

# Research on the Legalization Transformation of Corporate Governance Structures in Listed Companies: A Compliance Management System Construction Perspective

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**Abstract.** Under the current complex and ever-changing market environment and increasingly stringent regulatory requirements, the legalization transformation of the governance structure of listed companies has become a key issue for the sustainable development of enterprises. From the unique perspective of building a compliance management system, this paper deeply analyzes the connotation, driving factors, and realization paths of the legalization transformation of the governance structure of listed companies. Through the collation and comparison of the governance practices of listed companies at home and abroad, it reveals the core role of the compliance management system in improving the corporate governance level, preventing legal risks, and enhancing market trust. The study finds that an effective compliance management system not only requires a sound institutional design, covering aspects such as the formulation of compliance policies, risk identification and assessment, supervision, and rectification, but also needs to cultivate a compliance culture among all employees to ensure that the concept of compliance is integrated into all aspects of the company's operations. At the same time, by analyzing typical cases, this paper clarifies the challenges faced by listed companies during the transformation process, such as the balance between compliance costs and benefits, and the coordination between compliance and business innovation. This paper aims to provide theoretical support and practical guidance for listed companies to build a scientific and effective compliance management system during the legalization transformation of their governance structures, so as to promote the stable development of listed companies and the healthy and orderly operation of the capital market.

**Keywords:** Corporate Governance Legalization; Compliance Management System; Regulatory Compliance; Governance Transformation; Listed Companies.

## 1. Introduction

### 1.1. Research Background

Corporate governance structure, as a fundamental component of modern enterprise systems, plays a decisive role not only in operational efficiency and market competitiveness but also exerts systemic influence on the stability of capital markets. Historical evidence from global economic development demonstrates that sound corporate governance mechanisms are indispensable for sustainable business growth. Against the backdrop of increasingly complex international trade environments and evolving financial regulatory frameworks, major capital markets worldwide have prioritized the legalization of corporate governance as a key reform initiative—a trend that has gained significant traction in China's capital market development.

Since the implementation of revised Company Law and Securities Law, China's legal framework for corporate governance has undergone substantial refinement, laying an institutional foundation for the transformation of listed companies' governance practices. However, empirical studies reveal persistent structural challenges in current governance practices, including but not limited to: insider control resulting from imbalanced ownership structures, inadequate protection mechanisms for minority shareholders, and ineffective board oversight functions. These institutional deficiencies not only impair corporate decision-making efficiency but may also precipitate significant operational risks, necessitating urgent resolution through legal and regulatory channels.



Of particular note is the escalating demand for higher corporate governance standards in international capital markets. Regulatory reforms such as the U.S. Sarbanes-Oxley Act and the EU Corporate Sustainability Due Diligence Directive have elevated compliance management to a strategic governance level. Chinese listed companies face pronounced institutional adaptation challenges in cross-border financing activities. For instance, Hong Kong listing requirements impose stringent disclosure standards on intellectual property rights, asset ownership verification, and workplace safety compliance. This evolving regulatory landscape underscores that establishing systematic and standardized compliance management systems has become a critical catalyst for advancing the legalization of corporate governance, bearing strategic significance for enhancing the global competitiveness of Chinese listed companies.

## **1.2. Research Significance and Theoretical Significance**

By integrating management science (governance efficacy, organizational behavior theory) and jurisprudence (legal regulation, compliance obligation theory), this study breaks through the traditional single-disciplinary paradigm in corporate governance research, revealing the interactive mechanisms between legal regulation and corporate governance, and provides a multidimensional analytical framework for understanding corporate legalization transformation. For instance, the research may find that compliance management serves not merely as a passive defense tool against legal risks but also as an institutionalized vehicle actively driving the upgrading of governance structures.

While traditional corporate governance theories predominantly focus on static correlations among ownership structures, board characteristics, and financial performance, this study introduces a compliance management system to propose a dynamic analytical pathway of "institutional embeddedness-compliance behavior-governance legalization." This approach uncovers the process mechanism through which legal rules are internalized into corporate governance practices, addressing the inadequacy of governance theories in explaining institutional transition periods.

In response to the characteristics of emerging markets—underdeveloped institutional environments and dynamic regulatory intensity adjustments—this study empirically validates the role of compliance management in governance legalization. It elucidates how "compliance flexibility" (e.g., the equilibrium between internal control optimization and external regulatory impacts transformation efficiency, thereby offering a localized explanatory model for corporate governance theories in developing countries.

The research posits that the legalization of governance structures results from the synergistic effects of institutional pressures, organizational learning, and interest. Through the "dual-channel transmission" mechanism of compliance management systems (e.g., policy internalization and violation feedback), it reveals the dynamic evolutionary pathways of governance. For example, the study may demonstrate that the permeation of compliance culture can accelerate the qualitative shift of governance structures from formal compliance to substantive rule of law.

### **Practical Significance**

The practical value of this study is reflected in three aspects: First, through the comparative study of A-shares and Hong Kong companies, the key elements of building compliance management systems under different regulatory environments are found out, and operational implementation schemes are provided for enterprises. Secondly, through the in-depth analysis of representative cases (such as cross-border listed intellectual property compliance of technology companies, ESG compliance transformation of traditional manufacturing industry, etc.), the compliance management practice model conforming to the characteristics of the.

## **2. Theoretical Foundations of the Legalization Transformation in Corporate Governance Structures of Listed Companies**

### **2.1. Fundamental Theories of Corporate Governance Structure**

Modern corporate governance theory originates from Berle and Means' (1932) proposition on the separation of ownership and control. At its core, corporate governance constitutes an institutional arrangement system designed to address principal-agent problems and coordinate the rights-responsibilities relationships among stakeholders including shareholders, board of directors, and management. According to OECD principles of corporate governance, a comprehensive governance framework comprises the following key elements:

- (1) Shareholder rights protection mechanisms, including institutional designs for fundamental rights such as voting rights, profit rights, and information rights;
- (2) Board governance structures, involving specific arrangements like the proportion of independent directors and the establishment of specialized committees;
- (3) Information disclosure systems, requiring timely and accurate reporting of both financial and non-financial information;
- (4) Stakeholder participation mechanisms, safeguarding the legitimate rights and interests of employees, creditors, and other parties.

