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RESEARCH ARTICLE

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Overseas listing, voluntary corporate governance and performance
—A case study of Sinopec

Abstract This paper analyzes the evolution of Sinopec's corporate governance system and performance in the domestic capital market after its overseas listing. Results show that Sinopec's governance system successfully evolves from a mandatory type to a voluntary type as a result of conformation to legal regulatory systems in the overseas market as exogenous forces and company voluntary decision-makings as endogenous forces. Sinopec takes the initiative to carry out corporate governance innovation, which has significantly improved its performance in the domestic capital market.

Keywords overseas listing, voluntary governance, institution evolution, investor relations management, corporate performance

摘要 通过分析“中石化”海外上市后在国内资本市场上公司治理制度的跃迁和绩效表现，发现“中石化”在海外市场法律监管制度的外生博弈规则和公司内生性的行动决策规则相互博弈中成功地实现了公司治理制度的变迁。在国内资本市场上，其主动进行公司治理创新活动，由此显著提高了公司绩效。

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关键词 海外上市，自主性治理，制度演进，投资者关系管理，公司绩效

1 Introduction

Corporate governance, as an institutional arrangement, has an important effect on operation efficiency, especially on the protection of rights and interests of investors, which in turn affects a company's costs of financing, competitiveness and ability of innovation. Hence corporate governance quality has become a crucial determinant of a company's survival and development in the era of economic globalization.

Information plays a central role in the operation and function of capital markets. The key to market efficiency is how to improve the adequacy, accuracy, and symmetry of information. The realization of smooth information flow among various elements of a company is not only the basis for implementing corporate governance principals, but also the precondition for establishing an optimal corporate governance structure. The very existence of information rights (access to information, the right to use) protects the interests of a company's stakeholders(especially the shareholders), enhances the accuracy of decision-making, and facilitates the implementation of supervisory mechanisms(Lin, 2001). Corporate governance system in essence is to provide information exchange channels between investors and listed companies, which can allocate information rights effectively, reduce information asymmetry, protect the rights and interests of investors and enhance the company value in a given environment with a certain cost for information acquisition.

In comparison with domestic counterparts, overseas listing Chinese companies face different regulatory rules, which impel and restrain their corporate governance behaviors. Corporate governance, as an institutional result of linked game equilibrium between organizational domain and financial domain, is a self-enforcing mechanism for investors, workers and managers involved interactive strategy(Akoi, 2001). Due to the institutional complementarity, corporate governance as a self-enforcing institutional arrangement is to be bounded by complementary domains. Thus, the change of law and corporate governance environment as exogenous rules of the game systematically alters the perceptions of individual agents in organizational domain as regards how the pattern of their strategic interaction is formed and accordingly induces a qualitative change in their actual strategic choices in critical mass, triggers the evolution of institution. Under the consequences of repeated games between induced institutional shocks of exogenous rules and spontaneous disequilibrium cumulative impacts of endogenous rules, corporate governance institution achieves a shift from one equilibrium to another. During the process of institution evolution, a company adopts either mandatory or voluntary governance institution in accordance with the game results between exogenous mandatory rules and endogenous voluntary measures.

Globalization and liberalization of international capital markets and wide application of information technology in the securities market have increasingly blurred geographical boundaries in capital flows and financial transactions. At the same time, due to the scarcity of capital, countries contest with each other for investment capital. Accordingly, oversea listing becomes an important development strategy for companies because financing at the international level not only solves a company's shortage of funds, but reduces the cost of capital and the volatility of company stock(Davis, 2001). However, overseas listing also means more stringent market supervision and information disclosure system. Can the effective monitoring system in overseas market optimize the corporate governance structure and improve the performance of those companies who listed both abroad and domestic in the domestic capital market? Can the legal system and regulatory rules of overseas listing as exogenous rules of the game in organizational domain lead to a significant improvement in governance institution of listed companies? Are there differences in governance evolution paths in domestic and international capital markets? Concurrently listed in Shanghai, New York, London and Hong Kong stock exchanges, Sinopec, in comparison with other domestic listed companies, faces more rigorous and complicated regulatory environment from different capital markets. We hence use it as an example to explore how oversea regulatory environment induces changes in a listed company's governance behavior in domestic capital market.

