The Power Structure in China's Listed Companies: The Company Law and its Enforcement

(Shortened title: China's Company Law and its enforcement)

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Abstract

The implementation of China's Company Law in 1994 has been regarded as a major tool in the corporatization of China's enterprises and establishment of a new power structure modeled on modern corporations in market economies. The law attempts to transfer decision-making power from the old party/state organizations to standard organizational bodies of modern corporations. Several observers have already claimed that the power transfer has not been complete in corporatized enterprises, but astonishingly, there have been no attempts to empirically measure the de facto enforcement of the Law and reveal the prevailing pattern of enterprise power structure. Based on a unique survey of the corporate governance structure of 248 companies listed at the Shanghai Stock Exchange, our paper seeks to bridge the gap by approaching the issue with a dual focus; first of all, we seek to reveal whether the current power distribution in China's listed companies is actually consistent with the formal rules of the Company Law. Secondly, we highlight the role of the local party units in the evolving power structure of the companies. The paper offers a preliminary evaluation of the enforcement of the Company Law and the degree of de facto enterprise de-politicization. The results will be particularly helpful to broaden understanding of the forces and dynamics of institutional and organizational changes in China's transitional economy.

China – company law – depoliticization – enterprise reform – law enforcement

A Introduction

The implementation of China's Company Law in 1994 has been regarded as a major tool in the corporatization of China's enterprises and establishment of a new power structure modeled on modern corporations in market economies. The law attempts to transfer decision-making power from the old party/state organizations to standard organizational bodies of modern corporations (mainly the shareholders meeting, board of directors and manager). It is the central legal tool to regulate the distribution of formal decision-making rights at the enterprise level and to simultaneously block political interference from enterprise decision-making. Even foreign observers such as the World Bank (1997) have placed high hopes on the effectiveness of the new corporate governance structure to protect China's enterprises from political interference.

The de facto outcome of the Law is all but certain. There are at least three reasons for this uncertainty that cast doubts on both the enforcement and the effectiveness of the Law to bring about a new power structure. First, the Company Law itself is not completely consistent. On the one hand, the Law attempts to transfer decision-making rights from the old party/state organizations to the shareholder meeting, board of directors and manager. On the other hand, it explicitly allows the three old decision-makers, namely the local branch units of the CCP (hereafter referred to as "branch unit" or "local branch unit"), labor union and workers congress, to keep their organizational presence in the corporatized enterprises. It is obvious that the co-existence of new and old power organs can easily endanger a successful power transfer. Old power-organs will most likely try to oppose the shift of power in one way or the other in order to protect their vested interests.

Secondly, there is a common agreement that engineering institutional changes by legal means is not feasible without credible and independent legal institutions (Jayasuriya 1999, 1 and 19). Shihata (1990) warns that "If the law is to be an effective vehicle for implementing policies and promoting orderly developmental changes in a society, the overall legal and institutional framework must be sound. That framework is of vital importance to all economic agents in the development process – from the large industrial conglomerates to the small entrepreneur and farmer." But China still has an embryonic legal system, which is characterized by weak law enforcement.[1] Despite far-reaching legal reforms introduced since 1978, China's legal system is anything but independent from the Party/state. Local courts are still subordinate to the local party committees (Zheng 1997, 171)[2] that allow local party committees to provide some sort of political guidance, which the local courts can hardly oppose. A major organizational device of the Party Committees at the local level is the Party's Political and Legal Affairs Committee, which directly controls the legal system by reviewing local legal matters (Jayasuriya 1999). In fact, never in Chinese history has the legal system been independent from the state or political leadership and was always regarded as part of the executive (Findlay 1999, 284; Jayasuriya 1999). Law in China has been regarded as an instrument to control society rather than a tool to regulate public-civil relations (Fewsmith 2001, 106). The lack of tradition and institutions for law enforcement in China suggests that the enforcement of the Company Law cannot be taken for granted.

Finally, it is important to note that formal rules are only marginally enforced by legal systems. The most important part of law enforcement is based on voluntary compliance (Rapaczynski 1996). To achieve voluntary compliance cultural beliefs, customs and morality play an important role. In this respect, it is notable that China's historical experience with

1 A detailed survey of the Russian experience is given by Jeffrey Sachs (1997).
2 For a thorough analysis of the concept of judicial dependence see Findlay (1999).

modern corporations is limited. Though there were three former national Company Laws (1904, 1929, 1946) before the founding of the People's Republic of China, none of these laws were widely accepted and enforced.[3] In addition, none of them laid the foundation for a fully independent enterprise sector thoroughly protected from state 'guidance' and direct interference. In past attempts to implement national Company Laws large enterprises seemed to be particularly reluctant to register under the Laws, which were by and large incompatible with the typical Chinese kinship-based enterprise forms (see Kirby 1995, Ruskola 2000). The new power structure envisioned by today's Company Law is not backed by historical experience and traditional knowledge.

On the whole, the combined effect of the law's inconsistency, legal tradition and the national history of corporatization suggest that China's chances for a smooth enforcement of the Company Law seem to be limited. Several observers have already claimed that the power transfer in corporatized enterprises has not been complete (Tam 1999, Gao 1999, Jin 1997), but astonishingly there have been no systematic attempts to empirically measure the de facto enforcement of the Law and reveal the prevailing pattern of enterprise power structure. Based on a unique survey on the corporate governance structure of 248 companies listed at the Shanghai Stock Exchange, our paper seeks to fill this need by approaching the issue with a dual focus; first of all, we seek to reveal whether the current power distribution in China's listed companies is actually consistent with the formal rules of the Company Law. Secondly, we highlight the role of the local party units in the evolving power structure. In this way, the paper offers a preliminary evaluation of the Company Law's enforcement and the degree of

[3] Readers interested in the former regulations may refer to the following translations: For the 1904 Company Law: Williams, E.T.: Recent Chinese Legislation Relating to Commercial, Railway and Mining Enterprises, Shanghai 1905, pp. 10-45. For the 1929 Law: The China Law Reporter, Vol. IV(1930), No. 4, pp.98-105; The China Law Reporter, Vol. IV(1930), No. 5, pp. 167-175; The China Law Reporter, Vol. IV(1930), No. 6, pp. 228-236; The China Law Reporter, Vol. IV(1932), No. 1, pp.46-51; The China Law Reporter, Vol.

de facto enterprise de-politicization. The results will be particularly helpful to broaden understanding of the forces and dynamics of institutional and organizational changes in China's transitional economy.

The paper is organized as follows: the next section B gives an overview of the distribution of formal authority and liabilities as specified by the Company Law. Section C presents empirical evidence on the emerging de facto power structure in China's listed companies, with a particular focus on the role of the local party units in the power structure. Section D concludes.

