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Landscape: Recent policy reforms and main challenges in SOE governance

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Cebu, Philippines

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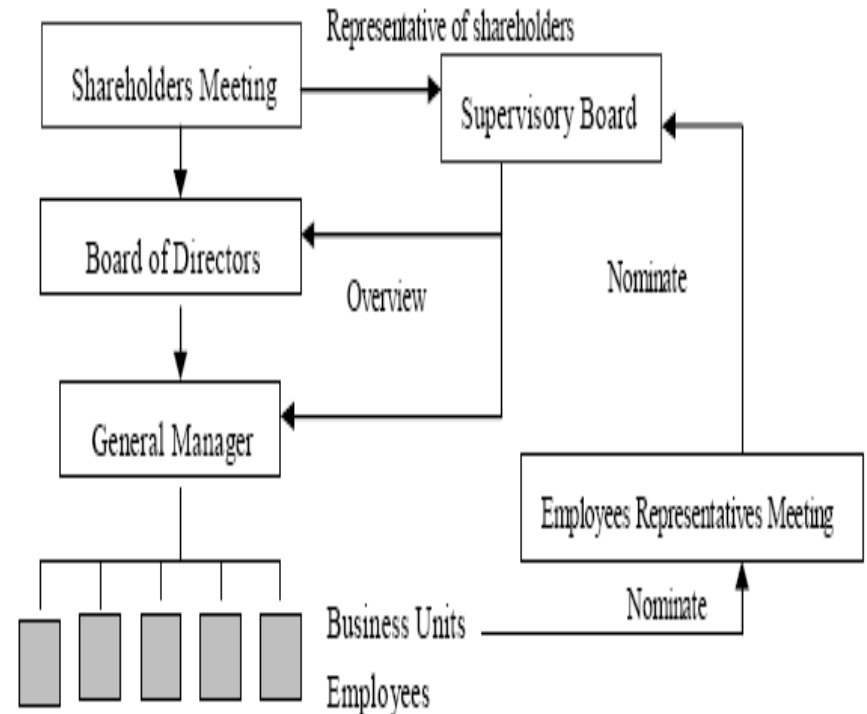
The Global Corporate Governance Forum

Recent Development in CG of SOEs in China

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A brief Description on CG of SOEs in China

- The Corporate Governance system of SOEs
 - For SOEs registered under 1988 Enterprise Law, a general manager responsibility system.
 - For SOEs registered under 1993 Company Law, a board system
- Shareholder's structure: prominence of the state shareholder
 - Non-listed SOEs owned 100% by the state
 - Joint stock company with a controlling shareholder—a mother SOE
 - Listed SOEs: now changed after the share split reform in 2006
- Legal representative person system



Problems have been fully discussed

- The government intervention on SOEs. This calls for diversifying the shareholding of SOEs
 - Appointment: the party and SASAC play their roles separately
 - The Chairman and members of the board, general manager, and other senior management are all appointed by the party or SASAC
 - The decisions on the compensation of senior management are mad also by the government
- Ignoring the interest of stakeholders, including the state shareholders, minority shareholders, and creditors (mainly banks). This calls for reinforce supervision, sending outside directors, and require independent directors to act with fully considering with the interest of minority shareholders.
- The board lacks decision power, especially on nomination and appointment the senior management, and lacks independence from controlling shareholder, so there are lots of phenomena of “vase director”. This calls for real power assignment to the board.

Main action on CG reform

- Enterprise restructuring to reduce supervising width, and to enhance the market competence of SOEs.
- To encourage the SOEs to be listed as a whole, in order to set up a firewalls between enterprise and the government.
- To establish assets management company, a need of restructuring—to buy the sidelines assets, bad assets, and is a need to manage state assets more flexibly.
- To prepare for establish the state capital management budget system
- To extend the pilot action on setting up the board in central SOEs, totally there are 19 central SOEs have set up board, the contents of this pilot action include assignment and setting up boards, sending outside directors, setting up board committee, improving transparency.

Disputes

- The roles of state economy
- The doubt of administrative characters of SASAC
- The second transformation for the large SOEs

Challenges

- The problem of Corporate Governance Structure per se.
- To assign more power from the government: it is hard to transit from “tight” to “loose” after transition from “loose” to “tight”.
- More transparency
- The second reform of the state asset management system become more and more necessary.
- To establish the incentive mechanism which suits to the effective manager and director market
- To transit from administrative control to legal control.