This paper will first illustrate evolution path of corporate governance institution arising from mutual game between exogenous legal regulatory rules and endogenous motives for spontaneous decision-making, that is, mandatory governance versus voluntary governance. Then by exploring changes in corporate governance institution in Sinopec after its overseas listing, we attempt to find out the effect and significance of overseas listing on its performance in domestic capital market. Our results show that, during the process of mutual game between exogenous induced factors arising from effective regulatory regime in overseas market and endogenous spontaneous factors arising from the agent in organizational domain, according to the extent of the implementation of both factors, evolution of corporate governance institution manifests as either mandatory governance or voluntary governance. Investor relations management as a new voluntary governance mechanism is an information communication bridge between listing company in capital markets and investors(Ma, 2008). In the overseas capital market, especially under supervisory system in the United

States, securities regulators and investors' high demands for efficient corporate governance impulse Sinopec to implement new policy, adopt investor relations management system, optimize corporate governance, and improve governance efficiency. In the domestic capital market, with the efficiency of Sinopec's voluntary governance with the representative of investor relations management constantly increases and corporate performance steadily improves, Sinopec has succeeded in achieving sustainable development.

2 Inherent logic of the evolution of corporate governance institution and efficiency enhancement of voluntary governance: An analytical framework

The evolution of corporate governance is a result of constant conflicts and compromises between the endogenous self-enforcing mechanism of investors, managers and other agents in organizational domain and exogenous legal or regulatory restrictions in relevant and complementary domains. The corporate governance is either mandatory or voluntary, depending on the result of the game between exogenous and endogenous forces. In mandatory governance, exogenous legal regulatory rules win over endogenous self-enforcing mechanism in organizational domain. As a result, a listed firm is compelled to cater to the minimum regulatory requirements of regulations on corporate governance. In contrast, voluntary governance is just the opposite: listed companies take the initiative to carry out corporate governance innovation activities under the internal needs of corporate governance efficiency improvement and corporate value enhancement.

Enhancement of corporate governance efficiency is affected by both endogenous cumulative factors in the organizational domain and exogenous impacts. Law regulatory system as the exogenous rules of the game in organizational domain is the environmental inducement to the evolution of corporate governance institution. At the same time, existing corporate governance institution can not lead to reduction of uncertainty of corporate agents' external expectations. As a result, these agents will revise their choice sets accordingly. Game between endogenous and exogenous factors will thus enhance the efficiency of corporate governance. Whether a firm's corporate governance style is mandatory or voluntary depends on the strength contrast between exogenous and endogenous forces. Improvement of voluntary governance efficiency relies more on the situation in which endogenous forces gain advantages over exogenous forces during the process of governance efficiency enhancement.

In recent years, with the rapid development and globalization of world economy, a company obtains many more potential opportunities. However, competition for capital is also becoming increasingly fierce. The emergence of institutional investors and increasing awareness of right protection have put forward higher requirements for the quality of corporate governance of listed companies. These new changes in environment and the emergence of potential profit opportunities made it impossible for corporate agents to reduce their expected uncertainty under the extant governance institution imposed by regulatory laws, which in turn, restrain individual firm from initiating corporate governance innovation and grasping the new profit opportunities in accordance with its own individual characteristics, resulting in a crisis in corporate governance institution. La Port et al. (2002) brought, for the first time, the legal system into the research framework of corporate governance as a means of investors' interest protection. In the framework, legal system is regarded as an important determinant of a corporate governance pattern. However, there are still a number of unsolved questions concerning La Port's legal system determinism: why governance scandals still widely exist in countries which have advanced legal systems to protect investors' right? Why there are huge differences in the returns of controlling shareholders in the same country with the same legal system. We thus argue that law as a mandatory external enforcing way is not able to fully protect the interests of investors and constantly optimize corporate governance. Emergence of crisis in the existing governance institutions and new profit opportunities will bring in new changes in governance institution and promote corporate governance reform and evolution. Under the protection of the same legal system, why is there great differences in corporate governance quality? Under the premise of failure of the legal system at the national level, corporate governance institution may be able to solve the above problem through voluntary corporate governance reform at the corporate level. Companies will be able to implement corporate governance innovations, reduce uncertainty in the external capital market, and maximize company value. As a necessary supplement to external mandatory legal system, corporate governance can generate new self-enforcing mechanisms through internal interactions, initiate governance innovations, facilitate the development of capital market, and promote the evolution of a firm's governance institution from mandatory governance to voluntary governance.