B The de-jure distribution of decision-making rights

The Company Law includes a relatively clear specification of the new formal power structure. This section gives an overview of the Law's most important regulations defining the new power structure to provide a benchmark for the following analysis and evaluation of the Company Law's effectiveness and enforcement. At the center of our analysis is the distribution of formal authorities as specified by the Company Law. In addition we take a closer look at the formalization-degree of decision-making processes and individual liabilities of new power holders, since both aspects influence the probability of law-abiding behavior and leeway for capture of power holders by external parties. The section will be complemented by a discussion of the local party units' rights and duties as granted by the Company Law.

IV(1932), No. 4, pp. 191-197; For the 1946 Law: Chang, Chao-Yuen C. (ed.): The Company Law of China. Promulgated 12th April 1946, Hong Kong, Singapore (Kelly & Walsh) 1946.

B1 Rights and Duties of the New Decision-Making Organs

Range of authority

A summary of the distribution of decision-making rights in the new power organs as specified by the Company Law is provided in Table 1. According to the Law, the general meeting of shareholders is supposed to be the company's major organ of power (Art. 102), which exercises extensive rights in almost all spheres of strategic enterprise decisions (Art. 103). This rule in general is deemed to reduce agency costs since "shareholders as residual claimants have the most to lose as a result of fundamental corporate changes" (Easterbrook and Fischel 1991, 79). The shareholder meeting enjoys approval rights in terms of a company's management strategies and investment plans, elects and dismisses the members of the Board of Directors (BoD) and Board of Supervisors, has the responsibility to approve the reports of both boards and to remunerate the board members. The general meeting of shareholders is also entitled to examine and approve the plans for the annual budget, annual financial accounts, distribution of profits, and making up of company deficits. It adopts resolutions on the increase/decrease of the amount of registered capital, the issuance of company bonds, as well as mergers, separation, and clearance of the company. On the whole, nearly all strategic enterprise decisions have to be approved by the general meeting of shareholders.

The general meeting of shareholders however, does not enjoy much factual decision-making power, since the Company Law delegates the right to draft the plans for strategic decisions to the BoD (Art. 112). The BoD thus de facto heavily influences decisions taken by the general meeting of shareholders, and the general meeting just confirms what has already been decided in another forum. It is the BoD that actually steers the direction of enterprise decisions. More specifically, the BoD exerts dominant power in the formulation and drafting of the annual financial budget and accounts, the distribution of profits and creation of enterprise deficits, increase and decrease of registered capital, the issuance of enterprise bonds and the merger, separation and clearance of the company. Furthermore, the BoD is entitled to determine the operating and investment plans of the company and as regards personnel decisions. It is also responsible for the appointment, removal and remuneration of the leading personnel (i.e. managers, vice-managers and the heads of the financial and accounting departments). It is obvious that the vesting of the drafting and approving rights on such important issues of the BoD leads to a strong concentration of factual power in the hands of the Board members.

The implementation of the plans drafted by the BoD and approved by the general meeting of shareholders is delegated to the manager of the company (Art. 119). Therefore, the manager enjoys substantial discretion at the operational level. In addition to the operational tasks, the manager also enjoys drafting rights with regard to the internal management organization, the basic management system, specific enterprise regulations, and exerts proposal rights with regard to the appointment and removal of the vice manager and the head of the financial and accounting department of the company. Although the manager does not enjoy major drafting rights of future enterprise decisions, it cannot be denied that the manager is in a dominant position when it comes to daily enterprise decision-making in almost all areas of interest. In addition, the general meeting of shareholders or the BoD is allowed to delegate some of their decision-making rights to the manager (Art. 119). Thus, in reality the range of a manager's authority may even include some of the strategic decision-making rights originally distributed to the BoD and shareholder meeting.

The monitoring function is delegated to the Board of Supervisors. But the supervisors enjoy only limited and vaguely defined control rights, at least compared to the American role-model and in view of the extended power concentration in the hands of the members of the BoD and manager. According to Art. 126, its basic duties are the examination of finance and accountancy, the supervision of activities of the members of the BoD and the manager in terms of legal compliance and the interest of the company. Furthermore, the Board of Supervisors is entitled to propose the convention of a provisional general meeting of stockholders. Compared to international practice it is especially striking that the Board's monitoring function does not include the right to investigate the usefulness of certain actions; China’s supervisors seem to be restricted to investigations of the lawfulness of any activities. There is also no indication that specific transactions need an *ex ante* compliance of the Board of Supervisors. As to the Board of Supervisors, the degree of clarification of office duties is also minimal. The Law does not stipulate specific monitoring instruments and does not regulate its position towards the BoD and manager. The lack of clarification is remarkable, since the legislator even dropped those specifications already included in the former Shanghai and Shenzhen Stock Exchange Law. For instance, a specification of the right to see the files is no longer stipulated.[4] Though it cannot be assumed that the right to investigate the files is denied by the Company Law, this lack of clarification by national law underlines the weak position of the Board of Supervisors.

Insert Table 1

[4] See Art. 92 “Shanghai shi gufen youxian gongsi zanxing guiding“ and Art 128 “Shenzhen shi gufen youxian gongsi zanxing guiding“, in: Guojia Guoyou Zichan guanliju Zhengce fagui sibian (ed): Zhongwai

Formalization degree of decision-making processes

The degree of formalization of decision-making processes is a crucial determinant of the formal power-holders' leeway for arbitrary decisions and possibility for capturing of power holders by external parties. The lower the degree of formalization, the higher the likelihood of opportunistic behavior by power holders and the higher the possibility that power holders are captured by external parties. In short, formalization of decision-making serves as a shield against potential deviation from the formal rules. China's Company Law institutionalizes different degrees of formalization for the decision-making processes of different power holders. While the Law shows a comparatively high degree of formalization in the duties of the BoD and the shareholder meeting, the legislator has not attempted to formalize the official duties of the manager and the board of supervisors.

The Company Law (Art. 106) fixed one vote per share for the decision-making processes of the general meeting of shareholders. Resolutions of the general meeting of shareholders must be passed with more than one half of the votes held by stockholders attending the meeting. Crucial decisions like mergers, separation, clearance of the company and the amendment of the company constitution need a qualified majority of two-thirds of the shares held by stockholders attending the meeting. A quorum is not postulated for any type of decision.

As to the BoD, the Company Law postulates that each board should consist of 5 to 19 members, depending on the size of the company (Art. 112). As regards the decision making process of the BoD, a quorum of at least half of the directors in office is postulated in order to convene a meeting. Resolutions adopted by the BoD must be passed by a simple majority of the attending directors (Art. 117). According to Art. 118, the directors are not allowed to

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Gufenzhi fagui huibian.

send agents to attend the meeting but must attend in person. If a personal attendance is not possible, one of the remaining attending directors can be authorized to exert one's voting power.

