CORPORATE GOVERNANCE IN US AND CHINA: A CROSS-COUNTRY COMPARISON

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SUMMARY: This paper examines whether there is a difference between the corporate governance of U.S. and Chinese companies. A sample of 2018 proxy statements and annual reports from 129 similarly sized US and Chinese companies were selected for data analysis purpose. We expected that the corporate governance of US companies to be more objective and robust than that of Chinese companies. Our analysis supports this presumption and we have found that US corporate governance is significantly different and stronger than that of China.

INTRODUCTION

The world economy is supported by a collection of companies that generate revenue, drive trade and support research and development. China has emerged as an economic superpower that rivals the US with 29 companies on the Fortune Global 500 list in 2008 which has since increased to a whopping 119 in 2019 (China Power, 2020). This is right behind the United States (with 121 companies in 2019) which has consistently produced the most companies on the Fortune Global 500 list for the past decade. China's reach has also become more global with 156 Chinese companies on US stock exchanges with a total market capitalization of $1.2 trillion (USCC, 2019). Their domestic financial market is also notable with over 5,000 Chinese companies listed across their three largest stock exchanges. Investors around the world are investing or considering these Chinese companies; therefore, this paper analyzes the corporate governance of the two of the world's largest superpowers with the goal of providing insights that investors may use in making informed decisions.

Corporate governance is a set of practices, policies, and procedures that direct and control a company. Its main objective is to balance the interests of a company's many stakeholders. Recently, this concept has become a hot topic amongst academics, executives, investors, and regulators due to a desire to enhance corporate performance and also because of high-profile scandals. It is important in that it provides a framework for attaining a company's objectives which can in turn influence performance.

Corporate governance can potentially enhance corporate performance while demonstrating a company's business integrity. For many shareholders, it is not enough for a company to be merely profitable; it also needs to demonstrate ethical behavior, transparency, and responsibility – all of which can have implications on the firm's financial health. It works to solidify investor confidence and promote financial viability by creating long-term investor opportunity for market participants. Ultimately, investors can use a company's corporate governance profile in conjunction with financial data to make more informed decisions.

As with people or countries there is no one size fits all, and this is especially true for corporate governance given the complexities of modern corporations. This is further compounded by the fact that we will be comparing the corporate governance of companies from two vastly different countries. A comparative study of US and Chinese companies' practices, policies, procedures can identify trends or highlight similarities or differences which can prove to be beneficial in investor decision making and corporate governance reform.

In the next section we will review the history of US and Chinese corporate governance and present our hypothesis. This will be followed by our research methodology and results. We will then conclude the paper by providing important insights derived from this study and directions for future research.

LITERATURE REVIEW AND HYPOTHESIS

Corporate Governance in China

Corporate governance in China can be traced as far back as the 1800s to the Qing Dynasty. Qing officials desired to industrialize China through corporate activities and initiated the "foreign affair movement". This eventually resulted in the establishment of the earliest Chinese corporations and the birth of the first Chinese Company Law in 1904 (Wei, 1998). The corporate concept together with the notion of legal personality and limited liability were well received by the Chinese. While it is not quite the corporate form that we recognize today, family businesses have had a long tradition in China and successful ones often relied upon some form of state sponsorship. Kwan cautioned that this form of relationship relied on good favor and many families contributed large sums to state military and public projects. In these companies, the government, as a shareholder, had the right to dispose of the corporate assets and to appoint directors and managers. This is contrasted with other shareholders who only had the right to receive dividends. It is through these companies that the government gained a monopoly over certain trades. This resulted in the existence of companies that were invested in by businessmen but managed by the government (Kwan, 2001).

Corporate practices developed at an abysmally slow pace in this period due to social instability, weak and uneven economic development structure, political corruption, foreign economic monopoly, and the gap between the Western corporate experience and Chinese culture. China transplanted the Western corporate system by establishing it in law, but people dealt with corporate matters in their own way. This was evident through reports of abuse by directors and managers, the ineffectiveness of shareholders' meetings and the breakdown of Chinese stock markets (Wei, 1998).