Overseas listed Chinese firms have advantages in large-scale financing, lower financing costs, improved transparency, better relationship between listed companies and investors, and strategic investors attraction. Meanwhile, as requirement of governance efficiency is becoming increasingly rigorous in the oversea capital market, the existing governance institution in overseas listed

Chinese firms are unable to utilize potential profit opportunities and meet the expectation of international investors, leading to a disequilibrium in governance institutions. In addition, in the overseas capital markets, stricter securities regulators and investors' higher demands for corporate governance efficiency led to cognitive crisis of subjective game models for agents. Accordingly, agents revise their activated choice sets, optimize governance institution, implement new choices, and increase governance efficiency. Under the regulatory environment in China's capital market, endogenous strategic choice of oversea listing firms has considerable advantages over exogenous regulatory rules. As a result, these firms take the initiative to carry out governance innovation activities beyond merely catering to domestic legal regulatory system, resulting in improved corporate governance structure and increased voluntary governance efficiency.

Owing to globalization of the capital market, fierce competition for capital, and increasingly picky investors, more and more listed companies have realized that they must build long-term relationship with investors and maintain better communication with these investors so as to smoothen the flow of financing channels to ensure sustainable development. But how to win over and retain potential investors remains a strategic challenge for listed company. At the same time, investors increasingly demand for accurate, timely, and forward-looking type of information. Whether their Right to Know and other rights be effectively protected is a prerequisite for potential investors to decide whether to invest in a company or not. Thus a new type of self-governance mechanism called "investor relation management" came into being. It is a strategic management responsibility that integrates finance, communication, marketing and securities law compliance to enable a most effective two-way communication among a company, the financial community, and other constituencies, which ultimately contributes to a company's securities achieving fair valuation(National Investor Relations Institute, 2003).

Legal system and regulatory rules in overseas capital market as exogenous rules of game for listed company can induce governance institution evolution. As above, external factors in oversea capital market such as higher demand for corporate transparency from potential investors and emergence of new profit opportunities may make the existing level of investor relations management in company fail to meet investors' expectation, resulting in institution disequilibrium, which in turn stimulates an constant improvement in overseas listed firms' investor relation management. In the game between investor relation management and mandatory regulatory laws of domestic capital market, the former occupies a dominant position and hence becomes one of the voluntary governance mechanisms. Driven by external regulatory rules and laws in overseas capital market, the self-regulated governance efficiency of investor relations management increases constantly and enhances company performance accordingly.

3 Research design

3.1 Case selection

Since the purpose of a case study is to build theory rather than calculate possibilities, the choice of case research sample does not need to follow sampling method, as long as the case itself is of unique significance and representativeness (Eisenhardt, 1989). This paper mainly studies how legal regulatory environment as exogenous pressure faced by oversea listing Chinese companies lead to their corporate governance improvement, which in turn enhances their companies' governance efficiency and performance in the domestic capital market. As a company concurrently lists in Hong Kong, Shanghai, New York and London stock markets, Sinopec faces stricter and more complicated legal regulatory constraints in comparison with domestic listed companies. We can thus use it as a good example to analyze how overseas regulatory environment leads to its corporate governance changes in the domestic capital markets. For this reason, we select "Sinopec" as the sample for this paper. During the process of research design, we adopt the study method used in Yang Zhong's et al. (2007) research.

3.2 Research reliability and validity

Yin (2004) pointed out that each research has its own specific logic concerning collection and analysis of information. In order to ensure the reliability and validity of our research, we follow the recommendations of Yin (2004), Eisenhardt (1989, 1991) strictly in each research environment.

We first set up a research team comprised of three persons and discussed and perfected our study method for half a month. In the implementation phase, we firstly defined the research framework based on literature review, and identified specific research questions after discussions. We then put forward the research hypothesis. Second, we identified sampling criteria in accordance with the research problem and formed interviews outline and questionnaire entries. This phase lasted for two months. In order to ensure construct validity of the case research, we identified sample requirement and the types of evidence, mainly consisting of interview records of company executives and other personnel, investigations, literature and archival records, thereby constituting an evidence triangle in research. In order to make the interview process more efficient, we prepared an outline for the interview mainly composed of open issues. During the interviews, we used recording equipments to ensure authenticity and effectiveness of the interviews. After the interviews, two researchers were assigned to collect and cleanse interview data. Panel discussions were held to discuss unclear issues in the interview and consensus was reached through repeated studying of interview records, so as to ensure the reliability and validity of our data collection process and data analysis.

