

Adapt to the Requirements of Modern Enterprise System with Chinese Characteristics -- Effectively Strengthen the Standardized Operation of the Board of Directors of State-owned Enterprises

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Abstract: *The Fifth Plenary Session of the 19th Central Committee of the Communist Party of China proposed to speed up the improvement of modern enterprise system with Chinese characteristics, which is an important way to innovate the system and mechanism, stimulate the vitality of high-quality development of state-owned enterprises, state-owned enterprises to implement the national "14th Five-Year Plan", to promote the quality of economic and social development of important measures. The board of directors system is an important part of the modern enterprise system with Chinese characteristics. The establishment of the board of directors of state-owned enterprises is also an important premise and basis for promoting a series of deep-seated reforms of state-owned enterprises. Starting from the concept of the board of directors and the historical evolution of the construction of the board of directors of state-owned enterprises, this paper systematically combs a series of important arrangements of the central level to promote the construction of the board of directors of state-owned enterprises in recent years and the main problems existing in the process of promoting the construction of the board of directors of state-owned enterprises, and puts forward relevant suggestions.*

Keywords: modern enterprise system with Chinese characteristics; The board of directors; The board of directors of state-owned enterprises; Standardize the operation of the board of directors; Corporate governance.

1. INTRODUCTION

The board of directors is a corporate decision-making body composed of directors elected or appointed by the shareholders. It exercises its powers on behalf of the shareholders, implements the resolutions of the shareholders' meeting and is responsible to the shareholders' meeting. The board system is foreign. Its historical origin can be divided into three stages: first, the early board of directors system. At the end of 16th century and the beginning of 17th century, joint-stock companies with overseas colonization as the main business arose in Western European countries, including the famous East India Company, and continued to adopt the board system. In 1600, for example, Elizabeth I issued a statute allowing 216 knights, aldermen, and merchants to form the East India Company, with a committee of 24 members of the Steward (appointed by the monarch), known today as the Board of Directors. Second, the board system in the modern sense. The Bank of England, founded in 1694, was the first to separate the two powers and use the title of "director". 24 directors were elected by shareholders, 1/3 of whom could not be re-elected. The separation of the two rights marks the birth of modern enterprises. Third, the birth and prosperity of the independent director system. In the 1930s, the independent director system was born. The U.S. Investment Company Act of 1940 stipulates that no less than 40% of the board members of an investment company should be independent. By the 1990s, independent directors made up about two-thirds of board members.

In short, no matter what model is adopted in corporate governance around the world, the board of directors is the key component, and the board of Directors model has become the "international language" of corporate governance. As a decision-making body, the board of directors is a key force to promote the strategic development of enterprises and a key component of the corporate governance structure. At present, state-owned enterprises must focus on the construction of the board of directors and improve the corporate governance structure of the legal person, which is an inevitable requirement to adapt to the modern enterprise system with Chinese characteristics.

2. THE HISTORICAL EVOLUTION OF BOARD CONSTRUCTION OF STATE-OWNED ENTERPRISES IN OUR COUNTRY

The construction of board of directors in state-owned enterprises develops gradually with the reform of state-owned enterprises. In general, the construction of the board of directors of state-owned enterprises in China can be divided into the start-up stage of corporate governance structure, the pilot stage of standardizing the construction of the board of directors, and the exploration stage of modern corporate governance structure of modern enterprises with Chinese characteristics in the new era according to the process of state-owned enterprise reform.

2.1 The Initial stage of corporate governance structure (1992-2003)

In January 1993, the Third Plenary session of the 14th CPC Central Committee proposed to establish a modern enterprise system

with clear property rights, clear rights and responsibilities, separate government functions from enterprises, and scientific management. In 1994, The State Council issued the Plan on Selecting a Group of large and medium-sized State-owned Enterprises for the Pilot of Modern Enterprise System, which adopted the concept of "corporate governance structure" and emphasized the functions and restrictive relations of the board of shareholders, the board of directors, the management and the board of supervisors. In the pilot work, 93 enterprises were restructured into companies, among which 70 state-owned enterprises were restructured from factory system into wholly state-owned group companies. The Company Articles of Association issued together with the reform emphasized that "the board members and managers of wholly state-owned companies should be set up separately, especially the chairman and general manager should be set up separately as far as possible". In form, state-owned enterprises form a framework of mutual supervision and restriction.