In contrast to the relatively high degree of formalization of the strategic control holders, the Company Law does not provide any regulations concerning the manager's decision-making process on operational tasks. On those issues where the manager himself enjoys decision-making rights the Company Law does not establish any formal procedures for decision-making or consultation with the BoD, vice-managers, leading managerial personnel and the supervisory committee. Concerning the board of supervisors, the law merely postulates that each company establish a board consisting of at least three members representing shareholders and employees in appropriate proportions (Art. 124). The details about the decision making process of the Board of Supervisors have not been included in the Law at all. Both the rules of procedure and the voting procedure are entirely delegated to the company constitution (Art. 127)

Individual liability of decision-makers

Similar to the formalization-degree of decision-making processes, individual liability serves as an instrument to increase voluntary compliance with the law. The rationale is that agents are more likely to fulfill their formal duties and prevent others from abusing their authority if they are held individually liable. On the contrary, the lack of individual liability increases the likelihood of law-deviating behaviors.

According to the Company Law, the directors are responsible to the stockholders (Art.112) and liable for the resolutions adopted (Art. 118). In case of any violations of the law, administrative regulations, or a company constitution, which cause serious company losses, the directors who participated in the adoption of the resolution are to be held liable for compensation. There is no liability for company losses caused by the adoption of economically disadvantageous decisions in accordance with Chinese law and regulations.

The legal liabilities of the manager and the Board of Supervisors are even less harsh. The law merely states that the manager is responsible to the BoD (Art. 119) and is supervised by the Board of Supervisors (Art. 125), which should examine the manager's activities in terms of legal consistency and with respect to the "interest of the company". As there is no definition of what is to be regarded as the "interest of the company", the restrictions imposed on the manager's behavior remain exceptionally vague. Possible sanctions are not mentioned at all. Paralleling the only minor level of authority of the Board of Supervisors, the Company Law does not establish any individual responsibilities for the members of the Board. Apart from the postulation to exercise their duties loyally (Art. 128), the law does not formulate any explicit punishments for an abuse of one's position. The most severe sanction would again be the theoretically possible, but in reality most unlikely, removal from the board.

The individual responsibility of shareholders is naturally restricted by the fact that each shareholder has to bear the financial risk of decisions taken at the general meeting of shareholders. The financial loss is at most equivalent to the loss of share value realized on the stock market.

B2 Rights and Duties of the Local Party Units

As we have seen, the implementation of the Chinese Company Law is equivalent to a far-reaching transfer of decision-making rights to the new elite as represented by the shareholders, BoD, the enterprise management and the Board of Supervisors. The old balance of power is upset and a new formal distribution of power is established. In such situations, it can rarely be expected that the new power balance will be immediately accepted by the losers of the redistribution process. Instead, changes of formal constraints will give rise to a disequilibrium in which the losers either try to shape the new formal constraints to their advantage or even trigger off tactics of (partial) counterreformation (Winiecki, 1996, 75). As Nee and Ingram (1998, 36) have expressed more neutrally, “when ... formal norms are perceived to be at odds with the interests and preferences of actors in subgroups, informal norms opposing formal rules will emerge to ’bend the bars of the iron cage’ of the formal organizational rules.”

In the case of China’s Company Law, this general tendency is reinforced, since the Law does not completely deny the rights of the old socialist organizations. Instead, the law itself gives sufficient legal grounds to back continuing party involvement in enterprise decision-making. Concerning party activities, the Company Law, Art. 17 merely indicates that “the activities of the local branch units of the CCP in a company shall be carried out in accordance with the Constitution of the CCP.” The Company Law neither grants specific rights to the party branch units, nor restricts their activities. Even the Constitution of the CCP does not contribute much to the clarification of party activities within enterprises, since Art. 31 only vaguely delegates the implementation of higher party decisions to the party committees at the enterprise level. Any advice on the concrete implementation of task and techniques is completely absent in both laws. What seems to be exceptionally important, is the fact that

Art. 31, section 7 explicitly assigns the local party committee the rights to "supervise Party cadres and any other personnel to ensure that they strictly abide by the state laws and administrative disciplines, strictly observe the state's financial and economic regulations and personnel system, and refrain from encroaching on the interests of the state, the collectives and the masses." This in effect provides the local party units with the rights to supervise personnel in the companies.

C. Empirical Evidence for the *de facto* distribution of decision-making rights

In order to reveal the current de-facto distribution of decision-making rights, we employ a unique data set provided by the Shanghai Stock Exchange. The Shanghai Stock Exchange has surveyed all the companies listed at the Exchange early in 2000. 248 companies returned valid questionnaires, with the response rate reaching 51.34 %. At the time the survey was conducted, China had about 970 companies listed at the Shanghai and Shenzhen Stock Exchange. About 25% of all listed companies in China are covered by the survey.

The survey asked the listed companies to rate the decision-making power of different organs in 63 types of decisions on a five-point scale, ranging from no involvement at all (score=1) to full decision-making power (score=5). The questionnaires were supposed to be filled out by the secretary to the chairmen of the board of directors. Similar to other conclusions from research that are based on individual judgement, it must – of course - be born in mind that the ratings provided by the respondents are subject to their personal interpretation. In addition, the fact that the survey was exclusively answered by the secretary of the BoD and not representatives of other power organs could possibly bias judgement. In short, there is a certain probability that the survey overemphasizes the BoD's power.

C1 *De facto* Power Distribution of the New Power Organs

The list of the 63 decisions and the average score of different organs in the questions are provided in table 1 and 2 in the Appendix. First of all, it is important to note that the relative decision-making power of the various power-holders is by and large consistent with the Company Law though the involvement of the shareholder meeting seems to be in fact too low. The organ which enjoys the highest average level of decision-making power is the BoD (mean=3.68). In second place is the manager (mean=3.14), followed by the shareholders meeting (mean=2.76) and supervisory committee (mean=2.24). However, we also have to note the fact that the decision-making power of the local party unit (mean=1.71) has not completely vanished. Although the average value is certainly comparatively low when compared with the new power-organs, the party involvement is still remarkable and the local party units still have their hands in every decision (we turn back to this aspect in C2).

Insert Chart 1

Though the average decision-making power of the different decision-makers seems to be by and large in line with the rules of the Company Law, the average values do not reveal whether different decision-makers actually exercise their authority in the decisions formally assigned to them by the Company Law. In other words, average values do not reveal whether the distribution of decision-making rights in different decisions is consistent with the Law. In order to further understand the distribution of decision-making power among various organs in different decisions, we introduce the concept of a dominant decision-maker. An organ is said to be the dominant decision-maker in a particular decision if its level of decision-making power is the highest. Table 2 shows the distribution of decisions dominated by different organs (the types of decisions dominated by different organs are provided in table 3 in the appendix). BoD is the dominant decision-maker in 33 decisions. The manager and shareholders' meeting dominated 16 and 12 decisions respectively. The supervisory committee is the dominant player in only 2 decisions. The local party units did not dominate any decision type. Again, the distribution of dominant decision-makers suggests that BoD enjoys the highest level of decision-making power, followed by manager and shareholders meeting.