4 Enhancement of voluntary governance efficiency based on investor relations management: Sinopec's practice

As a company listed concurrently in Shanghai, New York, London and Hong Kong stock markets, Sinopec is under much more stringent market supervision in comparison with domestic listed companies. It is bounded by a number of laws and regulations from these stock markets, including the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (Exchange Listing Rules),* the *Companies Ordinance* (Hong Kong)*,* the *Securities Exchange Act (1934) Amendment Case* (US), and the *Sarbanes-Oxley Act* (US). Moreover, Sinopec also has to comply with the *New York Stock Exchange rules apply to Non-US companies*. These overseas securities regulatory rules are highly concerned about the disclosure of information, which require that listed firms should honestly and fully disclose their historical, realistic and future information. In order to gain reputation in capital market, attract potential investors, optimize corporate governance structure, maximize shareholder value and achieve sustainable development, Sinopec strictly adheres to these overseas capital market regulatory requirements. In the case of Sinopec, exogenous mandatory supervision requirement wins over endogenous autonomous decision-making process in the company, which helps compulsorily enhance its corporate governance efficiency.

As above, in the overseas capital market, Sinopec's corporate governance behaviors are mainly out of consideration for catering to external regulatory requirements, including the *Sarbanes-Oxley Act* in US and the *Corporate Governance Code* updated by Hong Kong Federation of Stock Exchanges in March 2006. Sinopec's strict compliance with the laws and exogenous mandatory supervisions leads to optimization in decision-making processes and patterns, and enhancement of corporate governance efficiency. However, in the domestic capital market, Sinopec's endogenous governance behaviors have advantages over China's legal and external monitoring system. As a result, Sinopec governance behavior in domestic market proves as voluntary corporate governance, which goes beyond the requirement set by relevant regulations in the *Company Law of the People's Republic of China* (revised in 2005) and regulations set by China's Securities Regulatory Commission and the Shanghai Stock Exchange. Consequently, both Sinopec's efficiency of voluntary corporate governance and company performance has improved greatly.

Since Sinopec's investors come from different cultures, legal system and regulatory rules, how to make full use of investor relations management as a communication bridge between company and investors to retain current investors, attract potential investors, and achieve value discovery and adding remains a problem. It is a great important challenge for Sinopec to maintain a healthy development in the capital markets. Based on the above analyses, we regard Sinopec's efficiency enhancement process as voluntary governance under the pressure of overseas regulation and global competition from the perspective of "Sinopec" investor relations management.

4.1 Scientific investor relations management design

Mandatory regulatory system in overseas capital market induces changes in the corporate governance institutions. In order to meet stringent requirements of the information communication in the United States and other overseas capital markets and maintain active interaction with investors, Sinopec attaches great importance to investor relations management activities, and develops a scientific system of investor relations management as well as a special department for investor relations management. There are nearly 20 workers in the board secretariat responsible for communication services to directors and shareholders, information disclosure (including statutory disclosure, media management and crisis management, etc.), investor relations management, and web site building and maintenance, Sinopec set up representative offices for investor relations management in Hong Kong, New York and London, respectively. There are also seven full-time investor relations management officials (IR) responsible for providing timely and convenient services to investors worldwide, including four in Beijing, two in Hong Kong, and one in New York. Considering how to serve for more investors under limited human resources as a great challenge of investor relations management, Sinopec's IR team tries its utmost to provide excellent and all-around services to investors worldwide.