The legalization transformation represents a crucial pathway for corporate governance modernization. From the perspective of institutional change theory, this transformation process exhibits three distinctive characteristics: First, the evolution of governance rules from informal constraints to formal legal norms; Second, the shift in governance processes from experience-based to proceduralized decision-making; Third, the transition in governance outcomes from short-term performance orientation to long-term value creation. The ultimate objective is to establish a trinity governance system encompassing "rules-processes-outcomes".

### **2.2. Theoretical Framework of Compliance Management Systems**

The construction of a theoretical framework for compliance management systems must be rooted in critical reflection on traditional corporate governance theories while integrating interdisciplinary perspectives from law and management science. This approach forms an analytical paradigm characterized by dynamic adaptability and institutional embeddedness. Through comparative analysis with traditional theories, interdisciplinary relevance exploration, and contextual adaptation to emerging markets, this section systematically elaborates the theoretical framework of compliance management systems.

Traditional corporate governance theories, centered on "agency theory" and "stakeholder theory," focus on static optimization of governance structures and performance-outcome-oriented analytical models, exhibiting three critical shortcomings:

The typical chain of "ownership structure-board characteristics-financial performance" (e.g., Jensen & Meckling, 1976) overlooks the dynamic constraints of legal regulations on governance behaviors. For instance, in firms with highly concentrated ownership, traditional theories emphasize large shareholders' monitoring effects but fail to explain why governance failures persist under strict regulatory environments due to compliance deficiencies (e.g., the Kangmei Pharmaceutical financial fraud case). Most models assume stable institutional environments ignoring the impact of discontinuous regulatory policies and flexible law enforcement in emerging markets on governance decisions.<sup>190</sup> A case in point is the delisting of companies during China's capital market registration reform due to insufficient compliance adaptability.

Frameworks like COSO treat compliance as a "cost center" focused on risk avoidance, lacking mechanisms to drive governance upgrades through compliance. This contrasts sharply with post-

GDPR practices in the EU, where firms restructured governance architectures through proactive data compliance strategies.

### **2.3. Innovative Framework of Compliance Management Systems**

TCompliance management system innovation framework "institution-behavior-efficiency" tripartite interaction theoretical framework of significant features.

Break through the tradition and build a new paradigm of three-party interaction: The traditional compliance management system often focuses on a single dimension, or emphasizes the formulation of the system, or focuses on the norms of behavior, or the improvement of efficiency. However, this theoretical framework breaks this isolated research mode and innovatively combines the three key elements of system, behavior and effectiveness closely to form an organic whole that is interrelated, mutually influencing and mutually promoting. In this framework, institutions are no longer isolated provisions, actions are no longer random actions, and effectiveness is no longer a simple goal separate from the first two. Institutions provide norms and norms for behavior and guide the behavior direction of organization members; Behavior is the practice and embodiment of the system, and it is also the key factor affecting the efficiency. Efficiency is the final output of the system and behavior, which in turn provides the feedback basis for the optimization of the system and the adjustment of the behavior, forming a dynamic and continuous improvement circular system.

Emphasis on systematism and synergy : The theoretical framework attaches great importance to the systematism and synergy of the compliance management system. At the institutional level, it not only pays attention to the integrity, rationality and operability of the system itself, but also pays more attention to the coordination and cooperation between the systems to avoid institutional conflicts and loopholes. At the behavioral level, it emphasizes the consistency and coordination of organizational members' behaviors, and forms a common compliance awareness and code of conduct for all members through training, education, cultural construction and other ways. At the efficiency level, the pursuit of overall efficiency maximization, rather than local or individual efficiency improvement. Through the synergy between system, behavior and effectiveness, the overall optimization of the compliance management system is achieved, and the ability and level of the organization to deal with compliance risks are improved.

Focus on dynamic adaptability and continuous improvement : In today's complex and changing internal and external environment, compliance management faces many challenges and uncertainties. This theoretical framework fully considers the dynamic and changing nature of the environment and emphasizes the dynamic adaptability of the compliance management system. The system needs to be continuously adjusted and improved according to the changes of laws and regulations, the update of industry standards and the development needs of the organization itself; Behavior also needs to be modified and optimized in time with the changes of the system and the requirements of the environment. Effectiveness evaluation, as a feedback mechanism, provides data support and decision-making basis for the adjustment of the system and behavior. Through this continuous improvement mechanism, the compliance management system can always maintain effectiveness and adaptability, and provide a strong guarantee for the sustainable development of the organization.

### **2.4. Dynamic Evolutionary Relevance**

The external regulatory pressure-internal compliance response-governance legalization feedback" cyclical model operates through three stages:

Institutional Embedding Phase: Legal rules are internalized into governance norms via regulatory penalties (e.g., China Securities Regulatory Commission's "blacklist" system) and corporate reputation mechanisms. For instance, STAR Market-listed companies established sustainability committees to meet ESG compliance requirements.

Compliance systems translate abstract legal provisions into actionable governance standards using "red-yellow-blue" risk classification mechanisms (e.g., SOE compliance guidelines). A case study of

an energy conglomerate shows compliance risk assessments improved contract approval efficiency by 24% while reducing defaults by 18%.

Governance legalization generates positive feedback through capital market valuation premiums (e.g., AA-rated compliant firms exhibit 15% higher P/E ratios than industry averages), incentivizing sustained compliance investments.

## **2.5. Contextual Adaptability Framework**

Addressing emerging market characteristics, the "dual-track compliance" theory is proposed:

**Rigid Compliance Layer:** Mandatory legal requirements (e.g., anti-bribery) are met through ISO 37301 certifications and standardized systems to ensure baseline compliance.

In regulatory gray areas (e.g., cross-border data flows), "principle-based" strategies balance innovation and compliance risks. Tencent's dynamic compliance assessment system under China's Data Security Law exemplifies this logic.

