Corporate Governance Issues

Fang Xinghai

1. Good corporate governance generally takes good country governance as a prerequisite. However, China is slightly different. Good country governance very much needs the inspiration from good corporate governance. Therefore, improving corporate governance is both more important and more difficult.

2. Government (or state) ownership is large and will most likely remain large for some time in China. Problems with corporate governance in government owned or controlled companies: the biggest one being separation of appointment and compensation.

(1) With a majority government owner (e.g. CCB, SAIC): the ruling party's organization department appoints and removes senior managers. How to ensure appointed managers have the required knowledge and skills? Signs of improvement recently (financial and telecom company leaders). But compensation of managers remain with the board. Board doesn't want to compensate appropriately managers whom they may not feel comfortable with. Case in point: long-term incentives are rare.

(2) Without a majority government owner, but government entities own more than half: either the ruling party's organization department or special commissions appoint managers. But compensation is with the board and the same problems exist. Managers don't trust certain owners as well.

3. Judicial adjudication. Good corporate governance rests on written rules. When rules are breached, courts have to come in under many circumstances. China's judicial system is yet fully independent and lacks capacity.

4. Capital markets and corporate governance. Information disclosure is improved and has begun to act as a powerful constraint on corporate behavior. But stock and other exchanges are governance controlled. Information disclosure is subject to intervention.