online article and graph], 2 February <<https://www.piie.com/research/piie-charts/chinas-state-vs-private-company-tracker-which-sector-dominates>>, accessed 27 June 2023.
- Véron, N., Milhaupt, C.J. and Huang, T. (2023), 'The Party versus Shareholders: What Drives Corporate Governance in China?' [online video report] <<https://www.piie.com/events/party-vs-shareholders-what-drives-corporate-governance-china>>, accessed 27 June 2023.

Appendix

SASAC: Guidelines on Strengthening and Improving Central Enterprises, Cultivating World-Class Enterprises with International Competitiveness – August 13, 2021

Chapter Eight: Risk Management

Objective Risk management must become a comprehensive, all-encompassing, and staff-wide management process that covers strategic decision making to job operations, preventing losses, creating value, and ensuring sustainable development for enterprises.

Guiding Principles Comply with the risk management rules issued by SASAC and relevant ministries and regulatory authorities, and, based on the company's development strategy and management needs, draw from best domestic and international practices, integrating risk management into system construction, process optimisation, and the entire production and operation process, continuously enhancing risk control capabilities.

System Construction Corporate governance, group control, and organisational design must meet risk management requirements; internal control should be comprehensive, compliant, and effective; risk management strategies

should be clear and have quantifiable risk tolerance, utilising information technology to ensure the standardised and efficient operation of the risk management system.

Key Monitoring Clearly define key areas, links, matters, and critical positions for risk control at all levels, effectively allocate control resources, establish, and continuously improve the early warning indicator system, continuously monitor, and assess risks, formulate response measures and contingency plans, and timely evaluate their effectiveness to prevent and mitigate major risks.

System and Culture Strengthen the construction of risk prevention systems, improve risk prevention mechanisms, and enhance the level of corporate governance in accordance with the law. Strive to cultivate a risk culture that is integrated with corporate culture and supports the effective operation of the risk management system. Continuously strengthen employees' risk awareness, making risk control a conscious behaviour for all staff members.

