



The 2007 Asian Roundtable on Corporate Governance  
*Network on Corporate Governance of  
State-Owned Enterprises in Asia*

Theme I: Empowering SOE boards: their mandate and functions

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**国务院国有资产监督管理委员会**

State-owned Assets Supervision and Administration Commission of the State Council

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# **Progress and Challenges of Board Pilot Project of Central SOEs in China**

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**( April 19, 2007 Cebu, Philippines )**



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## Part One

### Outlook of SOE Corporate Governance in China

## Part Two

### Progress in Board Pilot Project of Central SOEs

## Part Three

### Challenges faced by Board Pilot Project of Central SOEs



## Part One: Outlook of SOE Corporate Governance in China

- **Separation of government and enterprises; separation of ownership and management**
- **To shoulder the responsibility of preserving and increasing the value of State-owned assets**
- **Build good corporate governance structure**



# 1. Separation of government and enterprises; separation of ownership and management

- Split the functions of investors from public management functions regarding governmental organization structure.

In 2003, National People's Congress of China approved the reform proposal submitted by the State Council who decided to set up State-owned assets supervision and administration authorities at State, province and city levels.

- SASAC performs investors' responsibilities in accordance with *Interim Regulations on Supervision and Management of State-owned Assets of Enterprises* released by the State Council.



## 2. To shoulder the responsibility of preserving and increasing the value of State-owned assets

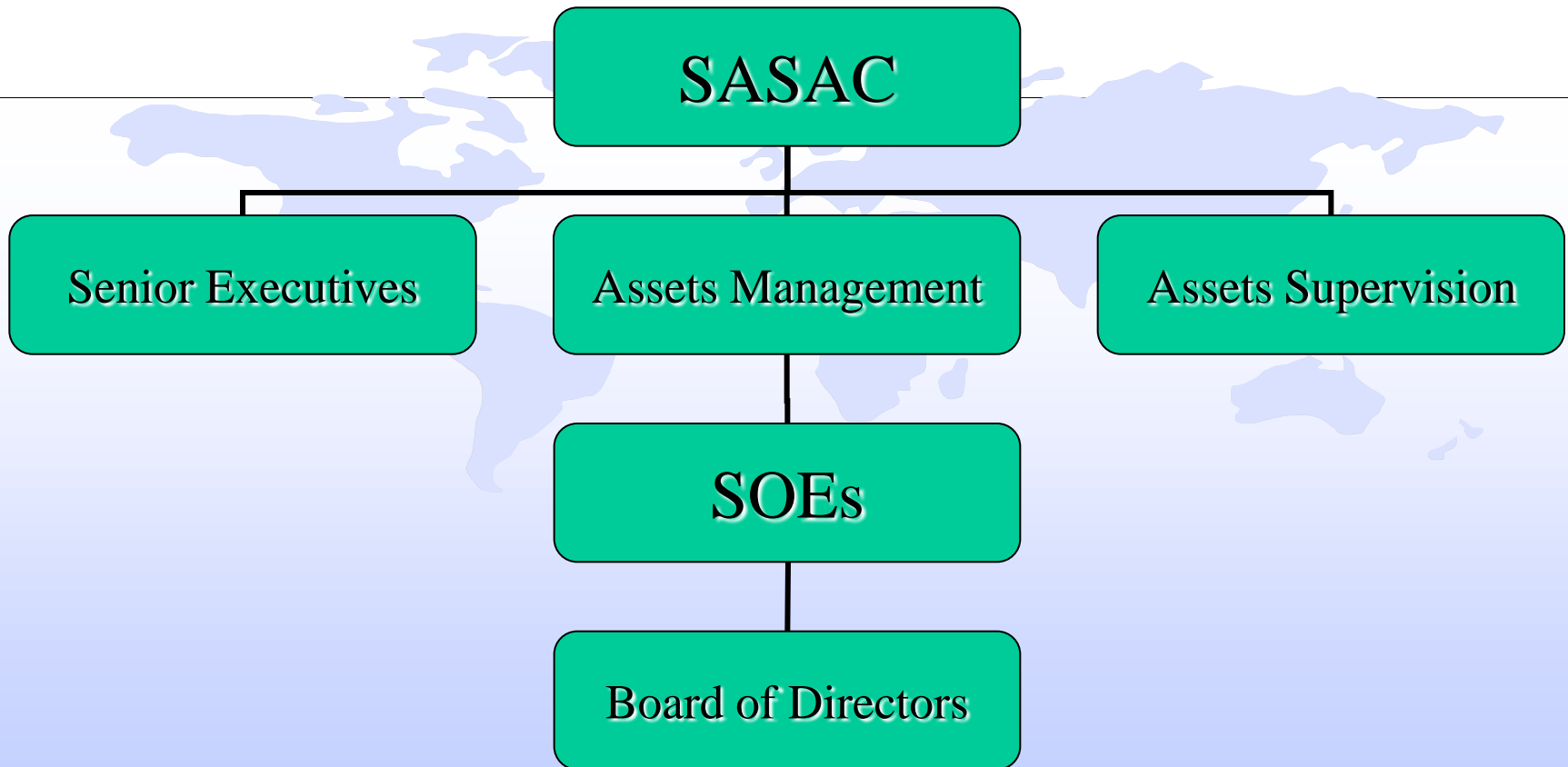
- **Set up performance assessment system for enterprises**
- **Base the remuneration system on performance**
- **Allocate managers in a market-oriented manner**

