

Analysis and optimization of party organizations' participation in corporate governance paths of state-owned enterprises

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Abstract: Every transformation and upgrading of state-owned enterprises in different historical periods cannot be done without the leadership of the Party, and the Party organizations of state-owned enterprises have played a visible and positive role in the process of deepening reform of state-owned enterprises in the past. However, with the advent of the new era, we should also continue to improve and refine the participation of SOE Party organizations in corporate governance, a modern enterprise system with Chinese characteristics, in accordance with the requirements of the development of the times. Revisiting the rationality and superiority of the participation of party organizations in the governance of state-owned enterprises is conducive to consolidating and firmly establishing the party leadership as the primary principle of the development of state-owned enterprises, and in this process, reforming the old and making new, improving the corporate governance structure of state-owned enterprises in which party organizations and other governance bodies are articulated and organically integrated, and optimizing the path of the participation of party organizations in the corporate governance of state-owned enterprises, with a view to deepening the reform of state-owned enterprises in the new round, i.e., promoting the goal of sustainable development of state-owned enterprises. The goal of sustainable development of SOEs is to provide some reference.

1. Introduction

The reform and development of state-owned enterprises has always remained under the leadership of the Communist Party of China, and this trend will continue to be maintained in the future. In recent years, the deepening reform of SOEs and the related exploration of SOE Party organizations' participation in governance have gained some considerable effects and valuable experiences. The party organization of SOEs is a means of political intervention within the enterprise, and its most important feature is the participation of the party committee in governance, which can cause the phenomenon of redundant employees in SOEs, but also inhibits executives from grabbing excessive salaries^[1]; the participation of the party organization of SOEs in governance also helps to curb the potential "loss of state-owned assets". The involvement of party

organizations in SOE governance also helps to curb potential "loss of state assets" and can better curb hidden corruption of SOE executives [2]. However, it also hinders the status of enterprises as independent market players brings additional political costs and affects the effective allocation of assets [3].

From the above studies, we can see that scholars have done a lot of theoretical or empirical studies on the participation of party organizations in corporate governance from various aspects, but most of them are about the analysis of the policy interpretation of the participation of party organizations in governance of state-owned enterprises and the proof of the positive effect achieved by the participation of party organizations in governance in one aspect, lacking an overall and systematic analysis of the system of the participation of party organizations in corporate governance. Until today, we are still improving the system of participation of party organizations in corporate governance of state-owned enterprises in practice and exploring the most suitable way for China's modern enterprise system. The integration of the party organization system and the corporate governance system is still very complicated and difficult because of their tight organizational characteristics, and we still lack the theoretical and practical experience of the efficient combination of the party organization and corporate governance in state-owned enterprises. Therefore, this paper will analyze the logic of SOE Party organization participation in corporate governance, and then put forward suggestions and proposals on optimizing the path of SOE Party organization participation in corporate governance under the conditions of the actual operating environment, in order to provide some references for the modern corporate governance model of China in which SOE Party organizations participate in corporate governance.

2. Analysis of the path of the party organization's participation in corporate governance of state-owned enterprises

The foundation of our system determines that party organizations must participate in the governance of state-owned enterprises, while the healthy development of state-owned enterprises also requires the participation of party organizations. This is the practical application of socialism with Chinese characteristics to the corporate governance system and the unique advantage of building China's modern enterprise system. However, the modern enterprise system of Chineseization in which the party organizations of state-owned enterprises participate in corporate governance does not happen overnight, but through repeated mutual verification of theory and practice.

2.1. Institutional arrangements for the participation of party organizations of state-owned enterprises in the path of corporate governance

There are two main institutional arrangements for the participation of party organizations in corporate governance of state-owned enterprises. One is the leadership system of "two-way entry and cross-posting"^①. "Two-way posting" means that qualified members of the Party committee in the enterprise can enter the board of directors, the management and the supervisory board, while qualified members of the board of directors, the management and the supervisory board can also enter the party committee. "Cross-appointment" means that the secretary of the party committee can also be the chairman or vice chairman, and the chairman can also be the deputy secretary of the party committee^[4]. This system can strengthen the relationship between the party and the

^① In 2004, the "Opinions of the Organization Department of the CPC Central Committee and the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council on Strengthening and Improving the Party Building Work of Central Enterprises" formally introduced the concept of "two-way entry and cross-employment".

government, enhance the stability and coordination within SOEs, and prevent inconsistencies in government orders, as well as find an entry point for SOEs' party organizations to participate in decision-making on major issues. However, the shortcoming of this system is that if it is not well understood and used properly, it can easily lead to over-centralization of power and affect the flexibility and innovation of SOEs. A study of this leadership system found that the degree of "two-way entry" of the party committee is in an inverted "U" shape with the level of corporate governance, and that the secretary of the party committee serving as chairman is not conducive to the improvement of corporate governance^[5].