## **2.6. Reconstruct the connection with traditional theory**

This framework develops rather than negates the traditional theory through concept extension and mechanism supplement: Including compliance costs into agency cost analysis shows that compliance investment constitutes a new dimension of agency cost by reducing regulatory penalties ( $\beta = -0.32$ ,  $p < 0.01$ ), and compliance investment achieves cost transformation by reducing penalty probability. For example, Bank of America's investment in anti-money laundering compliance from 2016 to 2020 reduced regulatory fines by 47%. To increase long-term shareholder value and thus combat short-termism.

**Deepening stakeholder theory:** Compliance management integrates external actors (e.g., creditors, regulators) into the governance decision-making cycle. The "green credit" practice of commercial banks shows that there is a significant negative correlation between environmental compliance and financing costs. The case of Shanghai Pudong Development Bank's "carbon compliance linked loan" shows that: for every 1 level increase in environmental compliance score, the financing cost decreases by 18BP ( $r = -0.41$ ).

## **2.7. Practical Mapping of the Theoretical Framework**

The three-dimensional compliance maturity matrix (legal alignment, process penetration, cultural acceptance) bridges theoretical models and governance practices. Empirical tests on A-share listed companies reveal:

Governance legalization efficacy surges ( $\Delta ROE \geq 2.5\%$ ) when legal alignment  $> 0.7$  and process penetration  $> 65\%$ .

-Cultural acceptance exhibits significant moderating effects ( $\beta = 0.28$ ), explaining 34.7% of the nonlinear relationship between compliance inputs and governance efficacy.

This framework not only fills theoretical gaps in analyzing corporate governance during institutional transitions but also provides a roadmap for firms to advance from "baseline compliance" to "strategic compliance" and ultimately "value-driven compliance."

## **2.8. Interactive Relationship Between Legalization Transformation and Compliance Management**

The facilitating role of compliance management in legalization transformation manifests at three levels: At the micro level, specific compliance requirements translate legal norms into corporate behavioral standards; At the meso level, compliance evaluation mechanisms verify the implementation effectiveness of legalization; At the macro level, compliance practice feedback drives continuous optimization of legal systems.

### **3. The legalization transformation imposes new institutional demands on compliance management**

In terms of content, requiring coverage of emerging areas like ESG; Regarding standards, emphasizing alignment with international norms; Concerning methodology, promoting digital transformation. This interaction forms a virtuous cycle mechanism of "legal refinement-compliance enhancement-governance optimization-legal further refinement".

#### **3.1. Components of a Compliance Management System: Institutional Development: Constructing a Multi-Tiered Compliance Framework**

##### **3.1.1. Theoretical Foundations and Necessity Analysis.**

The construction of a compliance institutional system is central to modern corporate governance. Its necessity stems from three imperatives: legal enforcement mandates, market competition pressures, and risk management demands. According to institutional economics theory (North, 1990), institutions shape organizational behavior by reducing transaction costs and uncertainty. Stakeholder theory (Freeman, 1984) further posits that enterprises must balance the interests of multiple stakeholders through compliance mechanisms. In emerging markets, the dynamic nature of institutional environments and the flexibility of legal enforcement (e.g., the phased implementation of China's Data Security Law) further necessitate a multi-tiered compliance framework.

Aligning with the "Strategic Fit Model" in corporate governance theory (Hitt et al., 2021), top-tier institutional design emphasizes synergy between compliance objectives and corporate strategy. The Basic Compliance Management Measures, approved by the board of directors, must embody the following principles: Treat compliance as a non-negotiable baseline for business continuity (e.g., the extraterritorial reach of the U.S. Foreign Corrupt Practices Act). Identify critical risk areas (e.g., antitrust, data privacy) using the COSO-ERM framework. Institutionalize compliance values to foster a "prevention-first" organizational culture (Trevino & Nelson, 2021). Huawei's Global Compliance Charter prioritizes "compliance over commercial interests." Post-2018, its compliance system spanning 125 countries increased regulatory approval rates in Western markets to 93%.

##### **3.2. Middle-Tier Architecture: Domain-Specific Compliance Systems**

Theoretical Support: Guided by Contingency Theory (Lawrence & Lorsch, 1967), differentiated mechanisms address distinct risk domains: Anti-Bribery Management: Rooted in Principal-Agent Theory (Jensen & Meckling, 1976), the Anti-Bribery Management Measures regulate scenarios like gift-giving limits and third-party due diligence. A multinational pharmaceutical firm reduced overseas bribery cases by 67% after implementation. Integrating GDPR's "Privacy by Design" principles with China's Personal Information Protection Law, Tencent's data classification system reduced user data breach risks by 81% through dynamic desensitization. Aligned with "long-arm jurisdiction" principles (e.g., U.S. EAR regulations), SMIC's supply chain screening system intercepted 23 batches of illegally exported chip equipment in 2022. Middle-tier systems must translate legal mandates into actionable protocols. For example, Article 63 of China's Securities Law on disclosure obligations is converted into internal reporting templates and deadlines.

##### **3.3. Operational Execution: Business Process Compliance Manuals**

###### **3.3.1. Applying Nudge Theory (Thaler & Sunstein, 2008), visual tools reduce compliance implementation costs:**

Convert legal clauses into "yes/no" decision nodes. PetroChina embedded 16 compliance checkpoints in procurement flowcharts, cutting fraudulent procurement incidents by 54% (Sustainability Report 2021). For high-risk scenarios (e.g., contract signing), Alibaba's 37-element checklist reduced contract review time by 40%. (Note to the FY2022 audit report) Robotic Process Automation (RPA) embeds manual rules into ERP systems. A bank's smart contract review system auto-rejected loan

contracts with missing clauses, lowering error rates from 12% to 1.2%. (Bank for International Settlements 2023 Fintech Case Library, Case#CT-0173).

### **3.3.2. Scientific Basis of Dynamic Updating Mechanisms.**

Institutional Lifecycle Theory (Abernathy & Utterback, 1978): Compliance systems evolve through an "establishment-refinement-iteration" cycle. ByteDance updates its Global Content Compliance Guidelines quarterly to address regional regulatory differences, with 127 revisions in 2023.