Since July 2003, SASAC has organized 3 public recruitments for senior executives of central SOEs in global personnel market. So far, 55 senior executives were appointed in 53 central SOEs in this way.

- **Standardize the restructuring and property right management, etc.**

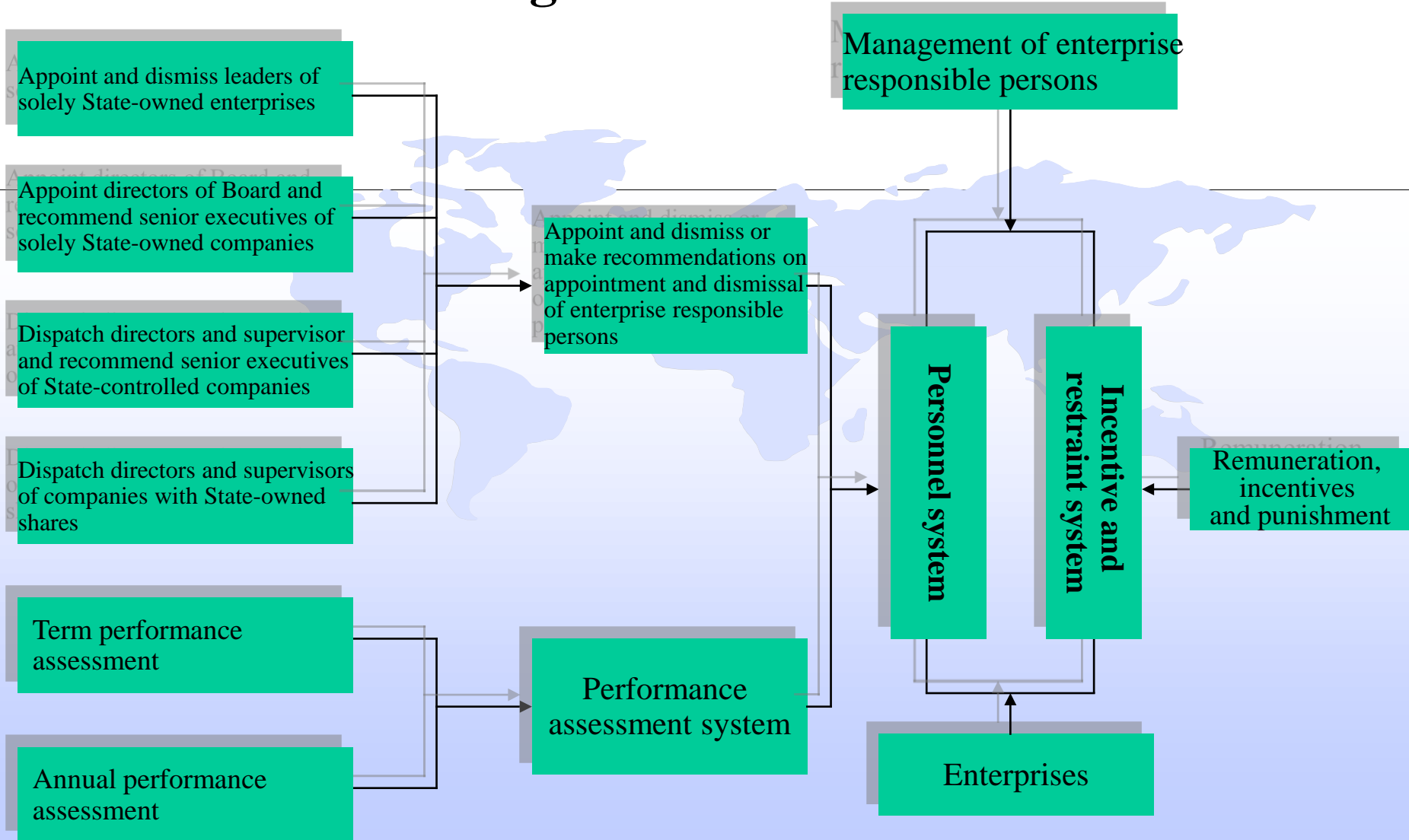


## 2. To shoulder the responsibility of preserving and increasing the value of State-owned assets





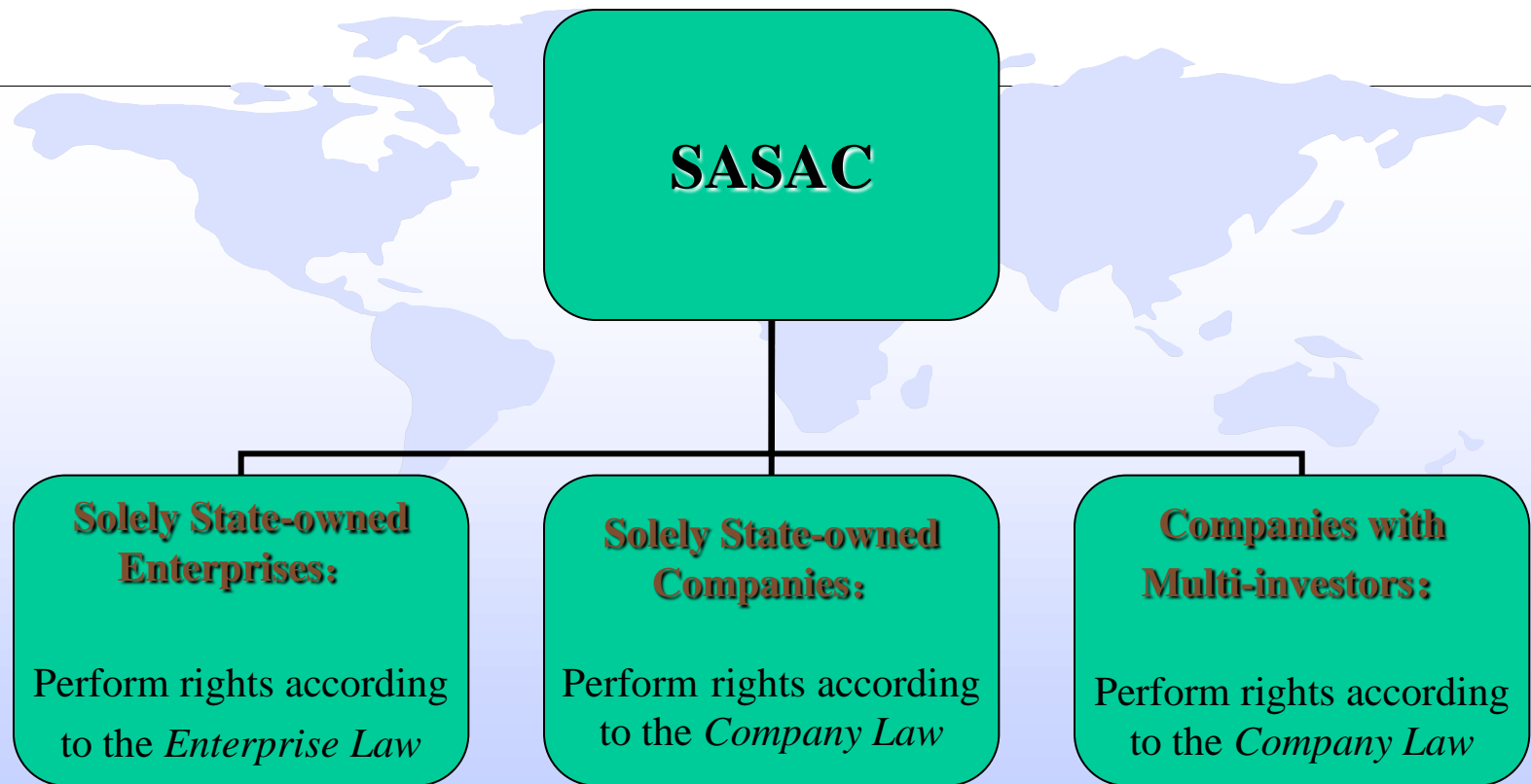
## Chart 1: Management of Senior Executives