Insert Table 2

For a deeper look at the power distribution across decision-types, Table 3 of the appendix indicates which decisions are dominated by different power holders. It becomes obvious that the basic power-organs are actually the BoD and the manager. Whereas the BoD holds a lot of decision-making power in almost all strategic enterprise decisions, the power of the managers is concentrated on internal organizational decisions and operational tasks. The counterbalance exerted by the shareholders as the ultimate owners of the company is surprisingly low. Shareholder dominance predominately exists for enterprise decision relating to the change the company charter and the selection and appraisal of economic agents (BoD and Supervisory Committee). The shareholders' meeting exerts quite a low level of influence on a wide range of strategic decisions (like increase or decrease of capital or the distribution of profits) for which the Company Law has granted it approval rights.[5] The *de facto* performance of the supervisory committees is even worse. They dominated only two decisions, both of which are related to internal affairs.

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[5] However, we have to stress, that the weak position of the shareholder meeting is not a phenomenon specific to China's listed enterprises. Epstein for instance criticized – not with respect to China, but addressing listed companies of mature market economies – that “shareholder elections are much more akin to the elections held by the CP of North Korea than those held in Western democracies“ (Monks 1995, 9).

On the whole, the existing evidence of the de facto power distribution in China's listed companies allows the following preliminary conclusions:

(1) The power structure in the listed companies is basically in accordance with the formal power distribution as promulgated by the Company Law and the decision-making power has been transferred to the new decision-making organs.

(2) The local party units remained involved in decision-making processes, though they themselves are not granted any specified authorities by the Company Law.

(3) The BoD acts as the ultimate strategic decision-maker.

(4) The managers are in charge of basic decision-making rights on internal organizational tasks (operational decision-maker).

(5) When compared with its formal authority originally assigned by the Company Law, the authority of shareholders meeting has not been fully exercised.

(6) The supervisory committee fails to exert its power as the companies' watchdog, which is actually consistent with the very limited formal rights and monitoring instruments delegated to the supervisors by the company law.

C2. *De facto* Power of Local Party Units

Our analysis of the average decision-making power (see chart 1) has made clear that the local party units remained involved in decision-making processes. In this section we seek to clarify the de facto position of local party units in listed companies by taking a deeper look at the types of decisions under a comparatively high degree of party control. We also attempt to investigate how the local party units manage to exercise influence. As the local party units have been deprived of their formal decision-making rights by the Company Law, it is logical to explore whether the persistence of the party influence is connected with the capture of a formal decision-maker. In other words, we seek to identify whether there is an interventionist channel, which allows the persistence of some party power at the enterprise level.

Table 3 shows the 10 decisions with the highest level of party involvement. It is clear that the local party units tend to have a high level of involvement in those decisions that are de jure assigned to the enterprise manager. Moreover, party involvement concentrates on human capital issues such as appointment decisions and performance appraisals, which have been a central focus of the nomenklatura system for decades of socialist planning (Shirk 1992, 61).

Insert Table 3

The fact that local party units tend to have a high level of involvement in decisions assigned de jure to the enterprise manager suggests that local party units may use the manager's office as their venue of interventionist activities. Our first superficial interpretation is consistent with the linear correlation coefficients of decision-making power between the local party units and the various formal power holders. The statistics in table 4 show that the decision-making power of the local party units is positively and significantly correlated with the decision-making power of the manager (0.53). On the other hand, the branch units' decision-making power is negatively and significantly related to the level of decision-making power of the shareholders' meeting (-0.65), BoD (-0.41) and supervisory committee (-0.27). This suggests that local party units have worked through the manager's office in the decision-making process.

Insert Table 4

However, this relationship is established without controlling for the possible effects that the other new organs have generated on the branch units' decision-making power. Does the positive relationship between the decision-making power of the branch units and of the manager still exist after we have controlled for the impacts of other new organs? We conducted a step-by-step regression in which the decision-making power of the local party unit is explained by the decision-making power of more and more new power organs. We started with a simple model, under which the decision-making power of the local branch unit is explained by that of the manager. We then added the decision-making power of the other three new organs as the explanatory variables according to their absolute values of correlation coefficient in ascending order. In other words, the organ whose decision-making power has the smaller degree of negative association with that of the branch unit is in the first place. The OLS regression equation is

$$\mathbf{DP_i = á + {}_{j=1}^{\,i} â_j DMP_j + e_i}$$

Where DP_i is the average decision-making power of the party branch

$i = 1$ to 4

DMP_j is the average decision-making power of the j^{th} organ

Insert Table 5

The result of the step-by-step regression is presented in table 5. Consistent with the correlation analysis, in our first model the decision-making power of the local party units is related positively and significantly with that of the manager. The decision-making power of the manger can explain 27 percent of the variation in that of the branch unit. Adding the supervisory committee into the model does not increase the explanatory power of the model (Model 2). The relationship between the decision-making power of the party and that of the manager is still positive. There is no relationship between the decision-making power of the branch unit and that of the supervisory committee. This model suggests that the decision-making power of the supervisory committee is not a determinant of the party's decision-making power. When we added the decision-making power of the BoD into the model (Model 3), the positive relationship between the local branch unit's and the manager's power is statistically significant only at 90 % confidence level. There is a significant negative relationship between the decision-making power of the branch unit and the BoD. The explanatory power of the model increases to 34%. This model suggests that in addition to the manager, the decision-making power of the local branch unit is affected in a significant way by that of the BoD. The positive relationship between the decision-making power of the branch unit and the manager disappears however, when we add the power of the shareholders' meeting as the explanatory variable (Model 4). The branch unit's decision-making power is negatively and significantly related to the shareholders' meeting, the BoD and the supervisory committee. The explanatory power of the model increases significantly to 48%.

The step-by-step regression shows that the distribution of decision-making power for local branch units in 63 decisions is explained by the negative effects generated by the shareholders' meeting, the BoD and the supervisory committee. This finding suggests that these three power organs have succeeded in resisting the influence of the branch unit. The question as to whether the branch unit has worked through the manager's office, however, becomes inconclusive. The absolute value of the coefficient for the variable is very small and statistically insignificant.

