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**CORPORATE GOVERNANCE OF  
STATE-OWNED ENTERPRISES IN  
CHINA**

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Speech at the Senior Experts Meeting on  
Corporation Governance of State-owned Enterprises in China

Mr. Zhang Bao  
Chairman of the Board of Directors  
Shen Zhen City Construction and Investment Holding  
Corporation

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# CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES IN CHINA

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I am very honored to have the opportunity to represent the Shen Zhen City Construction and Investment Holding Corporation in China to participate in the International Experts Meeting on Chinese State-owned Enterprises Corporation Governance. Thank you.

I want to briefly introduce Shenzhen Construction and Investment Holding Corporation.

## **I. Historical Background, Targets and Tasks of the Corporation**

Aiming at optimizing state-owned asset management system, realizing two fundamental shifts and developing a group of pillar industries, big enterprise groups and famous products, focusing on strengthening the supervision of state-owned asset and optimizing the state-owned resources, Shen Zhen City Construction and Investment Holding Corporation (referred as Construction Holding Corporation) has been established, through readjustment and merge in stock asset structure and scale, as a state-owned holding corporation, whose major business is in the area of construction and real estate. It is also engaged in capital management, production and operation, including project construction. It was established in December, 1996 on the basis of the former Shen Zhen Construction Group, the corporations belonging to it and other 15 state-owned (including completely owned and share-controlling) enterprises in the field of construction and real estate. It represents the city government to exercise the shareholder's right over the state-owned asset within the authorized scope. The Construction Holding Corporation has 25 first class enterprises, 302 second class enterprises, including 10 city-level first class enterprises, 9 second class enterprises, 15 groups and 7 listed corporations (Shen Shengfang, Shen Wuye, Shen Changcheng, Shen Zhenye, Shen Tiandi, Shen Wanshan, Shen Tianjian). The tall buildings constructed by its affiliated companies are more than 1/3 of the total number in Shen Zhen City and the commercial buildings are more than 1/2. It has construction businesses of over 30 provinces and municipalities and successfully opened the markets in HK and some other countries. It is the main player in the construction field in Shen Zhen City.

From its establishment to the end of 1998, the Construction Holding Corporation had made a gross profit of 2.40271 billion yuan. The taxation surrendered had been 1.12150 billion yuan and the sum of the profit and taxation had been 3.52421 billion yuan. The total asset had reached 36.75004 billion yuan, growing by 15.7% compared with year of establishment. The net asset had reached 12.05580 billion yuan, growing by 18.63% compared with the year of establishment. The state-owned net asset had reached 8.37462 billion yuan, growing 17.38% compared with the year of its establishment. The ratio of liabilities to asset is 67.2%, declining 0.81% compared with its establishment.

In order to realize the aim of the Shen Zhen City to set up 3 state-owned share-controlling corporations, turn the government's request into the enterprise's action, improve the operation and management of the state-owned asset and ensure and add the value of the state-owned asset, the Construction Holding Corporation has set its own strategic targets: Adapting to the trend of globalization of world economy and according to the request of the development of socialist market economy, create famous products mainly in the business of real estate, achieve a comprehensive development with diversification and coordination, combine the capital management with product management (construction projects), standardize the relationship between the Construction Holding Corporation and its affiliated enterprises according to the development model of modern groups, and develop the Construction Holding Corporation into a diversified group of multi-industry, multi-ownership in different regions and countries.

The tasks of Construction Holding Corporation are:

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- (1) Implement the policies, laws and regulations of the state on the management of state-owned asset.
- (2) Ensure the safety and add the value of state-owned asset within authorization, accept the evaluation on the value keeping and value adding of the state-owned asset by the state-owned asset management departments and report the state-owned asset's operation plan and the actual implementation according to relevant regulations.
- (3) According to the request of the state policy on the industries, through capital management and production management, optimize the structure of organization and production in the invested enterprises and improve their competitiveness.
- (4) Accept the state's macro-control and the guidance of the industry policies, abide by the regulations of the industry's administration.
- (5) Pay taxes according to law and accept supervisions from relevant departments.
- (6) Assume limited liabilities of no more than its investment for the enterprises invested.
- (7) Ensure the legal person's ownership of the enterprises, implement the enterprise's right of decision in operation and do not interfere into the daily production and operational activities of the enterprises.
- (8) Well exercise the right of benefit of the state-owned asset, ensure the benefit of the asset and finish the targets of value keeping and adding for the state-owned asset.