Another way of participation is the decision-making mechanism of "discussion beforehand"[®], which refers to the system that the decision on "three major issues"[®] in state-owned enterprises should be studied and discussed by the party organization before being submitted to the board of directors for decision-making. It strengthens the role of party organizations in corporate governance of SOEs and makes up for the deficiencies of the board of directors in decision-making. Through the deliberations and discussions of the party organizations of state-owned enterprises, the legitimacy of decision-making can be enhanced and problems of violations of law can be avoided. Moreover, the system can also evaluate decisions from multiple perspectives, improving the scientific and democratic nature of decisions as well as the efficiency and transparency of corporate governance. In general, the value of this mechanism is to better play the political function of state-owned enterprises by adjusting the rules of decision-making procedures to implement the Party's political policy into the business operation^[6]. However, in practice, the decision-making system of "discussion first" still needs to be improved, such as prolonging the decision-making time, which affects the flexibility and responsiveness of the enterprise, consumes more manpower, material resources and time, and increases the decision-making cost of the enterprise. Moreover, if the deliberations and discussions between the party committee and the board of directors cannot reach a consensus, it will affect the stability and development of the enterprise.

2.2. Design principles of the party organization's participation in the path of corporate governance in state-owned enterprises

And it is worth our attention that the party organizations of state-owned enterprises in the process of participation in corporate governance or path design, we have to grasp the scale and principles of participation, to achieve fine governance.

2.2.1. The principle of party leadership

Party organizations of state-owned enterprises are the fighting bastion of the Communist Party of China within state-owned enterprises, and are an important way and concrete practice to realize the Party's overall leadership of state-owned enterprises. The most essential feature of socialism with Chinese characteristics is to adhere to the leadership of the Party, and state-owned enterprises are an important part of the national governance system led by the Party. Therefore, the primary principle for the Party organizations of state-owned enterprises to participate in corporate governance is to adhere to the unity of strengthening the Party's leadership and improving corporate governance, not only to remember their original intention and mission but also to integrate the Party's leadership into all aspects of corporate governance. In the process of building a modern enterprise system with Chinese characteristics, the party organizations of state-owned enterprises should give full play to

[®] 2015 Opinions of the Central Committee of the Communist Party of China on Strengthening and Improving the Party Construction of State-owned Enterprises

[®] The "three big" matters are: major issues decision, important cadres appointment and removal, major projects investment decision, large amount of funds use.

the role of political core and leadership core, and guarantee the effective combination of party leadership and corporate governance structure, which means insisting on the deep integration of party building work and production and operation to ensure that the enterprise is consistent with the central government in terms of political direction; and in terms of cultural construction in line with the core socialist values. It is crucial to accurately recognize the central role of party organizations within each governance entity. By doing so, we can effectively safeguard the lawful rights and interests of all stakeholders, with special emphasis on small and medium shareholders as well as the working masses. By unifying the power of the working class, we can actively contribute to the growth and strengthening of state-owned enterprises. This approach ensures equitable development and promotes the overall prosperity of the enterprise, while simultaneously fostering a harmonious relationship between the party organization and all relevant stakeholders. We also need to give full play to the leadership role of the party organizations of state-owned enterprises in decision-making, implementation and supervision and other important links, to keep the direction of the enterprises' service production and operation from deviating, to support the board of directors in exercising its decision-making power in accordance with the law, the management in exercising its operation power in accordance with the law, the supervisory board in exercising its supervision power in accordance with the law, and to serve the masses of workers, thus reflecting the specific leadership function of the party organizations of state-owned enterprises.