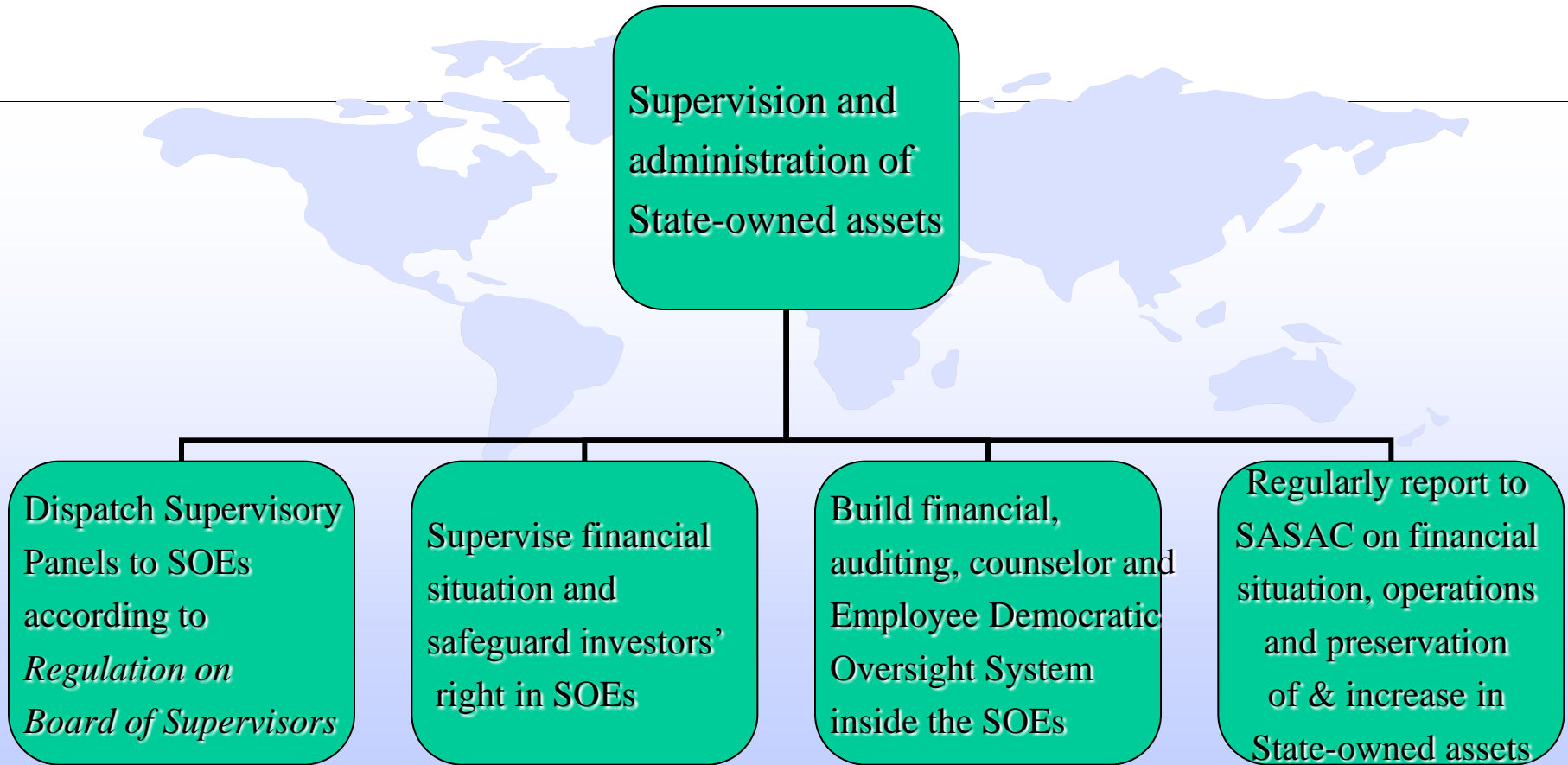


## Chart 2: Assets Management



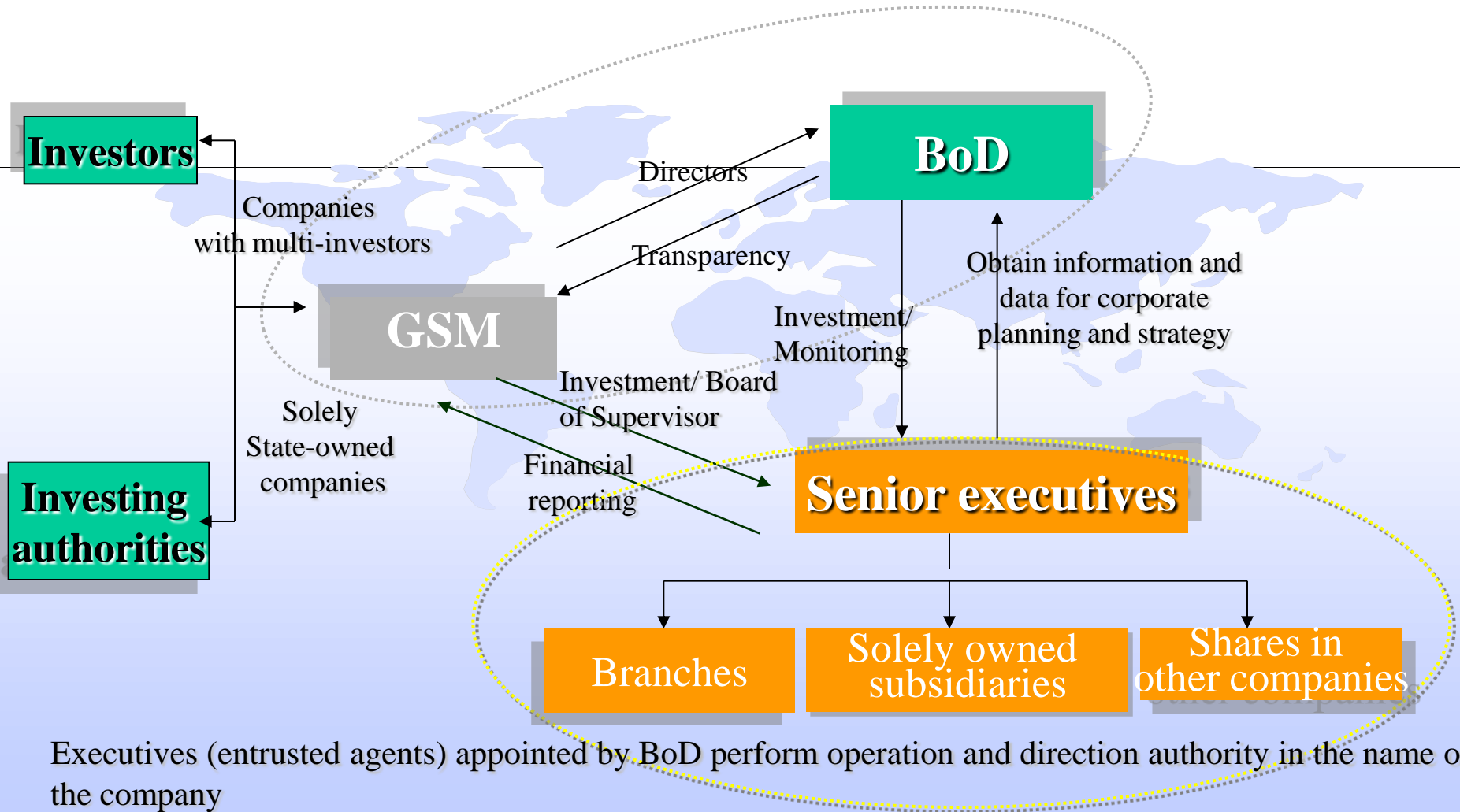


## Chart 3: Assets Supervision





## 3. Build good corporate governance structure





## Part Two: Progress in Board Pilot Project of Central SOEs

- **Basic ideas of Pilot Project**
- **More Pilot SOEs were chosen**
- **Board composition and External Directors Mechanism**
- **Board operations in Pilot SOEs**
- **Duties and rights of SOE Board**



## 1. Basic ideas of Pilot Project

- ✘ Put BoD to full play. BoD is in charge of corporate strategic monitoring, decision-making of important issues and managing executives. SASAC pushes forward joint-stock system reform at Group level and enhance internal management of SOEs through BoD.
- ✘ Set up and improve External Director Mechanism. Separate decision-making from execution. Prevent senior executives from managing and supervising themselves.
- ✘ Enhance BoD system construction. Ensure effective working of BoD.