The lack of relationship between the decision-making power of the local branch unit and the manager in 63 decisions may be due to the fact that the branch unit has intervened through the manager’s office in certain types of decisions but not all the decisions. A further test of whether the branch units have attempted to preserve their power in a manager’s office is to investigate whether the branch unit is more influential in decisions dominated by the manager. We introduce three dummy variables to identify the decisions dominated by the shareholders’ meeting, the BOD and the manager (with supervisory committee as the neutral event). The decision-making power of the local branch unit is then regressed on these dummy variables. The OLS regression equation is:

$$\mathbf{DP = á+â_1D_1+â_2D_2+â_3D_3 +e_i}$$

Where DP is the decision-making power of the party branch;

$D_1 = 1$ if the Shareholders' Meeting is the dominant decision-maker, otherwise, $D_1=0$;

$D_2 = 1$ if the BoD is the dominant decision-maker, otherwise, $D_2 = 0$;

$D_3= 1$ if the manager is the dominant decision-maker, otherwise $D_3=0$

The result in table 6 clearly shows that the decision-making power of the local branch unit tends to be significantly higher where the manager is the dominant decision-maker. No significant relationship can be found for the decisions where the shareholders’ meeting and the BoD are dominant. The coefficients for these two variables are very close to zero as well as statistically insignificant.

Insert Table 6

The regression on dominant decision-makers assumes that decision-making in a particular case is dominated by a single decision-maker without interference from others. This may not be true, especially when there is an important second decision-maker whose power is comparable to that of the dominant organ. It is important to examine how the existence of an important second decision-maker affects the power of the local branch unit in making the decisions where the manager is dominant. It is also important to investigate how the manager as an important second decision-maker affects the branch unit in the decisions dominated by other decision-makers.

We identified both the dominant and the second decision-maker for each decision. Interestingly, the BoD is the second decision-maker in all the decisions dominated by the manager. On the other hand, the manager has served as the second decision-maker only in the decisions dominated by the BoD. We then calculated the power differentials between the dominant and second decision-makers for each decision and used two power differential benchmarks to determine whether the second decision-makers should be considered important or not. Firstly, a second decision-maker is said to be important if the power differential between the dominant and second is less than or equal to 10%. Secondly, a second decision-maker is called the important second decision-maker if the power differential between the dominant and the second is less than or equal to 20%. Two separated OLS regressions were conducted to investigate how the existence of the important second decision-makers affects the decision-making power of the local branch unit. The OLS regression equation is the following:

$$\mathbf{DP_i = \acute{a}_i+\hat{a}_{i1}D_{i1}+\hat{a}_{i2}D_{i2}+\hat{a}_3D_{i3} +\hat{a}_{i4}D_{i4}+\hat{a}_{i5}D_{i5} + e_i}$$

Where i=1 when the power differential benchmark for determining the important second decision-makers is 10 %

i=2 when the power differential benchmark for determining the important second decision-makers is 20 %

DP_i is the decision-making power of the party branch;

D_{i1} = 1 if the shareholders' meeting is the dominant decision-maker, otherwise, D_{i1}=0;

D_{i2} = 1 if the BoD is the dominant decision-maker, otherwise, D_{i2} = 0;

D_{i3}= 1 if the manager is the dominant decision-maker, otherwise D_{i3}=0

$D_{i4=}$= 1 if the manager is the dominant decision-maker and the BoD is the important second decision-maker, otherwise D_{i4}=0;

D_{i5}= 1 if the BoD is the dominant decision-maker and the manager is the important second decision-maker, otherwise D_{i5}=0;

Insert Table 7

The results of the two regressions are reported in table 7. For decisions dominated by the manager, the branch unit still enjoys a higher level of decision-making power after controlling for the effects of second decision-makers. The relationship becomes stronger as well as statistically more significant. The existence of the BoD as the important second decision-maker tends to reduce the decision-making power of the branch unit. The relationship is statistically significant when the power differential is relatively small (model 1) but becomes statistically insignificant when the power differential becomes larger (model 2). The existence of the manager as the important second decision-maker tends to increase the decision-making power of the branch unit in the decisions dominated by the BoD. The relationship is statistically insignificant in both models, however. The inclusion of the second decision-makers into the models has increased the explanatory power of the models to 49% and 45% respectively.

D. Conclusion and Policy Implications

Our major goal has been the investigation of the de facto enforcement of a new decision-making structure as promoted by the Chinese Company Law. This included a dual analysis which revealed the current internal decision-making structure among the new decision-makers on the one hand. On the other hand, our analysis focused on the factual independence of the new power organs from local party branch units as a critical indicator for Law enforcement and effectiveness.

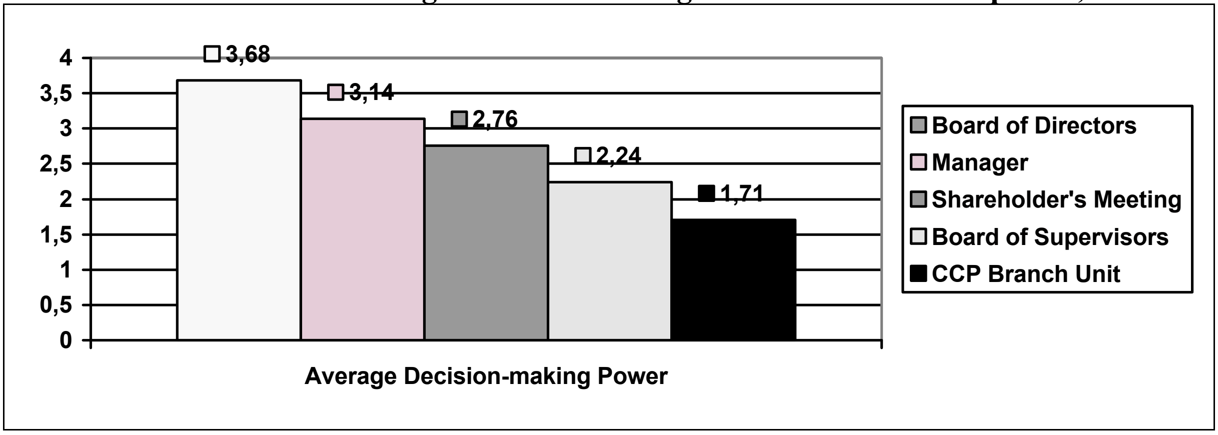
As to the establishment of a new hierarchy of enterprise decision-making, we offer evidence that the distribution of decision-making power among the new power holders is quite consistent with the specification of the Company Law. This leads to the conclusion that China's listed companies are in fact making significant progress in creating a new corporate governance structure. But the emerging structure is far from being a perfect picture of the Company Law. We currently see a hybrid structure, which is partly consistent with de-jure rights and partly shaped by both the Law's pitfalls and its weak enforcement. Consistent with the Law, the BoD and the manager meanwhile serve as the strategic and operational decision-makers respectively. At the same time, the low influence of the supervisory committee is actually consistent with the Law's regulations, which are specifically weak when it comes to the clarification of the supervisory committees' authority. Weak enforcement is obvious with respect to the position of the shareholder's meeting. Its de facto position is not in accordance with the Law's regulations. For the time being, the particularly weak enforcement of shareholder rights gives ample room for insider-control, which may easily be to the shareholders' disadvantage. Of course, we have our reservations as to whether improved enforcement of ownership rights can be accomplished without further reforms of the enterprises' ownership structure. Currently, 82 percent of the largest shareholders of the companies listed at the Shanghai Stock Exchange are state owned entities including state asset management agencies and state enterprises (SSSE 2000).