In accordance with relevant laws and regulations in China, Sinopec established an Information Disclosure System, which was approved in the second session of the 5th Board Committee conference on December 29, 2003. Sinopec also made relevant disclosure provisions in its *Internal Control Manual*. The plan and implementation of investor relations management in Sinopec follows a pyramid pattern, in which the first step is face-to-face meetings for executives, securities analysts and fund managers. Then comes conference calls between company managers and investors. Following roadshows are carried out according to international practices. Performance teleconferences for investors nationwide are also held on a regular basis. Also, relevant departments in Sinopec pay close attention to track investors and analyses' opinions of securities market changes, and then feed back this information to managers in time. Sinopec's efforts in investor relation management have been widely appreciated by overseas capital market. Likewise, Sinopec effectively implements the above interactive communication mechanisms with investors in domestic capital markets. As a result, Sinopec has achieved stable operating performance in domestic and overseas capital market alike. For this reason, Sinopec is highly praised by magazines such as *Investor Relations Management*, *Asian Finance* and *European Currencies*, etc., in reorganization of its high investor relations management level. So far, investor relation management as a voluntary institutional arrangement has still not compulsorily been required by regulatory bodies in China. The success of Sinopec's investor relation management practices in the overseas market has greatly promoted the spread of investor relation management among other domestic listed companies in domestic capital market.

4.2 Active and effective communication, enhanced corporate transparency

Overseas mandatory legal supervision induces continual optimization in internal voluntary governance in listed companies. As a result, the level of investor relations management in overseas listed companies improves increasingly in the domestic capital market, winning the favor of potential domestic investors. Since high transparency of company is an important premise to win over international investors, Sinopec has realized that only by establishing an effective communication system and information exchange platform, will its enterprise value be understood and recognized by investors, and will capital market continue to provide it with investment, and will it have a long-term and sustainable development. For this reason, Sinopec established a strict internal control system and external information disclosure regulations in accordance with the relevant national regulations and the Section 302 and 404 in *Sarbanes-Oxley Act* to ensure timely, accurate and fair communication with investors.

Investor relations management department is a special department linking company and the capital market. On the one hand, a company has to go out and introduce itself to the capital market. On the other hand, a company needs to bring in views and suggestions to its management. To constantly improve the performance of its investor relation management department, Sinopec invited analysts from Goldman Sachs to evaluate and improve its strategic positioning. The management team also attached great importance to the issue and the final evaluation and improvement report made by Goldman Sachs was distributed to all directors and supervisors. Accordingly, Sinopec adjusted some of its acquisition and merger strategies and received better results. In May, 2007, Sinopec held a conference call, in which the chief economist and analyst of Morgan was invited to introduce the global economic situation, changes, influence and petrochemical industry cycles and trends, and capital market development, etc. Sinopec also constructed a communication network worldwide, including website, e-mail, fax, phone, conference calls, CD-ROM to deliver about company's annual report and so on. Besides news conference, financial report, and other information disclosure means press and website, the shareholders anniversary conference also provides a fixed communication platform for management and investors. In order to enhance investor's understanding of the company and get feedback from experts and the public alike, the company regularly meet with analysts and fund managers in the United States, Europe and Asia to report company's operating performance, and invite journalists from time to time to visit its plants, refineries, gas stations.

Investors' trust level for a company largely depends on the company's performance level. In 2001, the full-year performance of Sinopec was below the expected level, so it disclosed relevant information in details and let investors and analysts know the company's situation and made appropriate adjustments to profit anticipation. Thanks to this timely communication with investors and other stakeholders, Sinopec's stock prices did not drop but rise when the final annual report was issued. Also, Sinopec has gradually established a fair and honest image in international capital market.

4.3 Information disclosure, finding a balance between regulation and innovation

Information disclosure is an important foundation for investor relations management. Yet aimless, blind and even chaotic external information disclosure will tamper the maximization of shareholder value and cause a value gap. To improve the quality of information disclosure, Sinopec has established a scientific system of information disclosure and a two-way communication mechanism to ensure a qualified and standardized information collection and disclosure. Specifically, information is collected in the following ways: collecting company's important legal texts, preparing of periodic reports, understanding company's operating mechanism and conditions, building financial operating information databases, and establishing internal linear information dissemination network. Sinopec also set up a team for information disclosure composed of directors from different departments to decide the major matters of information disclosure. Board Secretariat is the only disclosure window of specific information. As regulatory requirements for information disclosure vary greatly in different stock markets, Sinopec follows an information disclosure principle of “rather be strict than loose, rather be more than less” and prepares annual report, quarterly report and the F20 report required by SEC accordingly.

In addition to abiding by rigorous information disclosure requirement set by different regulatory bodies in different countries, Sinopec also takes the initiative to disclose required information in an honest and timely way, aiming at facilitating shareholders or other stakeholders to make better decisions. For example, explanation meetings for analysts and financial media are regularly held at the time of performance release. In addition, Sinopec issues periodic reports to disclose petrochemical industry information, environmental information, and other information as well as the latest operation statistics to the public. For its efforts in initiative information disclosure, Sinopec was awarded as Asia’s Best Annual Report in 2000 and 2001.