### **II. The Relationship between the Corporation and the Government**

State-owned Holding Corporation is a new form of the reform of the management system of the state-owned asset that meets the request of optimize the resources and improve the overall operation benefit of the state-owned asset. It is a meaningful exploration of the separation of the government's function from enterprise management and the separation of the government from the asset.

Since 1987, Shen Zhen city has established a three-layer state-owned asset management system, which includes the state-owned asset commission, asset management corporation and state-owned enterprises. This is a big step towards the socialist market economy. This system was further improved in 1996: the construction and real estate enterprises that were originally under the Investment Management Corporation were merged into Construction Investment Holding Corporation, and the trade and circulation enterprises that were originally under the Investment Management Corporation were merged into Trade Investment Holding Corporation. This restructuring has given the state-owned asset management corporation not only the right of operation and benefit of the asset, but also the personnel power and the important investment decision power, which optimize the relationship of responsibilities within the state ownership and promote the improvement of the three-layer state-owned asset management system.

For the relationship between the corporation and the government, first, as an economic entity that is authorized by the government to manage the state-owned asset, state-owned holding corporation is a special enterprise legal person, a real enterprise. It should exercise the shareholder's rights for the government and assume the responsibilities of value keeping and value adding according to the special request of the state ownership. It is an important organization form for the operation and development of state-owned economy and is very important for the improvement of the operation quality of state-owned economy and the promotion of the growth of state-owned economy. The state-owned holding corporation is neither equivalent to government, nor equivalent to enterprise group or ordinary enterprise legal person. If this point is clear, the status of the state-owned holding corporation in the relationship with the government is clarified. That is the government can only deal with it as an enterprise and it can not be seen as an administrative organ that should be dealt with in the administrative system. Thus it provides conditions for the separation of government function from enterprise management.

Second, the state-owned holding corporation has the right to the benefit of state-owned

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asset, the right to choose the managerial person and the right to big decisions, which has resolved the problem of separation of the personnel power with the asset management power that has long impeded the development of state-owned enterprises, optimized the internal relationship of functions within the state ownership and achieved the separation of the government's function of social management from management of state-owned asset. The government can no longer skip the state-owned holding corporation and interfere the operation of state-owned enterprises, no longer interfere the operational and other activities of the state-owned holding corporations beyond the power endowed by the state ownership.

Third, the state ownership exercised by the government over the state-owned holding corporation can not be simply equivalent to the shareholder's ownership of the state-owned holding corporation over its affiliated enterprises. State ownership is the original ownership. It is inseparable. From the constitution of power, the investor is the shareholder that only exercise the power of benefit of asset, choosing managerial person and important decision making. But for the state, besides the above three powers it should enjoy as the owner of the state-owned asset, it also possesses many special powers on the state-owned asset, such as the powers of legislation, administrative control and approval of the ownership decision, etc. At the same time, the state ownership is higher than the shareholder's ownership.

On the other hand, the supervision by the government over the state-owned holding corporation should be mainly reflected in the following aspects:

- (1) Strengthen macro-control and realize the standard, systematic and scientific operation of the state-owned holding corporation.
- (2) Approve the long-term development plan, annual operation plan, plan of the usage of profit and report of important event of the state-owned holding corporation.
- (3) Set up the budget for the benefit of state-owned asset.
- (4) Establish the evaluation system and incentive methods for the operation of state-owned holding corporation.
- (5) Evaluate the leaders of state-owned holding corporation and determine the approval or removal of them.
- (6) Send the supervision committee and financial supervisor to state-owned holding corporation and exercise supervision over its operation.
- (7) Mediate and handle disputes on the ownership.
- (8) Strengthen the basic management of the state-owned asset.
- (9) Organize the training of the managerial and operational persons of the state-owned asset.

