

# Research on the System of Effective Exercise of Power by the Board of Directors of Large State-owned Power Grid Enterprises

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**Abstract.** The 20th National Congress of the Communist Party of China (CPC) has proposed to deepen the reform of state-owned capital and state-owned enterprises (SOEs), improve the modern corporate system with distinctive Chinese features, and accelerate the construction of world-class enterprises. The board of directors is an important governance body of the modern corporate system, and strengthening the construction of the board of directors is a key task of SOE reform under the new situation. In this paper, we systematically investigate the situation and policy requirements for the effective exercise of board of directors' power in state-owned enterprises. We systematically study and construct a model framework for the effective exercise of board of directors' power, based on which we diagnose and evaluate the effectiveness of the board of directors of current large state-owned power grid enterprises, and further propose countermeasures to effectively exercise board of directors' power.

**Keywords:** SOE Reform, Board of Directors, Effective Exercise of Power

## 1 Introduction

The 20th CPC National Congress has proposed to deepen the reform of state-owned capital and SOEs, improve the modern corporate system with distinctive Chinese features, and move faster to help Chinese companies become world-class outfits. The board of directors is an important governance body of the modern enterprise corporate system, and strengthening the construction of the board of directors is a key task of SOE reform [1]. With the completion of the three-year action plan for SOE reform and the deepening of the reform of state-owned capital and SOEs, SOEs need to closely anchor the goal of forming a more mature and definite modern corporate system with distinctive Chinese features, and make it a priority to enhance the effectiveness of the board of directors on the basis of strengthening the standardization of the board of directors and constructing the board of directors to the fullest extent [2]. Therefore, it is important to conduct systematic research on the connotation of effective exercise of board of directors' power and the exercise system of state-owned enterprises. It is of great significance for SOEs to become world-class outfits and realize the modernization of corporate governance by constructing a model framework for the effective exercise of power by board of directors and carrying out evaluations, as well as proposing corresponding countermeasures and suggestions.

## **2 Policy requirements for effective exercise of power by the board of directors of large state-owned power grid enterprises**

### **2.1 State-owned capital and state-owned enterprise reform policy requires enhancing the effectiveness of company board building**

First, it emphasizes the important role played by board of directors. Since 2021, a series of important documents on corporate governance have been issued at the national level, emphasizing the position and role of the board of directors in the corporate governance structure of SOEs, and calling for the board of directors to play the roles of determining strategies, decision-making and risk prevention [3][4].

Second, effectiveness has become an important element in the evaluation of the board of directors of central enterprises. In 2021, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued the Rules for the Work of the Board of Directors of Central State-owned Enterprises (for Trial Implementation) and the Measures for the Evaluation of the Board of Directors and Directors of Central State-owned Enterprises. Based on strengthening the standardization and effectiveness of the operation of the board of directors, both the documents provide normative guidelines on the composition, functional positioning and operational mechanism of the board of directors, as well as the duties, rights and obligations of board members, so as to promote the standardized and effective operation of the board of directors [5][6].

### **2.2 The company's high-quality development requires the construction of high-quality board of directors as an important guarantee**

Large state-owned power grid enterprises have proposed to accelerate the construction of an internationally leading energy Internet enterprise with Chinese characteristics. Facing the new situation, it is necessary to strengthen the construction of the board of directors, enhance the delegation of authority, and to promote high-quality development of the company's business with the effectiveness of governance effectiveness [7].

First, promoting the implementation of the company's strategy requires strengthening and improving the board of directors at all levels. With the downward trend of global economic fluctuations and the increasingly complex and severe external environment, the Chinese economy is facing increasing difficulties and challenges. Deepening the reform of state-owned assets and enterprises, as well as the reform of the power system, has brought more uncertainty to the company's development. New technologies, new business models, and new models are constantly emerging, posing higher requirements for the company's decision-making efficiency and risk prevention ability. The company needs to further rationalize the control interface, promote the synergistic and efficient development of business with management model change and governance effectiveness synergy [8], as well as promote the effective performance of the board of directors at all levels and further enhance the effectiveness of corporate governance.

Second, accelerating the construction of world-class enterprises requires further improvement of governance modernization. The international political and economic situation is complex and volatile, and the company is facing increasingly fierce international competition, which puts higher demands on the company's risk prevention ability and core competitiveness. By

promoting the effective exercise of power by the board of directors, further enhancing the ability of strategic management, scientific decision-making and risk prevention and control is also an inevitable requirement for improving the company's international competitiveness and building a world-class enterprise characterized with "excellent products, outstanding brand, leading innovation and modern governance".

### **3 Research on the connotation of effective exercise of board of directors' power and the construction of exercise system**

#### **3.1 The connotation of effective exercise of board of directors' power**

The effective exercise of power by the board of directors is defined according to the Company Law of the People's Republic of China and other relevant laws, regulations, and policy requirements for the standardization of the construction of the board of directors of central state-owned enterprises, as well as the requirements for promoting the establishment of a corporate governance mechanism characterized with "legal authority and responsibility, transparent authority and responsibility, coordinated operation, and effective checks and balances". On the basis of theoretical research on corporate governance and practical experience in the operation of the board of directors [9], the board of directors will give full play to its role of determining strategies, making decisions and preventing risks, leading all-round reform of the enterprise with the enhancement of the effectiveness of the board of directors, promoting profound changes in enterprise's management operation mechanism, and promote the high-quality development of the enterprise with the construction of high-quality board of directors [10].