The fall of the Qing Dynasty and the establishment of the Republic of China came to pass in 1912. It is during this time that the Guomindang government aggressively promoted state capitalism and restricted private enterprises from monopolizing important economic sectors such as banking, railways, electricity, and water. According to Sun, 70% of Chinese industries were owned by the government by the 1940s (Sun, 2000). This implementation however bought forth unpleasant results. The state monopoly and state-controlled companies had cultivated one of the most corrupt governments in the world. The state-controlled companies became breeding grounds for personal gains, misappropriated public assets, personal shareholdings, and nepotism by government officials. As a result, these state-controlled companies severely damaged the healthy development of the corporate system in China and by extension, the nation's economy as well. (Wei, 1908).

Internal strife would eventually cause the retreat of the Republic of China and lead to the formation of the People's Republic of China by the Communist Party of China and Mao Zedong.

The period of 1950s-1960s is most notable for Mao's Great Leap Forward and his Cultural Revolution campaigns. These two failed campaigns were designed to transform China's agricultural system and assert Mao's ideologies. The failure of these campaigns led to millions of deaths and mangled China's economy. Deng Xiaoping would eventually succeed Mao and begin a series of economic reforms in the 1970s with the goal of salvaging the country's failing economy. China's economy at that time was best described as state-owned and planned according to OECD (OECD, 2011). They note that the whole economy was essentially organized into one giant corporation in which the state controlled every aspect. Corporate production plans were decided by the government and not based off market demand. Furthermore, managers of these state-owned enterprises were incentivized by political advancement and could not share nor redirect any profits that arose from the success of their business.

The late 1970s to the early 1980s opened up the country to foreign investment and allowed entrepreneurs to startup businesses in China. Private business was also allowed to operate for the first time since Communist rule. Deng would go on to create a series of special economic zones that were free of regulations and interventions that hindered economic growth. This era also bought the first issuance of shares by state owned enterprises. These moves would attract both foreign and domestic investors that would fuel China's economy for the years to come. Several reforms were also enacted to readjust the relationship between the state and its enterprises. Greenberg theorizes that it was likely to give state owned enterprise managers more freedom in business activities and to gradually replace the state's direct control model with a management model (Greenberg, 2009).

The late 1980s to the early 1990s saw the privatization and contracting out of many state-owned industries. Economic reforms continued into this era as controls on private businesses, government intervention, and price control continued to decrease. A notable development was the decentralization of state control which left local provinces to experiment with ways to increase economic growth. Before these reforms, all profits were claimed by the state. After these reforms, after-tax profits were shared by both the state and enterprise. In 1986, the Central Committee of the Communist Party of China and the State Council issued a document titled, "The Terms of Reference for Managers of State-Owned Industrial Enterprises". This document would promote the idea that ownership and management of state-owned enterprises could be separated. From then onwards, a contract-based responsibility system gained momentum and allowed individuals or groups to manage state owned enterprises by contract. According to Lee, this contract responsibility system played a positive role in promoting the separation of ownership and management due to the steady growth of government revenue but failed to avoid short-term performance orientated behaviors (Lee, 2008). By the 1990s, the reopening of the Shanghai and Shenzhen stock exchanges and the first overseas listing of a state-owned enterprise would then create a need to strengthen the corporate governance of companies that listed abroad.

The late 1990s to the early 2000s paved the way for the modern enterprise system. The China Securities Regulatory Commission (CSRC) was formed as a response to the Asian Financial Crisis of 1997 and the need for tighter capital market regulations. The US equivalent of this is the Securities and Exchange Commission (SEC). It performs a regulatory function over China's securities to ensure that market order is maintained, capital market operations comply with applicable laws and oversees both the Shanghai and Shenzhen stock exchanges (CSRC, 2008). One of the CSRC's notable mandates is the requirement of companies to have at least one third of their board be independent. Reforms in this era went on to build a system in which enterprises would become legal entities responsible for their own operations, profitability, development and risks as real market players. Shareholder meetings, board of directors, supervisory boards, senior management, and articles of association began to take shape and thus a basic framework for corporate governance has been born. China would go on to join the World Trade Organization in 2001 and make strides in adopting OECD's "Principles of Corporate Governance". In 2002, the CSRC and the National Economic and Trade Commission would jointly issue "The Code of Corporate Governance of Listed Companies". This document is based off OECD's corporate governance principles and considers the corporate system mixed into a state-owned enterprise setting.