As to the distribution of rights between old and new power holders, the survey corroborates that the party branches have indeed lost their dominant power and have no final say in any of the major enterprise decisions. In this respect, the Company Law can in fact be regarded as a useful tool for enterprise de-politicization. However, party branches still enjoy limited power in almost all decision-types, which is a clear deviation from capitalist style enterprise management and could easily negatively affect China's evolving corporate governance system. As we have shown, the Company Law grants local party units a legal status within the enterprises. In view of the Party's unchallenged political authority in the national economy, the party's organizational presence at the enterprise-level easily increases both the local party units' bargaining power and the inclination of new power holders to accept their interference. This suggests that the Company Law itself may have contributed to the continued involvement of the local party units in the listed companies.

From our various approaches we have reliably singled out that the manager's office appears to be the central organizational leak allowing continuing party involvement at the enterprise level. External interference in the manager's activities is certainly not a phenomenon specific to China. Company Laws are never perfect due to positive transaction costs and asymmetric information between principal and agent, which gives even managers in mature market economies sufficient discretion to make them vulnerable to meddling from interest groups. In addition, China's Company Law has an obvious loophole that may have facilitated party involvement in the manager's office. As our analysis has shown, the Law institutionalizes only limited monitoring devices for the Supervisory Committee and weak formal constraints on management decision-making. Manager discretion is deemed to be extensive under these circumstances. This in turn suggests that the involvement of the party in manager's office may have been in part caused by deficiency of the Company Law. We are, however, well aware that our findings should be treated with caution and can only offer a first starting point for further research on causal explanations of current interventionist patterns in China.

If our conclusion that the level and the pattern of party intervention in China's listed companies has been shaped by deficiencies of the Company Law is correct, a full de-politicization of China's companies will not be likely unless the remaining loopholes of the Company Law are closed. This implies the need for both the elimination of activities from the local branch units at the enterprise level and an increasing specification of the rights and duties of the new power holders. Especially monitoring of the manager's activities needs to be improved in order to protect shareholder's interest. Since such a change would not only demand an amendment of the Company Law and the Law of the CCP, but also touches the deep-rooted self-image of the party, it would be naive to assume that China's leadership would be willing and able to implement such a revolutionary policy change in the short run. Nevertheless, the ongoing marketization and liberalization of the economy will further reduce the bargaining power of local branch units and thus increase China's chances to successfully complete enterprise de-politicization.

Chart 1: Distribution of Average Decision-Making Power in Listed Companies, 2000



Source: Data provided by SSES 2000.

Table 1: Distribution of formal rights granted by the Company Law

	Shareholder Meeting	Board of directors	Manager	Board of Supervisors
Investment and Operating plan	Decides on the plan	Determines plan	Implements the plan	
Personnel decisions	Elects member of BoD / remuneration decision Elects board of supervisors / decides on remuneration	Appoints and removes managers, vice-managers, persons in charge of finance and accounting. Determines remuneration	Suggests appointment / removal of vice-manager; Appoints / removes managerial personnel	Supervises BoD and manager's activities
Reports/ Meeting	Examines and approves report of BoD	Reports to shareholder meeting		Attends the BoD-meetings as non voting delegate
Financial budget / Accounting	Examines and approves	Drafts the plan		Examines
Distribution of Profits	Examines and approves	Drafts the plan		
Increase/ Decrease of Capital	Adopts resolution	Drafts the plan		
Company bonds	Adopts resolution	Drafts the plan		
Mergers/ separation/ clearance	Adopts resolution	Drafts the plan		
Company constitution	Amends			
General meeting		Convenes general Meeting / work report		Proposes convention of a provisional stockholder's general meeting
Management system		Establishes internal Management Organization	Drafts the establishment of the internal management organization; Drafts the basic management system	

Table 2: Number of Decisions Actually Dominated by Various Power Organs

Shareholders' Meeting	Board of Directors	Supervisory Committee	Manager	Total
12	33	2	16	63

Source: Data provided by SSES 2000.

Table 3: Ranking of enterprise decisions with highest party involvement

	Party Branches	De-jure responsibility
Selection of Functional Department Manager	2.10	Manager
Selection of Business Department Managers	2.06	Manager
Selection of Branch Manager	2.00	Manager
Selection and Dismissal of vice-manager	1.99	BoD/Manager
Selection of Subsidiary Manager	1.97	Manager
Performance Appraisal of Functional Departments	1.95	Manager
Performance Appraisal of Business Department	1.95	Manager
Creation and Abolition of Functional Departments	1.92	Manager
Selection and Dismissal of manager	1.90	BoD
Training and Education for Middle Management	1.90	Manager

Scource: SSES 2000.

Table 4: Linear Correlation Coefficients of Decision-making Power of Various Organs

	Shareholders' Meeting	Board of Directors	Supervisory Committee	Manager	CCP Local Branch Unit
Shareholder's' Meeting	1.00*				
Board of Directors	0.37*	1.00*			
Supervisory Committee	0.22	-0.31*	1.00*		
Manager	-0.64*	-0.33*	-0.52*	1.00*	
CCP Local Party Unit	-0.65*	-0.41*	-0.27*	0.53*	1.00*

* The hypothesis of no linear correlation is rejected at 95% confidence interval.

Table 5: OLS Estimates for Decision-making Power of Various New Power Organs

Regressors and Regression Statistics	Model 1 (I=1)	Model 2 (i=2)	Model 3 (i=3)	Model 4 (i=4)
Manager's decision-making power	0.1689 *** (0.0347)	0.1697*** (0.0411)	0.0817* (0.0489)	-0.0186 (0.0497)
Supervisory Committee's decision-making power		0.0025 (0.0731)	-0.15* (0.0862)	-0.1669** (0.0765)
Board of Directors' decision-making power			-0.1693** (0.0577)	-0.1398*** (0.0576)
Shareholders' meeting's decision-making power				-0.1427*** (0.0343)
R^2	0.28	0.28	0.37	0.52
Adj. R^2	0.27	0.25	0.34	0.48

*** Statistically significant at 1 % level
** Statistically significant at 5% level
* Statistically significant at 10% level

Table 6: OLS Estimates for Effects of Various Dominant Decision-makers

Regressors and Regression Statistics	Coefficients
D_1	0.0086 (0.1745)
D_2	0.0741 (0.1651)
D_3	0.515** (0.1702)
R^2	46
Adj. R^2	43