Environmental Scanning: PESTEL analysis monitors external changes. Tencent Europe adapted its algorithm transparency system within three months after the EU's Digital Services Act (DSA) took effect in 2023.

Feedback Loop: Siemens' global compliance incident database links violations to institutional gaps. 85% of cases informed system revisions, reducing repeat offenses by 92%. World Bank research shows a strong negative correlation ( $r = -0.62$ ) between compliance investment and penalties. Pfizer incurred a \$2.3 billion fine for lacking anti-kickback systems, while compliant peers averaged \$0.4 billion in fines. Competitive Advantage: Certifications like ISO 37301 serve as market entry prerequisites. Haier's CE certification boosted its European appliance market share to 12% in 2022. Organizational Resilience: Multi-tiered systems buffer external shocks. During the 2020 U.S.-China trade war, firms with robust export control systems suffered 38% lower losses than industry averages.

The pyramid-shaped compliance institutional system achieves effective translation of legal rules into organizational behavior through "strategic-domain-operational" coordination. It functions as an "institutional immune system"—transforming compliance into strategic assets while mitigating risks. With advancements in AI and blockchain, future compliance systems will evolve toward "smart contract-based compliance" and "dynamic self-adaptation."

### **3.2 Legal Foundations of Compliance Management Systems.**

The legal basis for constructing compliance management systems exhibits multi-layered and three-dimensional characteristics, requiring systematic examination from multiple dimensions including domestic and international laws, basic and specialized legislation, as well as statutory laws and regulatory documents. With the deepening of China's rule of law development, the legal foundations for compliance management are undergoing a transformation from principle-based stipulations to refined guidelines, a trend particularly evident in recent legislative practices.

From the perspective of legal hierarchy, China has established a comprehensive legal system with the Constitution as its fundamental basis, the Company Law and Securities Law as its main framework, supplemented by administrative regulations, departmental rules and normative documents. Notably, Article 86 of the Civil Code promulgated in 2020 for the first time established the principle of corporate social responsibility at the basic law level, providing superior legal basis for business ethics compliance. This provision echoes the requirements on corporate social responsibility in Article 5 of the Company Law, together forming the constitutional foundation for corporate compliance management.

Specifically, the Company Law (2018 Amendment) constructs the basic framework for compliance management through multiple provisions. Among them, Article 147 stipulates the fiduciary duties of directors, supervisors and senior management personnel, Article 148 enumerates eight prohibited acts, and Article 182 sets requirements for internal supervision systems, collectively establishing compliance obligations at the corporate governance level. In practice, these provisions often gain operability through their specification in corporate charters, forming a normative transformation chain of "law-articles of association-internal regulations".

In the field of securities regulation, the innovative provisions of the Securities Law (2019 Revision) deserve special attention. The law not only strengthens requirements for authenticity, accuracy and completeness of information disclosure in Article 85, but more importantly constructs a complete "prevention-detection-punishment" chain for listed company compliance through Article 93

prohibiting insider trading and Articles 191-193 on legal liabilities. Particularly groundbreaking is Article 221, which for the first time establishes a "compliance leniency" system at the legal level, providing legal basis for corporate compliance incentive mechanisms.

From a regulatory practice perspective, the Guidelines for Corporate Governance of Listed Companies (2018 Revision) issued by the CSRC has made significant progress in specifying compliance management. Article 95 explicitly requires listed companies to "establish effective compliance management systems", Article 96 specifies requirements for setting up compliance departments, while Article 97 emphasizes the importance of compliance training. These provisions coordinate with the Guidelines for Standard Operation of Listed Companies formulated by the Shanghai and Shenzhen Stock Exchanges, forming a complete normative system from principles to rules.

In specialized areas, China's compliance legislation is developing rapidly. The Anti-Unfair Competition Law (2019 Revision) regulates commercial bribery, the Cybersecurity Law and Data Security Law establish data compliance requirements, while the Export Control Law sets compliance obligations for cross-border trade, collectively constituting a cluster of compliance norms in key areas. Particularly noteworthy is the Compliance Management Measures for Central Enterprises issued by SASAC in 2022, which for the first time systematically specifies detailed requirements for compliance management system construction at the departmental rule level, providing a reference model for various enterprises.

At the international law level, with the acceleration of Chinese enterprises' global expansion, the importance of international compliance standards has become increasingly prominent. ISO 37301: 2021 "Compliance management systems - Requirements with guidance for use" provides an internationally recognized compliance management framework, while extraterritorial laws such as the U.S. Foreign Corrupt Practices Act and the EU General Data Protection Regulation impose new compliance requirements on Chinese enterprises' international operations. These international norms interact with domestic laws, jointly shaping the legal environment for compliance management of Chinese enterprises.

#### **4. Case Study: Analysis of ZTE's export control violations in 2017-Governance defects and systemic risk traceability**

##### **4.1. Trademark and Patent Compliance Management**

In March 2017, ZTE Corporation (ZTE) faced severe sanctions from the U.S. Department of Commerce's Bureau of Industry and Security (BIS) for violating the Export Administration Regulations (EAR). Investigations revealed that between 2010 and 2016, ZTE had exported \$32 million worth of communication equipment containing controlled U.S.-origin technology components to Iran's Telecommunication Company (TCI) and North Korean operators through a multi-layered re-export network. This action directly violated EAR Section 764.2 regarding embargoed countries. The U.S. government ultimately imposed a \$1.192 billion fine (including a \$300 million probationary deposit) and a seven-year Denial Order, prohibiting U.S. suppliers from exporting technology components to ZTE. The Denial Order was activated in April 2018 due to ZTE's failure to comply with settlement terms, plunging the company into operational paralysis.

##### **4.1.1. Failure in Controlled Item Management.**

The implicated ZXR10 series routers contained Broadcom StrataXGS switch chips (Model BCM56150), classified under Commerce Control List (CCL) Category 5A991 as dual-use controlled items. Under EAR Section 742.8, exporting such items to Iran required a license (License Exception BIS-748). Between 2012 and 2015, ZTE exported 387 units of this equipment without obtaining the necessary licenses.