### **III. Corporation Governance and Operation System**

#### **1. Set up the Managerial Level**

As the operation body of the state-owned asset, Construction Holding Corporation has set up a new operation system of three-level, which are:

Construction Holding Corporation is the first level, which mainly focus on capital management and achieve the coordinated development of capital management and production operation. All the groups and first-class enterprises are the second level, which mainly focus on production and operation and with due effort on capital management. All the second-class enterprises are the third level, which, under the leadership of respective superior corporation, are turned into specialized production and operation companies according to the characteristics of the industry of their superior corporations. According to the actual situation, restructure the enterprises below the third level by optimize and reorganize, sell them or cancel the qualifications of legal person.

This operation system has achieved very good results after its implementation in the Corporation. It has set regulations and standards for the operation actions by all levels of operational unit and achieved the purpose of keep and add the value of the state-owned asset.

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### **2. Establish Legal Person Governance**

Construction Holding Corporation has made the following efforts in improving its enterprise legal person governance.:

The first is to clarify the relationship between the board of directors, managerial group and the supervision committee. It is clarified that the board of directors is a decision-making body, exercising the power of personnel approval and decision making and some of the powers of shareholders meeting. The managerial group is an executive body, exercising the power of personnel approval and management. The supervision board is the supervisory institution, exercising the power of personnel approval and supervision. The relevant working procedures have provided the basis and guidance for the corporation's operation.

The second is to appropriately handle the relationship of the board of directors, the supervision committee with the Party committee, trade union and Inspection committee in the corporate governance. According to the procedures by law, the corporation has gradually absorbed the Party committee, trade union and Inspection committee into the corporation governance. The chairman of the board of directors is also the chairman of the Party committee and there is a full-time vice chairman in charge of the daily works of the Party committee. The chairman of the Inspection committee is also the Chairman of the supervision committee. The chairman of trade union also takes the post of director of the board.

The third is to set up the organizational framework according to the request of modern enterprise system and operate according to the international practice.

### **3. Create New Operational System**

Construction Holding Corporation has created a blended operational system for state-owned holding corporation on the basis of studying and borrowing the practices of foreign holding companies. The system is to regulate one relationship, to devote to two developments and to build seven centers.

To regulate on relationship means to regulate the relationship between Construction Holding Corporation and its affiliated enterprises.

To devote to two developments means to devote to the development of resources and market.

To build seven centers means, according to the request of the enterprise's development, to build the Construction Holding Corporation into the center of strategic decision, center of human resources, center of capital management, center of production and operation-foreign construction project contract center, center of control and coordination, center of technology and scientific research and center of foreign trade.

### **4. Standardize the Ownership Management**

With the combination of theory and practice, Construction Holding Corporation has gradually established and improved a new model of ownership management with the ownership as a tie and the ownership management as the core.

The main contents of this model are: Handle well the two pillars of ownership management and the management of the representative of ownership. Implement the target management, planning management, personnel management, investment management, financial management and profit management. Seriously deal with the approval of investment decision, the choice of manager, the profit of asset and the supervision of state-owned asset.

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Ensure the full performance of the functions of ownership management through establishing and optimizing ownership management system.

The key aspects of this model are the ownership management and the management of the representative of the ownership. The former is a comprehensive management of a field, the latter is the management of people. It is exercised by the owner to the representatives it has sent to the enterprise through economic ways. Comparatively speaking, the management of the representative of ownership is more important.

### **5. Strict Financial Supervision**

On the basis of a clear division of power and responsibilities between the Construction Holding Corporation and its affiliated corporations, Construction holding Corporation has also enhanced effective supervision over the affiliated corporations, the main purpose of which is to ensure the exercise of the rights of the ownership, ensure the keeping and adding of the state-owned value and prevent the loss of state-owned asset. To be specific, first, establish a unified financial system and combine the accountant reports. Second, implement financial supervisions over the affiliated corporations. Third. Establish a unified responsibility system to keep and add the value of state-owned assets for the affiliated corporations. Fourth, Coordinate the business operations of the affiliated corporations.