** Statistically Significant at 5% level.

Table 7: OLS Estimates for Effects of Dominant and Important Second Decision-makers

Regressors and Regression Statistics	Model 1 (power differential 10%)	Model 2 (power differential 20%)
D_1	0.0086 (0.1648)	0.0086 (0.171)
D_2	0.0623 (0.1565)	0.04 (0.1638)
D_3	0.5736*** (0.162)	0.565*** (0.17)
D_4	-0.4686** (0.1141)	-0.2 (0.1285)
D_5	0.1001 (0.8779)	0.116 (0.0838)
R^2	0.53	0.50
Adj. R^2	0.49	0.45

** Statistically significant at 5 % level

*** Statistically significant at 1 % level

Appendix:

Table 1: Decision-making Power of various power holders in China's Listed Companies*

	Share-holder's Meeting	Board of Directors	Supervisory Commit-tee	Manager	Party Branches
Call of Shareholder Meeting	3.35 (150)	4.31 (246)	2.6 (208)	2.2 (196)	1.44 (181)
Agenda Setting in Shareholder Meeting	3.53 (206)	4.27 (244)	2.52 (211)	2.25 (200)	1.41 (181)
Call of Board Meeting	2.08 (169)	4.58 (234)	2.23 (195)	2.44 (202)	1.41 (174)
Agenda Setting in Board Meeting	2.02 (172)	4.61 (234)	2.22 (195)	2.51 (204)	1.45 (174)
Call of Supervisory Committee Meeting	1.92 (168)	2.09 (185)	4.64 (240)	1.81 (180)	1.54 (178)
Agenda Setting in Supervisory Committee Meeting	1.92 (169)	1.99 (184)	4.67 (241)	1.79 (180)	1.53 (171)
Call of Manager's Office Meeting	1.48 (164)	2.49 (190)	1.91 (180)	4.65 (241)	1.9 (177)
Agenda Setting in Manager's Office Meeting	1.45 (163)	2.44 (186)	1.84 (178)	4.69 (176)	1.86 (173)
Selection of Representatives attending Manager's Office Meeting	1.35 (161)	2.14 (178)	1.58 (175)	4.68 (173)	1.77 (175)
Making Amendments to Company's Charter	4.53 (182)	3.71 (218)	2.7 (192)	2.2 (182)	1.48 (171)
Organizational Change	2.24 (174)	4.07 (233)	2.23 (186)	3.67 (219)	2.06 (173)
Creation and Abolition of Functional Departments	1.65 (167)	3.59 (209)	2.05 (183)	4.09 (232)	2.09 (173)
Selection of Functional Department Manager	1.37 (166)	2.97 (191)	1.89 (179)	4.44 (235)	2.35 (176)
Performance Appraisal of Functional Departments	1.37 (163)	2.66 (189)	1.93 (180)	4.46 (234)	2.31 (174)
Creation and Abolition of Business Departments	1.36 (162)	2.97 (190)	1.94 (180)	4.43 (225)	2.05 (170)
Selection of Business Department Managers	1.29 (160)	2.54 (181)	1.86 (174)	4.52 (230)	2.35 (173)

Performance Appraisal of Business Department	1.28 (159)	2.49 (182)	1.85 (174)	4.49 (229)	2.24 (172)
Creation and Abolition of Branch	2.1 (149)	3.85 (197)	2.01 (153)	3.87 (186)	1.9 (148)
Selection of Branch Manager	1.42 (143)	3.24 (176)	1.9 (153)	4.28 (199)	2.31 (153)
Performance Appraisal of Branch	1.39 (142)	2.94 (168)	1.89 (158)	4.4 (197)	2.07 (152)
Creation and Abolition of Subsidiaries	2.45 (158)	3.94 (198)	2.03 (158)	3.69 (190)	1.91 (150)
Selection of Subsidiary Manager	1.52 (146)	3.46 (181)	1.9 (158)	4.12 (203)	2.23 (155)
Performance Appraisal of Subsidiaries	1.47 (147)	3.09 (174)	1.85 (156)	4.24 (198)	2.05 (151)
Election and Dismissal of Chairman of Board of Director	3.43 (208)	4.23 (219)	1.98 (179)	1.51 (182)	1.67 (169)
Performance Appraisal of and Remuneration Enjoyed by Board Chairman	3.5 (204)	3.88 (212)	2.06 (176)	1.54 (170)	1.67 (166)
Election and Dismissal of Board Members	4.48 (229)	3.43 (207)	1.97 (182)	1.53 (171)	1.64 (168)
Performance Appraisal of and Remuneration Enjoyed by Board Members	3.88 (203)	3.8 (212)	2.16 (177)	1.57 (171)	1.58 (165)
Election and Dismissal of Board Secretary	2.55 (181)	4.58 (237)	1.94 (177)	1.87 (171)	1.66 (166)
Performance Appraisal of and Remuneration Enjoyed by Board Secretary	2.27 (176)	4.48 (229)	1.95 (175)	2.19 (176)	1.61 (163)
Selection of Supervisory Committee Members	4.38 (217)	2.21 (180)	3.39 (201)	1.65 (172)	1.81 (168)
Performance Appraisal of and Remuneration Enjoyed by Supervisory Committee Members	3.83 (200)	2.33 (186)	3.33 (203)	1.74 (169)	1.74 (163)
Selection and Dismissal of manager	2.22 (171)	4.68 (238)	2.21 (185)	1.98 (174)	2.04 (171)
Performance Appraisal of and Remuneration Enjoyed by manager	2.09 (171)	4.58 (235)	2.2 (179)	2.14 (172)	1.93 (165)