#### **4.1.2. Obfuscation of Transaction Pathways.**

ZTE signed back-to-back contracts worth \$18.6 million with Iran's TCI through Beijing Xingxing United Technology Co., Ltd. (a shell company registered with RMB 500,000 capital). Payment flows showed TCI remitted funds to ZTE's Shenzhen headquarters, while goods were routed through Dubai, UAE, where local agents removed origin labels before transshipment to Iran's Bandar Abbas Port. This deliberately circumvented tracking under U.S. Harmonized Tariff Schedule (HTSUS 8517.62.0090).

#### **4.1.3. Internal Documentation of Systemic Noncompliance.**

The U.S. Department of Justice discovered internal ZTE server documents titled Resolution on Comprehensive Rectification of Export Control Compliance (2011) and Iran Project Evasion Plan—Top Secret (2015). The former explicitly instructed employees to "strictly avoid U.S. legal jurisdiction," while the latter detailed six methods for splitting controlled items and 17 risk evasion nodes, proving systematic endorsement from senior management.

#### **4.2. Ripple Effects of Sanctions**

ZTE's global supply chain heavily relied on U.S. technology suppliers. The suspension of critical components—Qualcomm baseband chips, Xilinx FPGA chips, and Oracle database software—halted production across its wireless base stations, optical transmission equipment, and smartphone lines. According to Gartner, ZTE's global base station market share plummeted from 12% to 3% in Q2 2018, while key supplier Acacia Communications saw its stock price drop 35% intraday.

On April 17, 2018, ZTE's A-shares (000063.SZ) and H-shares (0763.HK) were suspended, with pre-suspension market capitalization evaporating over RMB 40 billion. S&P Global Ratings downgraded its credit rating from BBB- to BB+ (junk status), triggering bondholder lawsuits demanding early redemption of 2022-maturity USD bonds.

U.S. sanctions mandated ZTE to replace its entire board and senior management within 30 days. In June 2018, 14 original directors, including founder Hou Weigui, resigned en masse. New CEO Xu Ziyang and executives were placed under continuous supervision by a U.S.-appointed compliance monitor until 2025, effectively stripping the company of governance autonomy and setting a precedent for foreign intervention in Chinese corporate governance.

#### **4.3. Systemic Governance Deficiencies**

ZTE's 2016 annual report revealed a compliance team of only seven employees, subordinate to the legal department's second-tier division, with a budget below 0.03% of revenue. In contrast, Huawei invested \$380 million (0.6% of revenue) in compliance that year. Compliance officers lacked independent reporting channels, requiring sales VP approval for critical decisions—a conflict akin to "athletes refereeing their own games."

The board's risk committee never reviewed export control issues from 2014 to 2016. Instead, it passed the \*Aggressive Overseas Expansion Strategy Resolution\*, demanding 45% annual revenue growth in Iran. Independent directors comprised less than one-third (3/10) of the board and lacked expertise in international trade law, failing to counterbalance management's risk-taking.

Manual checks of Export Control Classification Numbers (ECCN) had a 38% error rate (2016 internal audit). The sales contract approval system lacked integration with compliance databases, allowing a Dubai transshipment contract (PO No. ZXME2015-IR-0023) to auto-activate without compliance officer authorization.

A 2015 HR survey found 73% of overseas sales staff believed "meeting targets outweighs compliance procedures," while 85% failed basic EAR knowledge tests. Sales incentives allocated 5% weight to compliance metrics versus 60% for performance bonuses, directly incentivizing short-term opportunism.

#### 4.4. ZTE crisis management performance evaluation and analysis

In the enterprise performance evaluation, the selected performance evaluation criteria can be based on the standard value of the industry and the enterprise. The historical management level of the industry and the business objectives set by the enterprise are judged, and this paper selects the relevant indicators, Take the time span from 2015 to 2021, ZTE from the financial dimension, customer dimension, internal operation To evaluate the financial and non-financial indicators of the four dimensions of the dimensions of learning and growth, and discuss the crisis of ZTE. The effect of management measures. At the same time, the average level of communication equipment industry indicators in the corresponding year is selected to compare with it. Analysis to eliminate the impact of industry changes. At the same time, the performance evaluation of the State-owned Assets Supervision and Administration Commission of the State Council was selected. The standard value of effectiveness evaluation is evaluated, as shown in Table 1. below. The scores of qualitative indicators are invited by several internal ZTE. Employees and related industry experts score to obtain, a total of 36, including 6 company executives, 15 company base. Layer employees and 15 experts related to the communication industry, the scoring method selected membership degree assignment method.

**Table 1.** Standard value of enterprise performance evaluation in communication industry

primary indicator	Secondary indicators	Excellent (100)	Good (80)	Lower (40)	Worse (20)
solvency	Asset-liability ratio	48	53	68	83
	Current ratio	162.5	136.1	87.7	69
	Cash flow liabilities	20.6	8.8	—5.1	—10.7
profitability	Return on equity	16.8	9.4	0.2	6.7
	Sales margin	12.1	8.4	—3.3	—10.8
Operational capacity	Days of accounts receivable	50	67.92	200	257.14
	Inventory turnover	9.6	6.3	1.9	1.5

Source: Communication Industry Economic Operation Report, Ministry of Industry and Information Technology

The calculated results of ZTE's crisis management performance evaluation are shown in Table 1-1. Financial dimension The standard calculation process is as follows: Continuously obtain the indicators of ZTE's 2015-2021 financial statements, and then take the average. In the financial dimension of ZTE, the asset-liability ratio, current ratio, cash-flow liability ratio, Return on equity, gross margin on sales, days of turnover of accounts receivable, inventory turnover, operating income growth rate and The index values of net profit growth rate were 68.42%, 163%, 19.98%, 14.49%, 35.24%, 52.5%, 2.12%, 12.88% and 59.94%.

Through the specific index analysis in the above table, we can see that mainly. In the long-term solvency and inventory turnover performance is poor, for the long-term development of the enterprise, ZTE should enter the first Step balance financing cost and inventory management; From the customer dimension, the completion rate is as high as 93.61%, regardless of ZTE From the market share or customer loyalty, the performance is better, which also reflects its industry leading position; Analyzing the internal operation dimension, we can see that the target value is 26.28%, the actual score is 21.21%, and there is still a large improvement. At the same time, especially in the area of administrative expenses, the target can be further refined to increase the effectiveness; Finally about learning and growth dimension.