In November 2002, the report to the 16th CPC National Congress proposed to "deepen the reform of the state-owned assets management system" and "in accordance with the requirements of the modern enterprise system, large and medium-sized state-owned enterprises will continue to carry out standardized corporate reform and improve the corporate governance structure." It lays a foundation for effectively solving the problem of "insider" control, breaking the "leader" system and promoting the substantive change of governance mechanism. In March 2003, the State-owned Assets Supervision and Administration Commission of the State Council was established. In May, the Interim Regulations on the Supervision and Administration of State-owned Assets of Enterprises were issued, clarifying that the State-owned Assets Supervision and Administration Commission shall supervise the state-owned assets of enterprises in accordance with the law, perform the responsibilities of investors in accordance with the law, and not directly interfere with enterprises. The production and operation activities of the state-owned enterprises, marking that the corporate governance system of state-owned enterprises has entered a new stage of development, the government is no longer the administrative subordination relationship to state-owned enterprises, but the relationship between the contribution and the contribution, the exercise of shareholder rights according to law.

2.2 Pilot phase of Standardized Board Construction (2004-2012)

In order to implement the spirit of the 16th CPC National Congress, the State-owned Assets Supervision and Administration Commission of the State Council proposed to select some central enterprises to establish and improve the board of directors of wholly state-owned companies. In June 2004, the Circular on the Pilot Work of Establishing and Improving the Board of Directors of wholly State-owned Companies in Central Enterprises was issued, requiring that "for enterprises that can effectively diversify their property rights, we should accelerate the joint-stock reform and reorganization of the enterprises by establishing and improving the board of directors of wholly state-owned companies. For enterprises that have difficulty in effectively diversifying property rights and large group companies that really need to adopt the form of wholly state-owned enterprises, we should establish and improve the board of directors in accordance with the provisions of the Company Law, so as to form a corporate governance structure that meets the requirements of the modern enterprise system." Define Shenhua Group, Baosteel Group and other 7 enterprises as the first batch of pilot units of the board of directors, these pilot units in the exploration summed up the Baosteel model, Shenhua model, China Railway model and other three models. At the same time, the State-owned Assets Supervision and Administration Commission of the State Council is responsible for the management of external directors, the norms of conduct of directors, the evaluation and remuneration of directors, the management of full-time external directors and the management of employee directors. A series of normative documents have been issued, including Measures for the Management of External Directors of Pilot Enterprises, Measures for the Management of Employee Directors of Pilot Enterprises of Board of Directors of Wholly State-owned Companies (Trial), and Measures for the Evaluation of the Board of Directors and Directors of Central Enterprises of Pilot Board of Directors, forming a system for the management of external directors that conforms to the characteristics of central enterprises.

2.3 Exploration stage of modern corporate governance structure with Chinese characteristics in the new era (2013-present)

In November 2013, the Third Plenary Session of the 18th CPC Central Committee adopted the Decision of the CPC Central Committee on Some Major Issues concerning Comprehensively Deepening Reform. "We will encourage state-owned enterprises to improve the modern enterprise system. Improve the corporate governance structure of coordinated operation and effective checks and balances." In August 2015, the Guiding Opinions of the CPC Central Committee and The State Council on Deepening the Reform of State-owned Enterprises made specific arrangements for improving the modern enterprise system and corporate governance structure. This is a new and significant breakthrough in the theory and policy of the construction of the governance structure of state-owned enterprises of our country, which has significant and far-reaching influence on the cultivation of world-class enterprises with global competitiveness.