Selection and Dismissal of vice-manager	1.91 (170)	4.22 (229)	2.14 (180)	3.46 (202)	2.14 (173)
Performance Appraisal of and Remuneration Enjoyed by vice-manager	1.88 (171)	4.13 (223)	2.14 (180)	3.46 (203)	2 (170)
Change in Shareholding Structure	4.31 (215)	3.82 (210)	2.17 (173)	2.3 (174)	1.43 (164)
Change in Debt/Equity Ratio	3.89 (211)	3.97 (215)	2.16 (172)	2.69 (175)	1.38 (162)
Dividend Plan	4.48 (234)	3.92 (220)	2.29 (176)	2.48 (174)	1.33 (163)
Share Placement and New Issue	4.5 (230)	3.9 (220)	2.28 (177)	2.5 (173)	1.36 (163)
New Investment in Technology	3.73 (211)	4.1 (218)	2.2 (177)	3.31 (199)	1.47 (161)
New Investment in Infrastructure	3.69 (209)	4.08 (216)	2.19 (176)	3.27 (193)	1.48 (160)
Financial Investment	3.45 (195)	4.11 (212)	2.24 (176)	3.21 (159)	1.43 (158)
Investment in other stock companies	3.73 (203)	4.1 (216)	2.24 (175)	3.13 (191)	1.42 (158)
Sell of Assets	3.82 (207)	4.05 (212)	2.29 (175)	3.06 (189)	1.48 (158)
Loans for Fixed Asset Investment	2.84 (183)	4.01 (214)	2.12 (177)	3.48 (207)	1.41 (159)
Loans for Liquidity Fund	2.42 (179)	3.68 (206)	2.03 (176)	3.82 (211)	1.38 (160)
Loans Through Mortgaging of Asset	3.54 (194)	4.08 (211)	2.13 (168)	3.18 (189)	1.44 (155)
Guarantee for Other Enterprises' Large Scale Loans	3.54 (194)	4.08 (211)	2.2 (170)	3 (186)	1.42 (157)
Amount of External Donation	2.85 (181)	4.02 (209)	2.16 (168)	3.16 (194)	1.62 (157)
External Donation Plan	2.58 (163)	3.74 (182)	2.12 (156)	3.26 (177)	1.67 (150)
Contracting of Large Scale Construction Project	2.42 (163)	3.75 (182)	2.14 (161)	3.66 (186)	1.2 (149)
Merge with Other Enterprises	4.25 (217)	3.96 (207)	2.36 (171)	3.02 (184)	1.57 (159)
Being Merged By Other Enterprises	4.28 (201)	3.85 (190)	2.4 (160)	2.81 (169)	1.66 (150)
Formulation of Long-term Development Plan	3.73 (196)	4.19 (228)	2.35 (175)	3.29 (199)	1.79 (164)

Formulation of Strategic Plan	3.34 (184)	4.29 (175)	2.29 (175)	3.36 (200)	1.77 (164)
Establishment of Long-term Relationship with Other Enterprises	2.49 (164)	3.87 (200)	2.08 (163)	3.8 (197)	1.62 (154)
Change of Direction, Entry into New Industry and Market	3.9 (196)	4.07 (218)	2.33 (168)	3.35 (191)	1.68 (157)
Selection of Accounting (Auditing) Firm	4.1 (210)	4.03 (219)	2.21 (175)	2.74 (187)	1.38 (161)
Selection of Law Firm	3.12 (187)	4.12 (216)	2.23 (173)	3.02 (193)	1.41 (162)
Selection of Financial Consultant	2.47 (160)	4.09 (212)	2.15 (162)	3.29 (185)	1.44 (156)
Selection of Management Consultant	2.22 (154)	4.01 (198)	2.13 (160)	3.51 (186)	1.46 (152)
Training and Education for Board Members and Higher Management	1.71 (162)	4.31 (227)	2.01 (169)	3.16 (191)	1.72 (162)
Training and Education for Middle Management	1.46 (161)	2.81 (183)	1.92 (175)	4.35 (233)	1.94 (164)
Overall Decision-making Power	2.76	3.68	2.24	3.14	1.71

- average score on a five-point scale ranging from no involvement at all (score=1) to full decision-making power (score=5)
- figures in parentheses are the number of respondents to specific questions.

Table 2: Summary Statistics of Averaged Decision-making Power for Various Organs

	Shareholders' Meeting	Board of Directors	Supervisory Committee	Manager	CCP Local Party Unit Unit
Mean	2.76	3.68	2.24	3.14	1.71
Standard Error	0.13	0.09	0.07	0.12	0.04
Median	2.49	3.94	2.15	3.21	1.66
Mode	3.73	4.58	2.23	2.20	1.41
Standard Deviation	1.06	0.72	0.53	0.94	0.30
Sample Variance	1.13	0.51	0.28	0.88	0.09
Range	3.25	2.69	3.09	3.18	1.15
Minimum	1.28	1.99	1.58	1.51	1.20
Maximum	4.53	4.68	4.67	4.69	2.35

Table 3: Decisions Dominated by Various Formal Power Organs in China's Listed Companies*

Shareholder's Meeting	Board of Directors	Supervisory Committee	Manager
1. Performance Appraisal of and Remuneration Enjoyed by Board Members	1. Selection and Dismissal of vice-manager	1. Call of Supervisory Committee Meeting	1. Selection of Subsidiary Manager
2. Performance Appraisal of and Remuneration Enjoyed by Supervisory Committee Members	2. Change in Debt/Equity Ratio	2. Agenda Setting in Supervisory Committee Meeting	2. Call of Manager's Office Meeting
3. Making Amendments to Company's Charter	3. Performance Appraisal of and Remuneration Enjoyed by vice-manager		3. Performance Appraisal of Subsidiaries
4. Election and Dismissal of Board Members	4. Amount of External Donation		4. Training and Education for Middle Management
5. Dividend Plan	5. Loans for Fixed Asset Investment		5. Agenda Setting in Manager's Office Meeting
6. Selection of Supervisory Committee Members	6. Sell of Assets		6. Loans for Liquidity Fund
7. Change in Shareholding Structure	7. New Investment in Technology		7. Selection of Branch Manager
8. Being Merged By Other Enterprises	8. Investment in other stock companies		8. Performance Appraisal of Branch
9. Merge with Other Enterprises	9. Formulation of Long-term Development Plan		9. Selection of Functional Department Manager
10. Organizational Change	10. New Investment in Infrastructure		10. Performance Appraisal of Functional Departments
11. Share Placement and New Issue	11. Training and Education for Board Members and Higher Management		11. Creation and Abolition of Business Departments
12. Selection of Accounting (Auditing) Firm	12. Creation and Abolition of Functional Departments		12. Formulation of Strategic Plan
	13. External Donation Plan		13. Selection of Representatives attending Manager's Office Meeting
	14. Election and Dismissal of Board Secretary		14. Selection of Business Department Managers
	15. Election and Dismissal of Board Secretary		15. Performance Appraisal of Business Department
	16. Guarantee for Other Enterprises' Large Scale Loans		16. Creation and Abolition of Branch
	17. Agenda Setting in Shareholder Meeting		

	18. Establishment of Long-term Relationship with Other Enterprises		
	19. Selection of Financial Consultant		
	20. Financial Investment		
	21. Creation and Abolition of Subsidiaries		
	22. Election and Dismissal of Chairman of Board of Director		
	23. Contracting of Large Scale Construction Project		
	24. Call of Shareholder Meeting		
	25. Performance Appraisal of and Remuneration Enjoyed by Board Secretary		
	26. Selection and Dismissal of manager		
	27. Selection of Management Consultant		
	28. Selection of Law Firm		
	29. Change of Direction, Entry into New Industry and Market		
	30. Performance Appraisal of and Remuneration Enjoyed by manager		
	31. Call of Board Meeting		
	32. Performance Appraisal of and Remuneration Enjoyed by Board Chairman		
	33. Agenda Setting in Board Meeting		

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