Sinopec discloses information in a timely manner which may have a substantial impact on the decision-making for shareholders and other stakeholders. By expanding the scope of information disclosure and by enlarging disclosure channels, Sinopec has constantly increased its transparency and ensured convenient accesses to needed information for all investors worldwide. In order to meet the stringent information disclosure requirement of its own, the investor relations management has formulated corresponding institutional arrangements and adopted a number of valuable suggestions in order to maximize the value of the company and further establish the strategic status of the investor relations management in Sinopec.

5 Corporate performance and share price

Overseas listing and legal regulatory rules as exogenous game rules in organizational domain promote evolution of corporate governance institution. In overseas capital markets, especially in the United States, the securities regulatory departments and investors have high demands for corporate governance efficiency. Accordingly, Sinopec actively promotes its investor relation management, optimizes corporate governance and improve governance efficiency. Fierce competition in overseas capital market, buyer’s market of investors and equity culture all contribute to inspire Sinopec to enhance corporate performance and quality through effective corporate governance mechanisms. As a result, investor relations management as a new voluntary governance mechanism has become a communication bridge between listing company and capital markets and the core influencing factor of corporate performance in the context of capital markets institution transition. Thanks to its initiative efforts in corporate governance improvement, Sinopec has showed a strong growth momentum and sustainable innovation capabilities in the domestic capital market.

5.1 Financial indicators and share price

Table 1 shows the earnings and financial indicators of Sinopec from 2001 to 2006. As shown, Sinopec's net profit rate kept a high level of around 4.8 percent in all six years. Business revenues, profits, and net return on assets increase on a year-by-year basis, which indicates a trend of stable and sustainable development. Subsequently, investors of Sinopec in both domestic and overseas market have gained juicy profit. In comparison with the Shanghai Securities Exchange Composite Index of the same period, Sinopec outperformed the stock market impressively. Statistics show that Sinopec's P/E and P/B ratio was 15.6 and 3.1 respectively in 2006, indicating that capital market shows a positive attitude toward its stocks. Though the P/E ratio declined a bit in comparison with a 21.3 in 2001, there are still considerable investment chances for potential investors(see Fig. 1).

Table 1 Key financial indicators of Sinopec

	2001	2002	2003	2004	2005	2006
Primary business income (million yuan)	304,347	324,184	417,191	590,632	799,115	1,044,652
Net profit (million yuan)	14,018	14,121	19,011	32,275	39,558	50,664
Net profit rate (%)	4.6	4.4	4.6	5.5	5.0	4.8
Net return on assets (%)	10.1	9.6	11.7	17.3	18.3	19.9
Earning per share (yuan)	0.162	0.163	0.219	0.372	0.46	0.58
Net assets per share (yuan)	1.604	1.690	1.879	2.149	2.58	3.05
P/E (times)	21.3	18.5	22.6	11.7	10.2	15.6
P/B（times）	2.15	1.78	2.63	2.03	1.87	3.10

Note: From "Sinopec" annual reports.

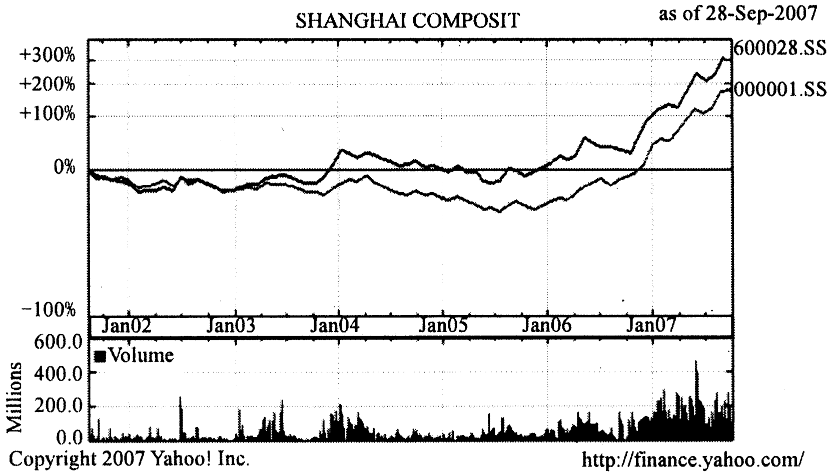

Fig. 1 Trend chart of Sinopec's stock price (Shanghai Stock Exchange Market)
Notes: (1) From http://finance.cn.yahoo.com.
(2) The blue line (600028.SS) is the share price of Sinopec.
(3) The red line (000001.SS) is the Shanghai Stock Exchange Composite Index in the corresponding period.