The late 2000s to present time is marked by the partial reversal of Deng's economic reforms as the government would increase controls over certain sectors and halt privatization. This new administration would go on to foster large state-owned enterprises that could compete with large foreign corporations. Despite this, China understood the importance of capital markets in a national economic development sense and sought to address long standing problems within corporate governance. OECD highlights the issue of fund misappropriation by major shareholders and other related parties in that it seriously affected the healthy development of listed companies (OECD, 2011). The revised Company Law and the new Securities Law introduced in 2006 would go on to improve governance structure, protect shareholder rights and public interests. It highlighted the obligations and responsibilities of those in control of the company. In particular, it strengthens investor protection, established a securities investor protection fund, and defined a system of civil responsibilities to compensate for damages to investors. Additionally, The Criminal Law was amended to include greater penalties on major shareholders or actual controllers involved in fund misappropriate of listed companies.

At present time, we see the first ever revision to "The Code of Corporate Governance for Listed Companies" in 2018. This revision broadened the scope of corporate governance to include a focus on environment and social factors, or "ESG". Environmental, social, and governance refers to a set of standards for a company's operation that investors may use to screen potential investments. Environmental criteria consider energy use, pollution, natural resources, and treatment of animals. Social criteria examine how a business manages its relationships with employees, suppliers, customers, and communities. Governance criteria examines a company's leadership, executives, audits, internal control and shareholder rights and involvement. According to Matthews Asia, although ESG measurements differ across industries, managers are still encouraged by both the new generation of investors and the government to look more closely at ESG risks and opportunities (Matthews Asia, 2019).

Corporate Governance in the US

Corporate governance in the US can be traced as far back as the 1800s to the very first corporations. The earliest existing data on the ownership of American public companies are from the New York Stock exchange in the 1820s. Wright argues that these early corporations governed themselves like states and held numerous checks and balances in place to deter fraud and usurpation of power by managers or shareholders (Wright, 2014). By the early 1900s, large US corporations were controlled by a small number of wealthy investors that included: Morgan, Rockefeller, Carnegie, and Ford. These major shareholders frequently exercised their right to run companies that they invested in. The early 1900s saw a shift from entrepreneurial capitalism, where ownership and control were one and the same, to managerial capitalism, where ownership and control were effectively separated.

The US would soon be hit by the stock market crash of 1929 which signaled the beginning of the Great Depression. The Securities Act of 1933 and the Securities Exchange Act of 1934 were passed to restore investor confidence in the market. The Securities Act of 1933 regulates the offer and sale of securities; it reaches corporate governance topics by requiring that investors receive financial and other significant information concerning securities being offered for public sale (SEC, 2013). The Securities Exchange Act of 1934 created the Securities and Exchange Commission (SEC) and mandates annual, quarterly, and interim reporting of financial statements and proxy disclosures concerning shareholder voting and meetings (SEC, 2013). The SEC aims to protect investors and maintain market order by enforcing securities laws, proposing changes, and regulating the securities industry (SEC, 2013).

In the mid-1970s, for the first time, a stock exchange (NYSE) required each listed corporation to have an audit committee composed of independent board directors. This is in part due to the bankruptcy of Penn Central which Gordon dubs, “the Enron of the 1900s” (Gordon, 2007). The board of directors at this time were mainly selected and controlled by management and very rarely intervened in business matters. These executives had relatively free rein in their responsibilities as long as they produced a profit. It is during this time that the public noticed excessive executive payouts, inadequate corporate earnings, and imprudent acquisitions. Gordon explains that the idea of director independence gained traction in this period but was often challenged by managerial powers who were heavily against a board that served a surveillance function.