2.2.2. Principle of authority and responsibility boundary

Furthermore, the Party organizations of state-owned enterprises should adhere to the principle of participating within the boundaries of power and responsibility in governance. This entails ensuring the harmony between the party's leadership and the corporate governance structure of state-owned enterprises. It is essential to clearly define the boundaries of power and responsibility between party organizations and other governance bodies such as the board of directors, supervisory board, and management. Through gradual and thorough implementation, the party's leadership can be integrated into the specific regulations of corporate governance, thereby introducing party organizations into the corporate governance system. This principle is pivotal in achieving the harmonious coordination between party leadership and market-oriented operations in state-owned enterprises, ultimately facilitating the comprehensive development of China's modern enterprise management system. This also means that the party organizations of state-owned enterprises should not overstep and not be absent in the process of participating in corporate governance, and should not only take responsibility for exercising the corresponding power but also be bound by the boundaries, and should comply with the scope and degree of participation defined by relevant laws and articles of association in the process of participating in governance. Therefore, the party organizations of state-owned enterprises should respect the board of directors and managers to make economic decisions for the development of the enterprise, and should not over- interfere with the phenomenon of overstepping, but should focus on the politics and compliance of business decisions concerning the enterprise. In the construction of the ideology and politics of state-owned enterprises, the guidance of corporate culture and the management and selection of cadres and talents, they should exercise their powers and actively perform their duties in compliance with the law, without shirking their duties and absence, and give full play to the utility of the party organizations of state-owned enterprises in corporate governance.

3. The optimization of the path of party organization participation in governance of state-owned enterprises

In the past few years, the Party organizations of state-owned enterprises have made great

progress in participating in corporate governance, and the emergence of the "two-way entry and cross-posting" leadership system and the "pre-discussion" decision-making mechanism has improved the level of management and decision-making efficiency of the Party organizations of state-owned enterprises in corporate governance, providing important support for the establishment of a modern Chinese enterprise system. The emergence of the "two-way entry and cross-appointment" leadership system and the "discussion-front" decision-making mechanism has improved the management level and decision-making efficiency of SOEs' Party organizations' participation in corporate governance, providing important support for the establishment of a modern Chinese enterprise system. However, in the face of increasingly complex market environment and fierce competitive pressure, the path of SOE Party organizations' participation in corporate governance has to keep pace with the changes of the times and be constantly adjusted and optimized.

3.1 Adopt classification governance for different types of state-owned enterprises

First, the party organizations of SOEs should take into account the dual nature of SOEs in the path of participating in governance, i.e., the profitability of pursuing economic benefits in economic activities and the public nature of serving the public interests of society, from which we can divide SOEs into commercial SOEs and public welfare SOEs^④. If the party organizations of SOEs indiscriminately adopt the same governance approach for all types of enterprises, it may lead to the problem of imbalance in the functional positioning of SOEs. Therefore, the way and degree of participation of SOE Party organizations in corporate governance should also vary according to the nature and characteristics of the enterprises. In the governance of state-owned enterprises (SOEs) serving public interests, it is imperative to recognize their primary responsibility to safeguard national strategic interests and citizens' security concerns. To effectively fulfill this mandate, it is essential to grant greater decision-making authority to SOE Party organizations within these enterprises. This empowerment allows for direct intervention in significant corporate matters, facilitating improved implementation and alignment with the central government's economic and social development plans. Moreover, it ensures that the development strategies of public interest SOEs remain focused on serving the broader public interest. However, we cannot ignore the profit-making nature of SOEs as independent individuals pursuing economic benefits in the market economy, so the Party organizations of SOEs should intervene in major corporate decisions mainly through the "discussion first" decision-making mechanism, and dare to and excel in using the veto power when faced with decisions that harm public security interests or national strategic security. For those decisions that do not involve political or public interests, the views of stakeholders or professionals such as shareholders' meeting, board of directors and management should be taken into full consideration, so as to play a multi-faceted leadership role in coordinating the interests of all parties and coordinating the overall layout of state-owned enterprises. As for the governance of commercial SOEs, the party organizations of SOEs should participate in governance mainly by indirect guidance, grasp the scale of participation and fully respect the operational autonomy of commercial SOEs. In other words, the party organizations of SOEs should intervene within the scope of not affecting the normal economic activities of commercial SOEs, and never interfere in the decision making of enterprises if they can make decisions on their own, and regulate their personal behavior in the form of laws or articles of association to avoid the phenomenon of overstepping. In addition, we should also be wary of the absence of party organizations in

^④ In 2015, the Guidance of the CPC Central Committee and the State Council on Deepening the Reform of State-owned Enterprises proposed to divide different categories of state-owned enterprises.

commercial state-owned enterprises, which mainly pursue economic benefits, but also have to assume public welfare responsibilities. Therefore, the party organizations of state-owned enterprises should give full play to the "two-way entry and cross-appointment" leadership mechanism when participating in corporate governance, so that the members of the party organizations of state-owned enterprises and other governance bodies of enterprises such as shareholders' meetings, boards of directors, supervisory boards and other management personnel have a balanced relationship of mutual supervision and coordination, mutual guidance and restraint, to prevent state-owned enterprises from Party organizations from being absent due to information asymmetry. In conclusion, the optimization of the path of participation of party organizations in governance of SOEs should be along the lines of categorical participation, giving differential guidance according to the functions and target positioning of the two types of SOEs, and differentiating the degree and manner of participation of party organizations in corporate governance ^[7].