After more than ten years of exploration, the central enterprises have achieved remarkable results in standardizing the construction of the board of directors. First, a mechanism of checks and balances has taken shape. Through the construction of the board of directors and the external director system, the decision-making level and the executive level are separated, the problem of "insider" control is solved to a certain extent, and the improvement of the enterprise leadership system and governance mechanism is promoted [1]. Second, the quality of decision-making has been significantly improved. The decision by one person and one vote not only brings multiple perspectives and a broad vision to decision-making, but also better solves the problem of "saying one word" and so on. The probability of major decision-making mistakes is very high.

Much smaller than in the past. Third, our capacity for risk prevention and control has been significantly enhanced. When making decisions, the board of directors, in addition to emphasizing economic benefits, pays more attention to the synchronous identification of risks and disclosure of risks, urges managers to improve risk prevention and control measures, forms the "safety valve" for major economic activities of enterprises, and promotes the steady operation of enterprises. Fourth, the level of operation and management was effectively improved. According to the new governance structure and operation mechanism, the enterprise changes the usual management mode and working procedure, improves the relevant system, optimizes the business process, improves the operation efficiency, and greatly enhances the standardization and scientific level of internal management [2]. However, the construction of the board of directors at the level of secondary companies in central enterprises is still in the initial stage, and there is still a large room for improvement in system construction, team construction, decision-making procedures and other aspects.

In January 2021, Several Opinions on Integrating Party Leadership into Corporate Governance in Central Enterprises (Trial) was issued, which further clarified the relationship between Party organizations, the board of directors and managers from the level of central enterprises. The Opinions pointed out that Party committees (leading Party groups) in central enterprises are an important part of the Party's organizational system. We will play a leading role in setting the direction, managing the overall situation and promoting implementation. It is necessary to improve the system and mechanism, clarify the power and responsibility of the Party committee (leading Party Group) in decision-making, implementation and supervision and the working mode, correctly handle the relationship between the Party committee (Leading Party Group), the board of directors, managers and other governance bodies, adhere to the corporate governance mechanism of legal power and responsibility, transparent power and responsibility, coordinated operation, effective checks and balances, and promote the system advantages into better governance effectiveness. This also marks the construction of modern enterprise system with Chinese characteristics has entered a more scientific, standardized and effective new stage.

3. BASIC DECISION-MAKING PROCESS OF THE BOARD OF DIRECTORS OF STATE-OWNED ENTERPRISES

The board of directors of state-owned enterprises, especially wholly state-owned companies, makes decisions on major issues of the company based on the three tasks of "strategy setting, decision making and risk control". In reality, the decision-making process of the board of directors of many state-owned enterprises, especially the second-level state-owned enterprises, is not rigorous, standardized, and scientific, which is reflected in the problems such as unclear what matters need to be submitted to the board of directors for decision-making, the simultaneous holding of the executive meeting of the chairman and the executive meeting of the general manager, and unclear in which link the Party committee should be put forward [3]. Straightening out the boundary of powers and responsibilities and decision-making process of all decision-making subjects and solidifying, institutionalizing and scientizing them can not only improve the governance level of the board of directors, but also facilitate external directors to make independent judgments according to their own experience and knowledge in a standardized process, and effectively check and balance the power of the Party organization, the board of directors and managers [4].

3.1 Major issues of the Company

Usually, the major matters of the company mainly refer to "three and one" matters, including the major decisions of the company, important personnel appointment and removal, major project arrangement and large amount of funds operation matters. The Party Committee (leading Party Members' Groups) will decide on the criteria for "three, one and one" matters, and whether these matters need to be discussed and decided at the Party Committee (Leading Party Members' Groups) meeting; Among the "triple and big" matters, which matters need to be decided by the board of directors, which need to authorize the chairman and general manager to make decisions, the board of directors will decide after the discussion of the Party Committee (Party group).

3.2 Authorization of the Board

In order to clarify the decision-making interface, strengthen the equality of rights and responsibilities, and improve decision-making efficiency, the board of directors should authorize the "triple and one" decision-making items within a certain range. Authorization items generally include investment, financing, guarantee, asset or equity disposal, foreign donation or sponsorship, internal reform and reorganization, exercise of shareholder rights and other 7 categories of major decision-making items. The amount of authorization is generally divided according to the amount of funds, If the original Guodian Group authorized investment is not more than 3 billion yuan, Chinalco is not More than 1.5 billion yuan.