In the early 2000s, massive bankruptcies of Enron, WorldCom, AOL, Arthur Andersen, and Tyco catapulted corporate governance into the limelight. The Sarbanes-Oxley Act of 2002 was passed in response and expanded requirements for all US public company boards, management, and public accounting firms. This act created the Public Company Accounting Oversight Board (PCAOB) and mandated independent audit committees, made directors and officers personally liable for the accuracy of financial statements, introduced compensation clawback, and imposed harder punishment for financial crimes (SEC, 2013). Although the PCAOB is best known for overseeing both auditors of public companies and audits of public companies, their standards and inspections affect corporate governance through audit committees (PCAOB, 2003). These events also prompted the NYSE to heighten independence requirements of listed companies which complemented the SEC’s new independence requirements (CCB Journal).

The US would be shaken by another series of financial disasters in 2008 due to depreciation in the subprime mortgage market. The Dodd-Frank Act of 2010 was passed in response and affected all federal financial regulatory agencies and much of the nation’s financial service industry. This act increased proxy rights, proxy disclosures, shareholder voting rights and mandated greater independence of committees (SEC, 2013). In more recent times, a study by the Harvard School of Law highlights increased interest in investor stewardship, board quality and diversity, oversight of corporate culture, executive compensation and ESG matters in the United States (O'Kelley, 2020).

Both US and China have come a long way in developing their own corporate governance system. But at this juncture, it is important to highlight certain differences of the corporate governance environment between these two countries which are qualitative in nature, but nevertheless play a critical role in supporting and fostering the corporate governance system in their respective countries. These items interact with governance through legal avenues and social channels in ways that can increase or even decrease effectiveness of corporate governance itself and ultimately corporate performance. These are: state ownership, shareholder activism, and clawback provision.

Despite enhanced investor protection, critics such as Bradsher contend that state ownership and/or state-owned companies are more prone to corruption by the families and ruling party leaders who have amassed fortunes managing them. (Bradsher, 2012) Similarly, the World Economic Forum criticized state owned enterprises for abusing their preferential access to loans while generating subpar returns compared to their private counterparts. (World Economic Forum, 2019) They even go as far as noting that these state-owned enterprises would not survive in an innovation-driven free market environment without the perks that they currently enjoy. As of 2011, over 35% of business activities and 43% of profits in China resulted from companies in which the state owned a majority interest. In more recent times, 91 of the 129 companies on the 2020 Fortune Global 500 list are Chinese state-owned enterprises. (Fortune, 2020) Although many more enterprises are becoming privatized and going public the state maintains control of these corporations by holding interest and voting rights.

Shareholder activism is a way that shareholders can influence a corporation's behavior by exercising their rights as shareholders. It plays an increasingly profound role in corporate governance by raising issues that firms normally would not address in the normal course of business. Although these shareholder resolutions are non-binding, companies see the demands and are conscious of if when making business decisions. When there is enough of a driving force behind a particular proposal, a company is unable to sweep the matter under the rug and it becomes an issue they must account for while doing business. A 2012 study by Activist Insight revealed that the mean annual net return of over 40 activist-focused hedge funds had consistently outperformed the MSCI world index. (Activist Insight, 2012) Harvard Law School reports that leveraging shareholder votes for commercial or social ends is not new in the US, but the increase in resolutions and the support for these resolutions have definitely risen in the past decade (Harvard Law School, 2018).

The shareholder activism landscape is different between the US and China and Shi states that shareholder activism has little to no presence in China. (Shi, 2020) He goes on to say that shareholders activists, which are presumably minority shareholders (but not necessarily) may request to organize a shareholders' meeting or submit an interim proposal. Beyond the bare basics, there is no unified or generally accepted legal principle. With a majority of listed companies being controlled by their controlling shareholders and no legal backing, there is less room for activist investors to mobilize compared to US markets.

Clawbacks are considered an important part of corporate governance by serving as a check on executives while reassuring investors and the general public. Academic research reveals that firms who voluntarily adopt clawback provisions appear to be more effective at reducing intentional and unintentional accounting errors. (deHann, 2012) The first federal statue in the US that allowed for clawback of executive pay was the Sarbanes-Oxley Act of 2002. It enabled clawback of compensation and other bonuses paid to executives in the event of misconduct. The 2010 Dodd-Frank Act expanded on clawbacks even more and went as far as proposing that the SEC delist any public company that did not require clawbacks after accounting restatements. The act also required US public companies to clawback in the event of an accounting restatement regardless of fault. A C-suite Insight research found that the prevalence of clawback provisions amongst Fortune 100 companies increased from 3% in 2002 to a whopping 82% in 2010. (C-Suite Insight, 2013) Clawbacks are only one of many controls within the corporate governance system and countries around the world have different mandates regarding controls such as these.