3.2 Building a corporate governance structure with the party organization of state-owned enterprises as the hub

In addition, the reasonable design of the organizational structure of corporate governance is also the focus of the path to optimize the participation of party organizations in corporate governance of state-owned enterprises, in short, how to build and improve the party organizations of state-owned enterprises and other governance bodies to coexist harmoniously and efficiently run the new corporate governance system. As we know, the corporate governance structure of mature Western enterprises is mainly composed of four governance bodies: shareholders' meeting, board of directors, supervisory board and managerial level, which are usually called "three committees and one layer" and are stable governance structures formed based on the principal-agent relationship. To build a new corporate governance structure for SOEs, it is necessary to combine the "three councils and one layer" with the original governance bodies of SOEs: the party organization (party committee), the staff council and the labor union, and to form a new corporate governance structure with Chinese characteristics. If we want to integrate these governance bodies into a corporate governance system, we need to play the leading and central role of the Party organization and form a modern corporate governance structure of SOEs with the Party organization as the hub. Since the three decision-making subjects, the Party Committee, the Board of Directors and the managerial level, have different decision-making systems and highly crossed personnel, without a clear definition in the legal system, it will easily lead to blurred responsibilities ^[8]. Therefore, we first need to play the basic role of the articles of association in corporate governance, to clarify the duties and powers of the party organization and the relationship with other governance subjects, and to promote mutual understanding and cooperation among the governance subjects; we also need to effectively protect the legitimate rights and interests of employees. The construction of a power and responsibility system and operational mechanism among multiple governance subjects within state-owned enterprises is necessary to promote the integration of the Party's leadership into all aspects of corporate governance. The company rules and regulations can provide compliance guarantee for each governance subject to handle relevant decision-making matters to achieve orderly governance and matching of authority and responsibility.

Second, the corporate governance structure under the participation of party organizations in the governance of state-owned enterprises needs to further refine the division of labor and collaboration among the governance subjects. In terms of division of labor, each governance subject should achieve the unity of power and responsibility, and the decision of the same matter is usually made by only one governance subject, that is, whoever makes the decision will be responsible, and as far as possible, each governance subject is independent of each other in dealing with non-major

decision-making matters, so as to improve the operational efficiency of the enterprise. In terms of collaborative governance, each governance body can be broadly divided into two parts: basic governance and support governance. The basic governance part consists of the party organization, the board of directors and the management, which promote the development of SOEs through the chain of transmission from leadership to decision-making to execution. The support governance component consists of the shareholders' association, the supervisory board, the staff council and the labor union, which support the healthy operation of SOEs from the perspectives of funders, internal and external supervision and democratic management of employees, respectively.

4. Conclusion

The role of party organizations in corporate governance of state-owned enterprises has been attracting much attention. We believe that the participation of party organizations in corporate governance of state-owned enterprises is necessary, and it is the requirement of the times for the continuous deepening reform of state-owned enterprises and the inevitable choice for the development of enterprises. The study of this paper is mainly through the logic of the path construction of SOE party organization participation in corporate governance to prove the rationality and importance of SOE party organization participation in corporate governance, pointing out that SOE party organization participation in governance should abide by certain principles, and cannot interfere with all business decisions of SOEs at will, which will interfere with the normal operation of SOEs. Firstly, the party organizations of state-owned enterprises need to classify the governance according to different types of state-owned enterprises and precisely divide the governance objectives; secondly, the party organizations of state-owned enterprises should reasonably design the corporate governance system under the participation of the party organizations of state-owned enterprises and strengthen the collaboration of the governance bodies and the improvement of the governance mechanism. In order to effectively promote the healthy development and long-term sustainability of state-owned enterprises, it is crucial to optimize the measures related to the pathway of party organization participation in the governance of these enterprises. By doing so, we can ensure a more robust and efficient framework for the management and operation of state-owned enterprises, thereby contributing to their continued growth and success.

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