- ❖ **Explore & develop corporate governance structure with Chinese characteristics.**
- ❖ **Fully play General Manager's role in execution. Guarantee GM's rights.**
- ❖ **Improve State-owned assets supervision and management mode. SASAC entrusts part of her rights to BoD, and transform her role from directly managing senior executives to managing BoD and dispatching Board of supervisor.**



## 2. More Pilot SOEs are chosen

There are now 17 Pilot SOEs as follows:

1. **Shen Hua Group Corp., Ltd.**
2. **Baosteel Group Corp.**
3. **China Electronics Corp.**
4. **China Gaoxin Investment Group Corp.**
5. **China Chengtong Group**
6. **China Metallurgical Group Corp.**
7. **China National Building Material Group Corp.**
8. **China National Real Estate Development Group Corp.**



9. **China Railway Construction Corp.**
10. **China Communications Construction Company Ltd.**
11. **China National Agricultural Development Group Corp.**
12. **China National Foreign Trade Transportation (Group) Corp.**
13. **China National Pharmaceutical Group Corp.**
14. **China International Travel Service Group Corp.**
15. **Xinxing Ductile Iron Pipes Group Co., Ltd.**
16. **Panzhijuan Iron & Steel (Group) Co.**
17. **China TieTong Telecommunications Corp.**





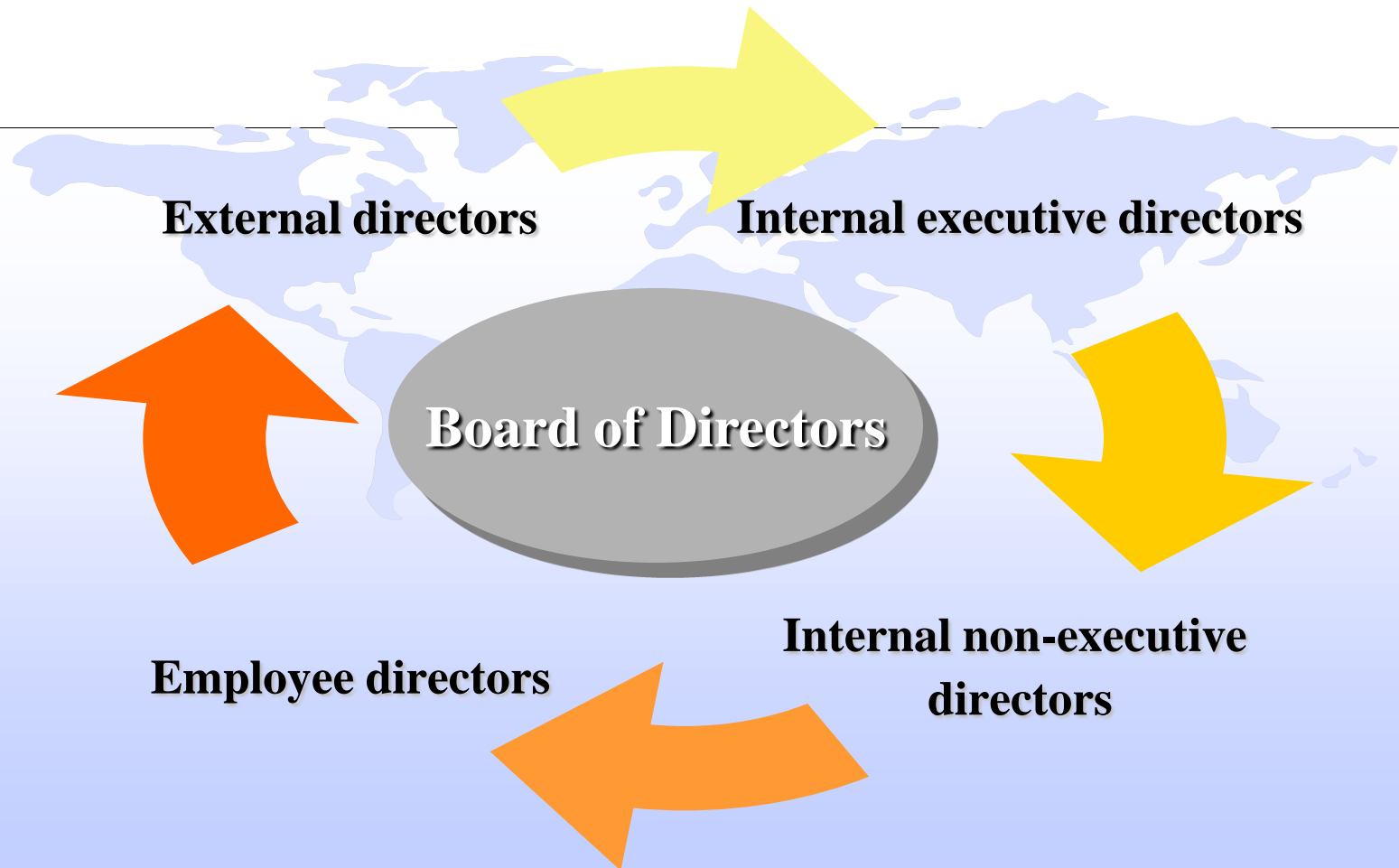
## 3. Board composition and External Directors Mechanism