Neither the Company's Law nor the Securities Law nor the CRSC mandates any form of clawbacks or stockownership requirements for Chinese companies to be listed on the Chinese exchanges. The only such mandates are the consideration of executive compensation by the Board and the disclosure of executive compensation. This vague policy fails to encourage the establishment of compensation committees which we see plentiful of in the US. Nevertheless, researchers such as Lin have found that non-state-owned companies have begun to adopt some sort of recoupment provision and stock ownership requirement for their executives. (Lin, 2014)

Hypothesis

US corporate governance has been historically regulation heavy and shareholder focused. Chinese corporate governance on the other hand has been historically state-orientated where state maintains control of corporations by holding interest and voting rights. Even though China has already adopted the principles of OECD's "Principles of Corporate Governance," and also implemented laws related to corporate governance, investor rights, and corporate social responsibilities, it is still not sufficient to conclude that corporate governance in China is at par with US. In US, shareholder activism and corporate governance controls such as clawback provision play an increasingly critical role in developing and fostering corporate governance systems. China's corporate governance environment on the other hand seems to be nascent at current times with limited shareholder activism and slow adoption of crucial governance controls such as clawback. Even though China has made great strides in developing and adopting a form of corporate governance, US corporate governance is more rigorous and systematic given its historical roots and current corporate governance climate.

Therefore, our null hypothesis is: *There are no differences between the corporate governance of U.S. and Chinese companies.*

RESEARCH METHODOLOGY AND RESULTS

To test our hypothesis, we examined and collected corporate governance data from the 2018 proxy statements of US companies and the 2018 annual reports of Chinese companies. We matched 129 similarly sized US and Chinese companies from similar industries that were not cross listed on the US and Chinese exchanges to highlight differences between corporate governance.

Our intention was to avoid the convergence of corporate governance practices that may result from cross listing on both the US and Chinese exchanges.

Corporate Governance Variables

In previous sections we described how corporate governance is a system of practices, policies and procedures that attempts to balance the interest of a company's many stakeholders such as investors, customers, creditors, management and the government and community it operates in. Corporate governance has also been a growing field of research with many intersections into other fields such as accounting, finance, economics, psychology, and sociology. Quantitative studies are amongst some popular studies in corporate governance as researchers attempt to investigate the linkage between corporate governance and firm output such as performance or innovation. (Asensio-Lopez, 2019) Carcello, having examined past literature between accounting and corporate governance, highlights a positive relationship between a variety of positive corporate governance variables and a variety of positive accounting outcomes. (Carcello, 2011) Corporate governance development has also gained traction as researchers attempt to trace historical influences on modern day corporate governance practices. (Lee, 2002), (Clarke, 2003), (Lin, 2004). Research has also been conducted in this area to examine each of these variable and its implications on corporate governance while discussing areas of change and improvement. (Bebchuk, 2009), (Lu, 2020)

Comparative studies between countries are another sphere in the research of corporate governance. (Howson, 2010) Although qualitative in nature, some of these studies highlight the importance of structurally different corporate governance models given cultural, governmental and market forces in those countries. Other quantitative studies attempt to transmute corporate governance practices, policies and procedures into numerical form using corporate governance index of variables for statistical analysis. These results are then often compared between firms, across a period and more recently across countries. (Cheung, 2008), (Shao, 2019)

Even though prior research in corporate governance utilized many variables such as directors' independence, board/committee size, diversity, shareholder activism, and board/committee meetings, none of them used a comprehensive measure of corporate

governance necessary for broader comparison of corporate governance between countries. For example, some firms may lack director independence but can overcome this deficiency by having independent audit and compensation committees, audit committee experts and frequent board and committee meetings. The later, known as "Diligent Boards", as mentioned in

"The Principles of Corporate Governance 2016" (Business Roundtable, 2016) allows boards to adapt and refine their governance practices within the framework of evolving laws and stock exchange rules and, thereby, provide the board with modern governance tools that in turn assists the board to expand their reach outside the boardroom. Guidelines outlined in "The Principles of Corporate Governance 2016" highlights independence as a critical domain in effective corporate governance but not a sufficient one. To provide an objective judgement that represents the interest of all stakeholders, a company's corporate governance must be both objective and robust if it hopes to align the interests of all actors on the playing field while remaining operational and viable.