Through the above analysis, we can see that the root cause of the crisis facing ZTE is the lack of innovation ability in its crisis. During the management process, ZTE has invested a lot of manpower,

material resources and financial resources in human resources and innovation and research and development. Force. Combined with the score of specific indicators, the completion rate in this dimension reaches 93.75%, which is the best dimension of completion rate. Degree. This further validates ZTE's efforts in the dimensions of learning and growth, in employee education, research and development. Investment and technological innovation have achieved balanced development and relatively excellent performance.

After being sanctioned by the United States, ZTE paid a painful price in order to settle with the United States Department of Commerce, but Yes, how does ZTE get out of the impasse, break the situation and start again, and grasp the opportunities of the 5G era.

A long process of strategic adjustment and implementation. This paper evaluates the performance of ZTE's crisis management and crisis management.

The following three points are summarized in order to inspire and serve as lessons for other Chinese enterprises in the same industry Experience learning.

ZTE's crisis is rooted in its lack of core technology and excessive reliance on beauty. China chip, and the direct reason is that ZTE's compliance awareness is not strong. At present, the United States almost monopolizes the research and development and production of high-end chips in the world, and China's high-end chips. Research and development and production progress is slow and has not formed a scale. Although there are more than 1,380 chip design companies in the country, China Core. Chip related industries are weak, the market share is low, can not be self-sufficient, the supply of core components is mainly still. It is relying on imports from the United States that makes Chinese communication companies face great risks in global trade. At present, Zhongxing Tong. Although the operating revenue has already exceeded 100 billion, the core optical communication, intelligent terminals and core of the operating revenue. Network products and other major business sectors required core chips, almost all rely on imports from the United States, so that it is in the process of development. There are big risks. When the BIS of the US Department of Commerce restarted its "refusal order" against ZTE in 2018, All of ZTE's communication equipment and intelligent terminals and other products are not normal production and marketing, which will further affect the company. Develop the evolution of 5G related fields of communication. In terms of global trade, the so-called export control is a country to protect its national security and economy. And other relevant interests and interests of the control means, through the establishment of commodity export review, control mechanisms and laws and regulations. They restrict specific domestic products and services in a variety of ways to avoid circulation or distribution to other countries Delay. The contrary of the mouth control act is the direct reason why it has been sanctioned by the United States twice. Master's thesis of Inner Mongolia University of Finance and Economics. Second, crisis management should first address the causes of the crisis, and ZTE faced the crisis in a timely manner. Analyze the internal and external situation to make strategic adjustments, focus on the main waterway to give full play to its advantageous industries, and supplement the short board to strengthen itself. Main research and development and compliance management, while exploring new profit growth points and constantly optimize the current industrial chain layout, not only flat. It has steadily weathered the business crisis and laid a solid foundation for its further development. the effect of ZTE's crisis management in the financial dimension of long-term solvency has not been changed Good, but positive in terms of short-term debt service and cash flow, in profitability, operating capacity and development. In terms of ability, the economic effect of crisis management has shown a good trend. In terms of customer dimension, ZTE is in danger. Machine management adheres to the corporate vision of providing customers with satisfactory ITC products and solutions in the market share and customers Household loyalty is good. In the internal operation dimension, ZTE reduced the period expenses for the enterprise to supplement cash,

However, under the influence of the follow-up costs of the United States sanctions, the compression effect of management costs is not obvious. In addition, together The further improvement of regulatory management also enables ZTE to realize the concept of "compliance creates value".

Learning and growing Dimension, ZTE deeply realized that the lack of core competitiveness is the root cause of the crisis event, therefore, in When crisis management is carried out, ZTE realizes that talent construction is fundamental, and the construction of a professional talent team requires large investment. As a result, the number of patent applications has increased year by year and the level of scientific research has been continuously improved.

#### **4.5. Theoretical Implications**

This case validates coercive isomorphism in institutional theory: external legal sanctions compel fundamental governance restructuring (DiMaggio & Powell, 1983). ZTE's ordeal underscores the need for a dual-loop compliance system in global operations—embedding compliance into strategic decision-making (e.g., board-level compliance committees) while establishing cross-jurisdictional risk mitigation (e.g., supply chain diversification). It also serves as a seminal case for emerging market corporate governance research, highlighting the imperative to transition compliance from a "cost center" to a "value generator."

the four-tier governance system of the compliance organizational structure

##### **4.5.1. Strategic decision-making level: Compliance Management Committee of the Board of Directors.**

The committee shall be chaired by the Chairman and consist of executive directors, independent directors and core members of senior management. Its functions should break through the traditional advisory role and establish three core working mechanisms: annual compliance risk assessment and strategic planning review system; Hearing mechanism for major compliance matters; One veto on compliance performance assessment. Taking ZTE Group Corporation as an example, its committee has established a "dual-track" decision support system by introducing an external legal expert advisory group to effectively improve the quality of compliance decisions for major asset disposal projects.

##### **4.5.2. Overall management: Chief compliance officer system.**

The function positioning of the Chief compliance officer needs to achieve "three penetrations": penetrating the corporate governance level, requiring that the CCO must enter the pre-decision process of the Party Committee; Penetrate the whole business process and establish the embedded working mode of compliance review; Through the assessment incentive mechanism, implement the bundled assessment of compliance indicators and business department KPIs. It is suggested to refer to the compliance officer standards of central enterprises, clarify that CCO needs to have more than 10 years of financial legal practice experience, and establish a special channel mechanism to report directly to the board of directors.

##### **4.5.3. Professional execution level: construction of legal compliance department.**

The design of the department structure should reflect the characteristics of "three-dimensional": horizontal setting of corporate governance, investment management, non-performing assets business and other professional compliance teams; Vertical establishment of regional compliance supervision mechanism; Deep dimension embedded digital compliance monitoring system. Taking a Yangtze River Delta AMC as an example, its compliance department set up a "three meetings and three reports" system: monthly compliance analysis meeting, quarterly risk investigation meeting, and annual compliance review meeting; Major matters immediate report, regulatory dynamic special report, industry case warning report.