Compared with domestic listed companies, Sinopec works as a leader in Shanghai Stock Market and is ranked first not only in Fortune's Top 100 listed companies in China in 2007, but also in the "China Enterprise Competitiveness Report" issued by Global Competitiveness Organization in 2006. In addition to strong government support and unique advantages in resources, voluntary governance in the domestic capital market is a unique competitive advantage of Sinopec to ensure its leading position. At the same time, its voluntary governance mechanism has its unique characteristics and different from foreign mandatory governance institutions. From Table 2, we can see that Sinopec has the highest recognition in capital market compared with the other two domestic companies also listed in Hong Kong and New York. Compared with foreign multinational oil companies, Sinopec has good growth and earning expectations, as shown by EV / EBITDA indicators. As the comparison below shows that Sinopec demonstrates an excellent ability of sustainable growth and the company profit-making abilities are believed to enhance even more after a release of government controls.

As above, Sinopec has carried out a series of corporate governance innovation activities in domestic capital market, which goes beyond a mere catering to governmental regulations and enhance its market performance and competitiveness.

Table 2 Comparison of biggest Chinese and international oil companies

Code	Company name	Market value (ten billion yuan）	EV/ EBITDA	P/B (times)	ROE (%)	P/E (times)	Five-year average P/E
857	Petro-China	2.3	6.83	3.818	24.24	12.52	8.32
386	Sinopec	1.3	7.81	3.102	19.88	10.22	7.94
883	CNOOC	0.39	5.55	2.795	28.7	9.52	8.75
XOM	Exxon Mobil	4.58	5.87	4.02	34.7	11.83	10.82
BP	British Petroleum	2.13	4.84	2.528	26	10.55	11.41
CVX	ChevronTexaco	1.74	4.46	2.521	24.86	9.89	8.68
COP	ConocoPhillips	1.16	3.22	1.399	18.82	7.49	6.76
ENI	Eni Group	1.35	4.35	2.203	23.84	10.45	9.4
FP	Total company	1.8	3.00	3.29	29.19	11.36	10.19
RDSA	Royal Dutch Petroleum	2.27	3.98	1.195	24.06	8.73	9.07
Average value of foreign large-scale oil companies		2.15	4.89	2.45	25.92	10.04	9.48

Note: From the annul reports issued by the above companies.

5.2 Executives turnover crisis

The role of investor relations management in Sinopec is an important mechanism to achieve voluntary corporate governance. On August 28, 2007, Goldman Sachs reported that the profit of Sinopec was lower than they expected. Accordingly, Goldman Sachs lowered Sinopec’s stock as “sell grade”. The drop of Sinopec’s stock price was caused by a sudden change of senior executives in June, 2007. Investors worried that, with good reasons, such changes would impair Sinopec’s development strategies, which in turn leads to the drop of stock prices.

Since the personnel change happened suddenly and unanticipated, it ignited unfavorable rumors in the market and exerted adverse impact on Sinopec(see Fig. 2). Su Shulin, the new CEO, held in person an emergent shareholder and analyst explanation meeting to clarify company’s development strategy. He explicitly said that the company’s development strategy will maintain “three unchangeds”, that is, division of labor among senior executives will remain unchanged, work procedures unchanged, and working plans unchanged and “four stables”, that is, to maintain stable operation, maintain stable safety production, maintain the stability of staffs, and maintain stock price stable. In particularly, Su pointed out that the strategic goal of a mature enterprise is a collective decision made by the board of directors, and will not change due to turnover of any single senior executive.