Following the guidelines outlined in "The Principles of Corporate Governance 2016", this paper updates and strengthens existing research methodology in corporate governance by constructing comprehensive measures of corporate governance. In this study we constructed an index of six components to measure corporate governance independence and an index of five components to measure corporate governance strength. We will measure each of these components which will then be aggregated into a final independence score and a final strength score.

Measuring Corporate Governance Independence

The independence sphere of corporate governance measures if a company's practices, policies, and procedures enable them to make decisions in a representative and unbiased manner. This dimension of corporate governance considers the impartiality of groups such as the chairman, the board of the directors, the audit committee, the compensation committee, CPAs on the audit committee, and the existence of shareholder vote on executive compensation. The independence dimension of corporate governance consists of six components listed below. The six components will each generate a score through either a count measure, a binary measure, or a ratio measure which will then be added together to form a company's independence score. For example: if the chairman is independent, then the company would score a "1". If there are 5 independent board members out of a board of 10 members, then the company would score a "0.5". If there are two CPAs on the audit committee, then the company would score a "2".

1. Chairman of the Board of Directors Independence (0 if false, 1 if true)
2. Board of Directors Independence (# of independent members/total # of members)
3. Audit Committee Independence (# of independent members/total # of members)
4. Number of CPAs on Audit Committee (# of CPAs)
5. Compensation Committee Independence (# of independent members/total # of members)
6. Existence of Shareholder Vote on Executive Compensation (0 if false, 1 if true)

Measuring Corporate Governance Strength

The strength sphere of corporate governance measures the presence of a company's practices, policies, and procedures that deter risky or unlawful business decisions and mismanagement of shareholder funds. This particular dimension of corporate governance considers the existence of practices and policies such as stock ownership requirements, stock compensation, compensation clawback provisions, audit committee financial experts, and audit committee meetings. The strength dimension of corporate governance consists of five components listed below. The five components will each generate a score through either a count measure, a binary measure, or ratio measure which will then be added together to form a company's strength score. For example: if there are stock ownership requirements present, then the company would score a "1". If an audit committee consists of 6 members and 3 are independent, then the company would score a "0.5". If there are 2 financial experts, then the company would score a "2".

1. Existence of Stock Ownership Requirements for Directors (0 if false, 1 if true)
2. Audit Committee Meetings vs Total Board Meetings (# of audit meetings/ total # of meetings)
3. Audit Committee Financial Experts (# of Financial Experts)
4. Existence of Cash and Stock Compensation for Directors (0 if false, 1 if true)

5. Existence of Compensation Clawback Provisions (0 if false, 1 if true)

An analysis of variance (ANOVA) test was then performed on the independence and strength scores of both US and Chinese companies. This test enables us to test if there are differences between the two countries' independence and strength, and if the differences are significant, we are then able to reject or accept our null hypothesis based on the results of the ANOVA test.

Corporate Governance Independence and Strength Scores

Table 1: ANOVA Results: Corporate Governance Independence and Strength Scores

Variables	Description of Variables	Mean US Companies n=129	Mean China Companies n=129	F Score	Signif p<10%
INDPD	Corporate Governance Independence Score	4.500	2.500	0	0.000
STR	Corporate Governance Strength Score	3.500	1.500	0	0.000

The results of our comparison are contained in Table 1. As Table 1 indicates, US companies, on average practiced a higher degree of independence than that of their Chinese counterparts as measured by the independence score. The mean of the independence score for US companies was 4.5 while the mean for Chinese companies was 2.5. Similarly, US companies, on average contained more robust practices than that of their Chinese counterparts as measured by the strength score. The mean of the strength score for US companies was 3.5 while the mean for Chinese companies was 1.5. Table 1 also specifies that the means for US companies are significantly higher than that of Chinese companies at the 0.100 level. Therefore, we reject the null hypothesis that there are no differences between the corporate governance of US and Chinese companies. US corporate governance practices seem to be more objective and robust than that of China on an aggregated level, but we must examine if this relationship holds true on the disaggregated level by analyzing the component scores. The results of our comparison are contained in Table 2 and Table 3.