### ➤ Outlook

Currently, external directors in 17 Pilot SOEs are in position. External directors in 14 Pilot SOEs account for more than half of Board members. In a certain company, Chairman is a external director.



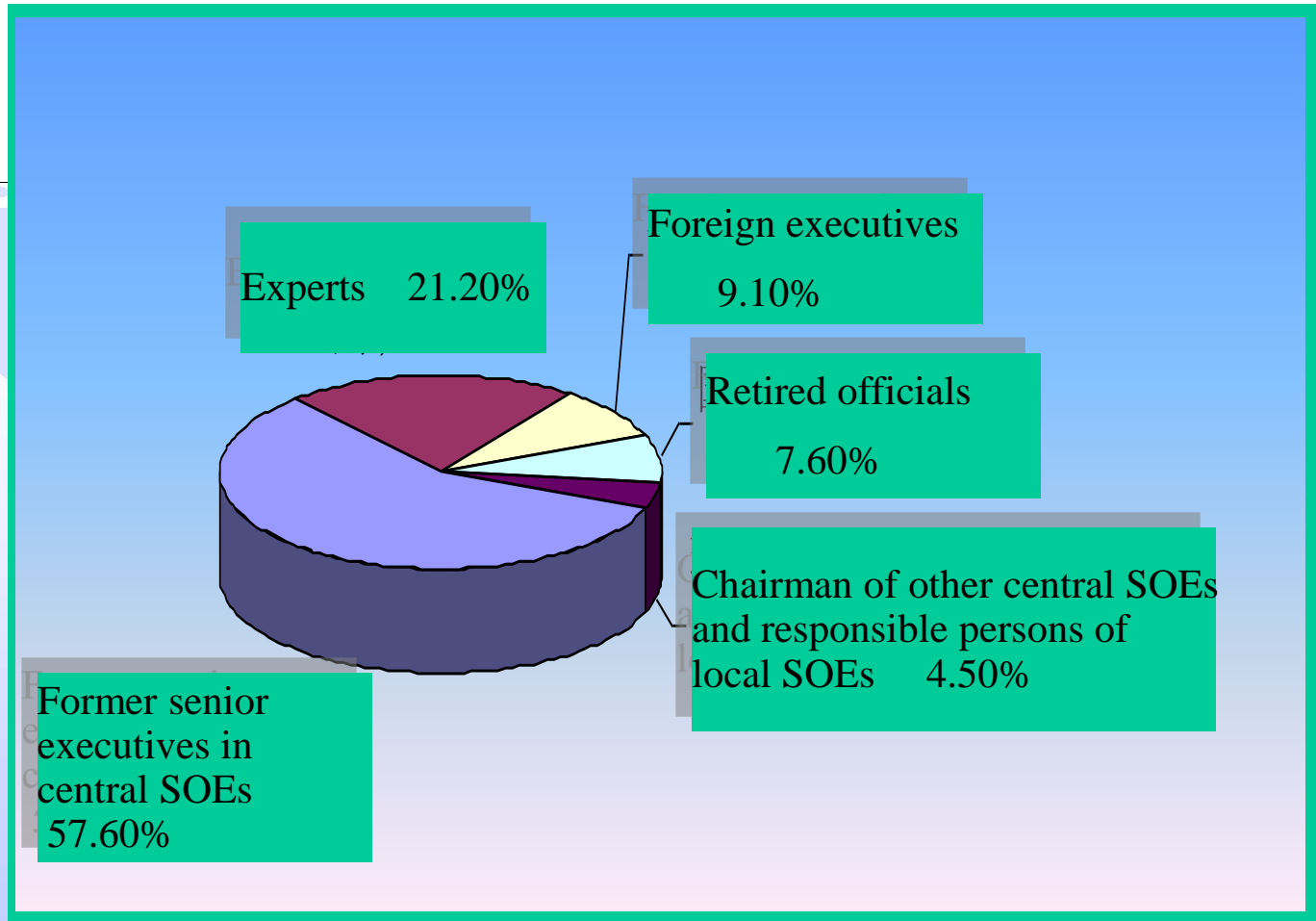
## ➤ BoD composition





## Sources of external directors

➤ Former senior executives of central and local SOEs; financial experts from universities and research institutes; directors and senior executives from foreign companies; retired government official; Chairman of other SOEs.





## 4. Board operations in Pilot SOEs

- Pilot SOEs have formulated and carried out various systems regarding BoD operations. Special committees under BoD work in accordance with the *Company Law*. Directors work in compliance with their duties and air views independently. BoD make decisions on corporate development strategy, large investment, remuneration and performance assessment of senior executives, public recruitment of mid-level managers and etc. BoD is playing an active role in decision-making, incentives and restraints of senior executives and promoting corporate reform & development.



## 5. Duties and rights of SOE Board

### ➤ Define and ensure vision, mission and values of SOEs

### ➤ Determine strategy and organization structure

Determine business strategy and plans that support corporate strategy; ensure corporate organization structure and capacity is suitable for corporate strategy.

### ➤ Empower the management

Authorize certain rights to the management, and monitor and evaluate their execution of policy, strategy and business plans; decide monitoring criteria; ensure effective internal control and risk control; interact with senior executives.