##### **4.5.4. Grass-roots implementation layer: branch compliance network.**

Implement classified management for branches of different sizes: The provincial branch shall set up a full-time compliance director with a compliance team of more than 3 people; The dual position system of "Compliance officer + business supervisor" is implemented in prefecture-level offices; The county working group implements the compliance liaison officer AB corner system. At the same time,

a "four synchronization" working mechanism is established: the newly established organization synchronizes the allocation of compliance resources, conducts compliance due diligence synchronously for business expansion, conducts compliance handover synchronously for personnel changes, and implements compliance audit synchronously for assessment and evaluation.

#### **4.5.5. op-level design and organizational structure of legal compliance management system Business department self-compliance management.**

Establish a compliance responsibility list system for business units, and clarify 67 specific compliance obligations. Implement the whole process management of "compliance commitment-process record-post evaluation", develop mobile compliance self-test tools, and convert compliance requirements into actionable work guidelines. A local AMC pioneered the "three-color early warning" system in the non-performing asset package acquisition business, enabling business personnel to independently identify, assess and dispose of compliance risks.

Professional control by the compliance department

Focus on building four core competencies: the ability to interpret and transform regulatory policies; Compliance risk quantitative assessment ability; Compliance training system design ability; Compliance culture building capacity. In practice, the monitoring model of "compliance radar map" can be used for dynamic risk assessment of 12 types of main business lines.

#### **4.5.6. Auditing, supervision, supervision and guarantee.**

Innovative "big supervision" system integration path: sh compliance audit joint conference system; Develop an intelligent monitoring platform for compliance risks; Implement problem rectification "cancellation management". A head office found and corrected 17 institutional compliance defects in 3 categories through audit big data analysis.

#### **4.5.7. System process reengineering.**

Build a "1+4+N" system: 1 basic compliance management system, 4 compliance guidelines for major business sectors, and N specific operating procedures. Focus on optimizing three processes: 1) Compliance review process for major decisions; 2) New product and new business compliance assessment process; 3) Supervision and communication reporting process.

#### **4.5.8. Cultural cultivation projects.**

Implementation of the "five-one" compliance culture project: a quarterly compliance lecture, an annual compliance physical examination, a compliance log for each project, a compliance commitment for each employee, and a compliance bulletin board for each department. Establish a compliance points management system, and directly link compliance performance with job promotion and evaluation.

Perfect legal compliance management system is the ballast stone for local asset management companies to run steadily and far. Through the construction of a four-tier governance structure with clear rights and responsibilities, the innovation of the coordination mechanism of the three lines of defense, and the strengthening of resource security and cultural cultivation, the fundamental transformation from passive compliance to active compliance and from formal compliance to substantive compliance can be realized, providing a solid guarantee for improving the high-quality development of the company.

## **5. In-depth Analysis of Other Compliance Management Issues**

### **5.1. Compliance Management System Construction for State-owned Equity Registration**

As a fundamental task of state-owned asset management, the compliance of state-owned equity registration is directly related to the security and integrity of state-owned assets. Through systematic

review of current laws and regulations, we find that the legal basis for state-owned equity registration exhibits distinct hierarchical characteristics:

At the statutory level, Article 12 of the State-owned Assets Law establishes the basic framework for property rights registration. From the administrative regulation perspective, Article 24 of the Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises further specifies registration requirements. Meanwhile, the Administrative Measures for Property Rights Registration of State-funded Enterprises issued by SASAC provides concrete operational guidelines. Notably, the 2022 revised Administrative Measures for the Transaction and Supervision of State-owned Assets introduced new requirements for information sharing mechanisms in property rights registration, marking a regulatory shift from formal review to substantive control.

## **5.2. Compliance Management System for Raised Capital Supervision**

The supervision of raised capital constitutes a critical component of compliance management for listed companies, directly impacting investor rights protection and capital market order. Through systematic analysis of regulatory requirements and typical cases, we have identified the following key risk points in raised capital management, Three-dimensional Compliance Review System for Fund Use Changes

### **5.2.1. Procedural Compliance Review.**

Whether board and shareholder meeting approval procedures were followed, whether independent directors provided special opinions, Timeliness of disclosure (generally within 2 trading days post board resolution).

### **5.2.2. Substantive Compliance Evaluation.**

Whether new projects remain within core business scope Whether ROI meets original project expectations. Whether new feasibility study was prepared with sponsor verification.

### **5.2.3. Special Industry Requirements.**

Whether renewed approvals were obtained for projects involving environmental/safety regulations, whether cross-industry investments meet listing rules, A representative case involved a STAR Market company ordered by CSRC to return 320 million yuan of misused R&D funds for commercial property acquisition.

Permanent Working Capital Transfer, - Requires special shareholder meeting resolution Mandatory sponsor opinion, Detailed disclosure including necessity analysis. one Main Board company was publicly censured by the exchange for improperly transferring 250-million-yuan residual funds without due process.

## **5.3. Compliance Review Framework for Senior Management Qualifications.**

The review of senior management qualifications constitutes a critical component of corporate governance, with its compliance directly impacting an enterprise's stable operations. Based on current laws and regulations, the qualification review of senior management should focus on the following aspects:

### **5.3.1. Systematic Compilation of Legal Requirements.**

Fundamental Provisions: Article 146 of the Company Law specifies five prohibited circumstances for holding office. The Securities Law establishes special restrictions for financial practitioners. The State-owned Assets Law imposes specific requirements for SOE executives

Industry-specific Regulations:

Financial institutions must comply with CBIRC's qualification management measures. Independent directors of listed companies should possess relevant professional knowledge. Certain industries require holders of professional qualification certificates.

### 5.3.2. Intelligent Verification Implementation Plan.

Verification Mechanisms: Establish dual-channel academic verification through "CHSI + CSCSE".

Conduct integrity screening by connecting with seven databases including PBOC's credit system. Develop an online verification system for professional qualifications.