Corporate Governance Component Scores: Independence

Table 2: ANOVA Results - Independence Component Scores					
Variables	**Description of Variables**	**Mean US n=129**	**Mean China n=129**	**F Score**	**Signif p<10%**
CBODI	Chairman of BoD not CEO or Employee of the Company	0.600	0.400	0	0.000
BODI	Board of Director Independence Ratio	0.700	0.400	0	0.000
ACI	Audit Committee Independence Ratio	1.000	0.600	0	0.000
CPA	Number of CPAs on Audit Committee	0.400	0.800	0	0.000
CCI	Compensation Committee Independence Ratio	0.900	0.400	0	0.000
SHVOTE	Shareholder Vote on Executive Compensation	0.900	0.000	0	0.000

Corporate Governance Component Scores: Strength

Table 3: ANOVA Results – Strength Component Scores					
Variables	**Description of Variables**	**Mean US n=129**	**Mean China n=129**	**F Score**	**Signif p<10%**
STKOWN	Stock Ownership for Directors	0.900	0.000	0	0.000
ACM	Audit Committee Meetings Ratio	0.400	0.200	0	0.000
FEXP	Audit Committee Financial Experts Ratio	0.500	0.200	0	0.000
STKCOMP	Cash and Stock Compensation for Directors	1.000	0.500	0	0.000
CLWBK	Compensation Clawback Provision	0.700	0.000	0	0.000

As indicated in Table 2, US companies practiced higher degrees of independence on the disaggregated level in all areas except for the number of CPAs on their audit committees (ACI). As indicated in Table 3, US companies contained more robust practices on the disaggregated level in all areas. Table 2 and 3 also specifies that the means for US companies are significantly higher than that of Chinese companies at the 0.100 level. Therefore, we reject the null hypothesis that there are no differences between the corporate governance of US and Chinese companies. Except for the number of CPAs on their audit committees, our analysis on the disaggregated level reveals that US corporate governance practices seem to be more objective and robust than that of China.

CONCLUSIONS

Given that Chinese corporate governance development has been relatively short and still developing compared to US corporate governance, we expected the corporate governance practices, policies, and procedures of US companies to be more objective and robust than that of their Chinese counterparts. Our analysis supports our theory and we have found that US corporate governance is significantly different and stronger than that of China. In addition, we found it interesting that Chinese companies, on average had more CPAs on their audit committee than that of US companies. Although the US has stricter independence requirements for their audit committee, they have fewer CPAs. This is contrasted with China where the independence requirements are laxer. We suspect that the extra CPAs on Chinese audit committees may serve to counteract the lack of impartiality and independence often found in Chinese corporate governance.

Our study demonstrates that two country's corporate governance system may be different but still functional. Corporate governance practices, policies, and procedures can be utilized in conjunction with a company's financial information when making investment decisions. Potential investors can use corporate governance as a method to screen companies before making a final decision. For example, one can inspect the corporate governance system between a firm and its competitor to weigh the risks or compare across industries and even countries. Similarly, investors can inspect the corporate governance of companies that are dominating the market and companies that have gone bankrupt in order identify patterns which can then be applied to current investment decisions.

This study analyzes the corporate governance of two of the world's largest superpowers in 2018 through a matched sample of companies by inspecting certain dimensions and components of practices, policies and procedures that promote healthy corporate governance. We encourage others put forward other dimensions and components that they feel encourage good corporate governance. Furthermore, a greater sample size or a historical study across multiple years may yield insights that can support corporate governance development in other countries and help investors make informed decisions.

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