### ➤ Responsible for shareholders and other stakeholders



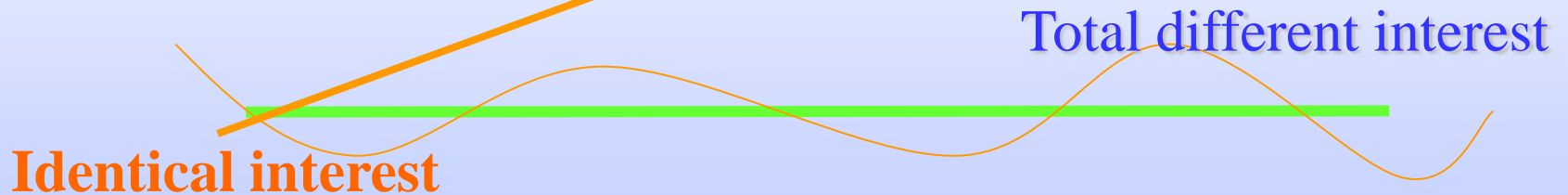
## Duties and rights defined in the *Company Law*

- Convening shareholders' meetings and reporting the status on work thereto;
- Carrying out the resolutions made at the shareholders' meetings;
- Determining the operation plans and investment plans;
- Working out the company's annual financial budget plans and final account plans;
- Working out the company's profit distribution plans and loss recovery plans;
- Working out the company's plans on the increase or decrease of registered capital, as well as on the issuance of corporate bonds;
- Working out the company's plans on merger, split-up, change of the company form, dissolution, and etc.;
- Making decisions on the establishment of the company's internal management departments;
- Making decisions on hiring or dismissing the company's manager and his remuneration, and, according to the nomination of the manager, deciding on the hiring or dismissing of vice managers and the person in charge of finance as well as their remuneration;
- working out the company's basic management system; and
- other functions as prescribed in the articles of association.



## Part Three: Challenges faced by Board Pilot Project of Central SOEs

- **Difficulties:** allocation of power, monitoring and evaluation of BoD — “Insider Control”; design and implement incentive system, how to evaluate, reward or punish Board (directors) and senior executives — “Moral Hazard”





- **Sources and composition of external directors**
- **information asymmetry between external directors and executive directors**
- **Interaction and communication between BoD and management**
- **BoD culture**





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Thanks!