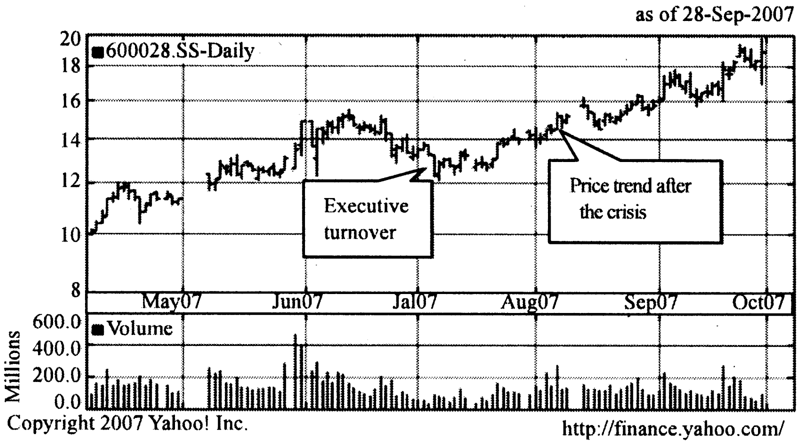

Fig. 2 Sinopec's executives turnover and its effect on stock price

These timely measures adopted by Mr. Su effectively reduced, for the time being, investors' worry about the company's future. To further renew investor's confidence in Sinopec, employees in the investor relations management department actively communicate with the outside world and vigorously engage in introduction and publicity of Mr. Su as an experienced and capable leader. Different from most of his predecessors, Mr. Su graduated from Daqing Petroleum Institution and specialized in petroleum and geological exploration. He worked in Petro-China as a first line manager for 23 years. With these experiences and qualifications, Mr. Su is believed to be able to improve Sinopec's "upstream weight" and expand its domestic and overseas market shares. Since development of the upstream petrochemical business can open up huge growth potentials and have positive impact on the downstream business, the image campaign helped establish a positive image of Mr. Su and Wang Tianpu, the newly-appointed CFO. In addition, the investor relations management department took initiatives to disclose information through different channels. In the first half of 2007, the operating income of Sinopec increased by 15.4% and reached 566.83 billion yuan, At the same time, Sinopec disclosed to the media a series of major strategic initiatives, such as carry out large-scale liquidation of assets, set up Guangzhou refinery plants in collaboration with Royal Dutch Shell limited company, Kuwait Petroleum Corp and Dow Chemical Company, and develop strategic cooperative relations with CNOOC and Petro-China.

Relying on good corporate governance structure, timely and transparent information disclosure and excellent investor relations management, Sinopec eliminated the capital market's suspicion and won back investors' confidence. After confirmed that Sinopec invested in its overseas oil fields, Goldman Sachs changed its formerly unfavorable grade of Sinopec and predicted that the EPS of Sinopec would reach 0.841, 1.028 and 1.204 yuan per share in 2007–2009, respectively. Subsequently, Goldman Sachs estimated that the target price of Sinopec would reach19.37 yuan in the next six months and recommended Sinopec's stock as "investable". Other major credit rating agencies at home and abroad continue to be optimistic about the growth potential of Sinopec.

6 Conclusions

Sinopec has achieved corporate governance institution transition as a game between overseas market regulation and exogenous decision-making rules. As its voluntary corporate governance level continuously improves, both Sinopec's corporate governance structure and performance have enhanced greatly.

As a huge state-owned enterprise, the purpose of Sinopec's overseas listing is not only for financing, but also for learning from the monitoring system in the United States and other stock markets (Tian, 2006). Under the stringent market supervision and information disclosure system, the governance institution of Sinopec has achieved a transition from mandatory governance to voluntary governance. Accordingly, its efficiency of corporate governance has been continuously improved and an effective system of corporate governance and management has gradually formed.

Sinopec has achieved the optimization of corporate governance and enhancement of its market competitiveness by adapting to different legal, regulatory and market environments after overseas listing and by utilizing the effectiveness of "dynamic" supervision in overseas market and "static" regulations in domestic market. For these reasons, Sinopec's net profit ratio has maintained a high 4.8 percent for the past six years and its organizational structure and governance structure have been continuously optimized, resulting in a constantly strengthened investor confidence from researchers, analysts, the media, and foreign strategic investors alike. In general, Sinopec has succeeded in achieving its own corporate governance transition by utilizing better environment of overseas stock markets, and in actively implementing investor relations management practices and other voluntary governance activities in the domestic capital market. As a result, both Sinopec's corporate governance structure and company performance have been improved greatly in recent years.

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