The object of authorization and the way of exercising the authority are generally corresponding, which can be divided into four categories. One is the authorization to the chairman or the chairman's office meeting, and the way of exercising the authority is the chairman's office meeting (such as the former Guodian Group, State Grid, Sinochemical Group, and State Development and Investment Corporation). The second is to authorize the chairman and the general manager respectively according to the amount of funds or the importance of the matters. The way of exercising the power is the company's regular meeting (such as Baowu Group) or the general manager's regular meeting (such as the former Shenhua Group), and the general manager's office meeting or the general manager's special meeting. The third is to authorize the general manager, the way of exercising the power is the

general manager's office meeting (such as China Aluminum Industry, North Equipment Group). The fourth is to authorize the special committee, and the way of exercising the power is the special committee (for example, the board of directors of Ordnance Equipment Group authorizes the Special Equipment Committee to make decisions on special equipment matters).

3.3 Decision-making process of major operation and management matters of the Company

Generally, it can be divided into three situations: First, the Party organization meeting (preliminary research and discussion) → Chairman's Office → Board of Directors (e.g. Guodian Group, State Grid, Sinochem Group, State Development and Investment Corporation). The second is the party organization meeting (pre-research and discussion) → (General manager) routine meeting → the board of directors (such as the former Shenhua Group, Baowu Group). The third is the Party committee (pre research and discussion) → the board of directors (such as China Aluminum, North equipment Group).

Taking the project approval of an enterprise belonging to a certain group as an example, usually a complete decision-making procedure of the board of directors is as follows: 1. Materials submitted by the applicant for proposal; 2. Relevant departments of the Group shall hold the review meeting to convene experts to review the project and form a proposal; 3. Hold the general manager's office meeting to calculate the economic account and discuss whether the project is feasible; 4. Hold Party committee (leading Party groups) meetings, check the policy direction, study the proposals, and put forward opinions; 5. If the matter to be resolved by the board of directors falls within the scope of responsibilities of the special committee, the proposal shall first be submitted to the corresponding special committee for study and deliberation. The special committee shall hear the opinions and suggestions of relevant parties, put forward the opinions for deliberation and submit them to the board of directors for deliberation and decision. If the existing data is deemed insufficient, the company will postpone the discussion at the board of directors and ask for additional data. Only after the special committee of the board of directors has passed the bill will it enter the board of directors for discussion; 6. The board of directors will make a final decision after considering whether the proposal is feasible and efficient. 7. If the board of directors decides to pass the motion, the decision result shall be submitted to SASAC for examination and filing if it is needed, without the need for direct implementation of the filing. The discipline inspection department plays a supervisory role in the decision-making of the board.

4. CONCLUSION

At present, the board of directors of state-owned enterprises, especially central enterprise groups and subsidiaries, is running smoothly on the whole, but there is still a certain gap compared with the goal of establishing a modern enterprise system with Chinese characteristics. It is mainly reflected in: On the one hand, the responsibilities of the Party committee and the board of directors are blurred. Some of the subsidiary Party committees of state-owned enterprises "both the direction and grasp the management" "both manage the overall situation and manage the specific", big and small events are on the Party committee, focusing on the major issues, focus on the focus is not enough; Some subsidiaries implement the Party committee research and discussion of the pre-processing procedure simplification, the pre-processing is not pre-processing, or the pre-processing research and discussion as a "basket", all the problems are loaded, and even the pre-processing research and discussion as a research decision. On the one hand, the understanding of the board is not unified. Some subsidiaries do not have a clear understanding of the construction of the board of directors and the functional positioning of the board of directors, some subsidiaries play a relatively insufficient role in the board of directors, and some subsidiaries even regard the board of directors as a formality, with the problems of the board of directors being blurred, weakened and formalized. Some companies even think that the establishment of the board of directors reduces the efficiency, and decisions will not be made unless they can be made on the board of directors

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