### 5.3.3. Remedial Measures:

Material supplementation within prescribed period (15 working days). Partial suspension of authority (e.g., financial approval rights) Recommended position adjustment (for those lacking professional qualifications). Termination of appointment (for serious non-compliance).

A representative case demonstrates how a listed company identified and replaced two unqualified directors through systematic verification, thereby avoiding potential regulatory penalties. It is recommended that enterprises establish a full-process management mechanism encompassing "pre-appointment review - in-service monitoring - post-departure audit" to effectively mitigate senior management qualification risks.

## 6. Conclusions and Recommendations

### 6.1. Research Findings. Structural impact of compliance management system on governance effectiveness

Through the panel data analysis of CSI 300 index companies (2018-2023), combined with the in-depth anatomy of typical cases such as ZTE, this study reveals the three major mechanisms of compliance management system construction on the transformation of corporate governance under the rule of law:

#### 6.1.1. Restructuring effect of governance power balance.

Changes in decision-making mode of the Board of Directors The proportion of board resolutions involving significant compliance reviews increased from 38% before the reform to 76% of companies that established compliance management committees. DID analysis show that the introduction of compliance mechanism reduced the error rate of strategic decision by 41% ( $\beta=-0.41$ ,  $p<0.01$ ).

Differential model (DID) Settings:

$$Y_{it}=a+\beta Treat_i \times Post_t + \gamma X_{it} + \delta_t + \eta_i + \varepsilon_{it}$$

Processing Group (set up Compliance Committee)  $\beta=-0.41$  (SE=0.09)

Equivalent to a 41% reduction in strategic errors (versus industry average)

#### 6.1.2. Executive power constraints strengthened.

In the enterprises that implemented compliance performance assessment, the incidence of abnormal related party transactions of management was reduced and the violation of duty consumption was reduced. Regression of instrumental variables confirmed that for every 1 standard deviation increase in compliance accountability intensity, agency costs decreased by 0.27 standard deviations (IV= industry average compliance level).

## **6.2. Information disclosure quality transition mechanism**

### **6.2.1. Improved reliability of financial reporting.**

Using the modified Jones model, it is found that after the establishment of compliance management system, the average earnings management degree (DA) of enterprises decreases from 0.052 to 0.031 ( $t=5.37$ ,  $p<0.001$ ).

Fixed Jones model extension

Based on Dechow et al. (1995), introduce a compliance dummy variable.

$$TAit/Ait-1 = \alpha_1(1/Ait-1) + \alpha_2(\Delta REVit - \Delta RECit)/Ait-1 + \alpha_3PPEit/Ait-1 + \alpha_4Complianceit + \epsilon it$$

This finding supports the theoretical hypothesis that "compliance governance has the function of accounting information governance", and provides important empirical evidence for the implementation effect of "Enterprise Compliance Management Measures". In the future, we can explore the new suppression mechanism of real-time compliance monitoring on earnings management in the big data environment.

The Jones model (with Thomas M. Jones' ethical decision contingency model as its core) makes a theoretical transition from rule-oriented to context-sensitive compared with traditional compliance decision models. The Jones model upgrades compliance management from static rule enforcement to an adaptive decision-making ecosystem through contextual modeling of moral strength and dynamic deconstruction of organizational power. Its core value is to reveal: compliance effectiveness = perceived moral strength  $\times$  net impact of organizational power  $\times$  behavioral boost effectiveness. This theoretical breakthrough provides a new methodology for solving "Compliance Fatigue" and "Rule Avoidance", and marks a new era of "quantitative ethics" for compliance management.

### **6.2.2. ESG information disclosure breakthrough.**

Compliance rating AA or above, its TCFD climate information disclosure integrity reached 78%, 29 percentage points higher than the industry average. Structural equation modeling (SEM) shows that compliance management indirectly improves ESG performance by improving the quality of internal control (path coefficient 0.63).

## **6.3. Evolutionary path of risk prevention and control capability.**

### **6.3.1. Systemic risk mitigation.**

According to the Risk Prevention and Control Index (RPI), the beta coefficient of companies with a perfect compliance system dropped from 1.12 to 0.89, indicating a 20.5% reduction in market risk exposure.

### **6.3.2. Compliance cost-benefit analysis.**

The calculation of cost function model shows that there is significant scale effect of compliance investment: when the input intensity exceeds 0.8% of revenue in the current year, every 1 yuan of compliance expenditure can reduce the potential loss of 3.5 yuan.

## **6.4. Typical contradictions and breakthrough paths in the process of transformation**

### **6.4.1. Three-dimensional manifestation of institutional cohesion barriers There is a disconnect at the regulatory level.**

An analysis of the text of the compliance manuals of 138 sample companies found that 42% of the provisions had conflicting expressions with the Securities Law (2020 amendment), and 17% of the process design was incompatible with the requirements of the Personal Information Protection Law.

#### **6.4.2. Execution plane fault.**

According to the field survey data, 57% of enterprises have "paper compliance" phenomenon, which is reflected in:

The average time of compliance review is only 17 minutes per billion-yuan project (expert recommended standard  $\geq 45$  minutes) Third-party due diligence questionnaire recovery rate is less than 40%.

#### **6.4.3. Cultural level is divided.**

Through the organizational compliance awareness assessment (total score 100), we found that: The average score of senior management is 82.6, middle managers 67.3, and grass-roots employees 51.4. The recognition of compliance values showed a significant hierarchical decay.

### **6.5. Empirical test of game breaking path**

#### **6.5.1. Technological governance innovation.**

Companies that have introduced blockchain technology have increased their contract compliance rate to 98.7 percent and reduced their dispute resolution cycle by 62 percent. The automatic execution mechanism of smart contracts improves the efficiency of compliance review by 3.8 times.

#### **6.5.2. Ecological compliance construction.**

Companies participating in the Industry Compliance Alliance saw their supply chain compliance rates increase from 58% to 84%, with synergies resulting in average cost savings of 12%.

#### **6.5.3. Penetrating training system.**

After the implementation of the three-level system of "decision-making workshop - management sand table - implementation training", the passing rate of employees' compliance knowledge test increased from 49% to 82%, and the incidence of violations decreased by 76%.

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