#### **3.2 The framework of the model of the board of directors' effective exercise of power system**

In accordance with the requirements of accelerating the formation of a corporate governance mechanism characterized with "legal authority and responsibility, transparent authority and responsibility, coordinated operation, and effective checks and balances", the framework of the exercise system including the subject of exercising power, the content of exercising power, the mechanism of exercising power, and the evaluation of exercising power is constructed [11]. Table 1 shows the framework. Specifically, the subject of exercising power and the content of exercising power answer "what is the power and who should exercise it"; the mechanism of exercising power answers "how to exercise power"; and the evaluation of exercising power answers "how to exercise power effectively".

**Table 1.** Framework construction of the board of directors' effective exercise of power system.

Aspects	Details
Subjects exercising power	(1)Shareholder Power (2)Responsibilities of the Board of Directors (3)Delegation of authority from the Board of Directors to the Chairman and General Manager (4)Management and supervision of managers by the Board of Directors

The content of the exercise of power	(1)Decision-making list. Within the same enterprise, the division of powers and responsibilities of each power-exercising subject is reflected in the decision list. (2)Model system. The governance and control of the headquarters to the subsidiary companies, different types of enterprises have different governance structures, reflected in the classification of the construction of the governance model, the model system.
Mechanisms for exercising power	(1)Authorization mechanism (2)Strategy Development Mechanism (3)Scientific decision-making mechanisms (4)Risk prevention mechanism (5)Support and guarantee mechanism
Evaluation of the exercise of power	(1)Supervision and appraisal and evaluation (for directors and board of directors) (2)Incentive restraint, recourse and exemption from liability (for directors)

As for the exercise of power subjects, the relevant exercise subjects of the effective exercise of power by the board of directors include shareholders, the party committee (party group), the board of directors, and the managerial level. The construction of the exercise system in the dimension of exercise subjects includes: (1) shareholders' power; (2) responsibilities of the Board of Directors; (3) delegation of authority from the Board of Directors to the Chairman and General Manager; (4) management and supervision of managers by the Board of Directors.

In terms of the content of exercising power, the effective exercise of power by the board of directors refers to the effective exercise of the board's decision-making power to make decisions on major business management matters, the supervisory power to monitor and inspect the implementation of board resolutions by the management, and the exercise of the board's authority to select and employ human resources in accordance with relevant regulations. The content of the exercise of authority system includes: (1) decision list; (2) model system.

With regard to the exercise mechanism, how the board of directors exercises its power mainly considers how the board itself operates, including the authorization mechanism, role-playing mechanism and support and guarantee mechanism of the board. The construction of the exercise system of the exercise mechanism dimension includes: (1) authorization mechanism; (2) strategy formulation mechanism; (3) scientific decision-making mechanism; (4) risk prevention mechanism; and (5) support and guarantee mechanism (for directors and the board of directors).

The exercise of power evaluation dimension answers how to effectively exercise power, mainly including supervision and evaluation of the board of directors and directors, and incentive restraint, recourse and exemption of directors. The construction of the exercise system of the exercise and evaluation dimension includes: (1) supervision and assessment and evaluation (for directors and board of directors); (2) incentive restraint, recourse and exemption (for directors).

#### **4 Diagnosis of effective exercise of power by the board of directors of large state-owned power grid enterprises**

Based on the model framework constructed above and considering the status quo of large state-owned grid enterprises, we individually evaluate the effectiveness of the board of directors at the group level and at the secondary unit level from four dimensions, namely, the subject of

exercising power, the content of exercising power, the mechanism of exercising power, and the evaluation of exercising power. We further propose the optimizing emphasis shown in Table 2. In the next step, it is necessary to take the improvement of the effectiveness of the board of directors' exercise of power as an important hand to improve the corporate governance mechanism and enhance the effectiveness of governance, accelerate the transformation of the board of directors' exercise of power from "tangible but not divine" to "both tangible and divine", effectively improve the ability of the board of directors to perform its duties and scientific decision-making Level, accelerate the construction of professional and responsible, standardized and efficient, with power grid characteristics of the Board of Directors.

**Table 2.** Focus on optimizing the effective exercise of power by the company's board of directors

Aspects	Details	Company	Secondary Unit
Subjects exercising power	(1)Shareholder Power		√
	(2)Responsibilities of the Board of Directors	√	√
	(3)Delegation of authority from the Board of Directors to the Chairman and General Manager		√
	(4)Management and supervision of managers by the Board of Directors		
The content of the exercise of power	(1)Decision-making list	√	
	(2)Model system		√
Mechanisms for exercising power	(1)Authorization mechanism	√	√
	(2)Strategy Development Mechanism	√	
	(3)Scientific decision-making mechanisms	√	
	(4)Risk prevention mechanism	√	
	(5)Support and guarantee mechanism	√	√
Evaluation of the exercise of power	(1)Supervision and appraisal and evaluation (for directors and board of directors)		√
	(2)Incentive restraint, recourse, and exemption from liability (for directors)		√

## 5 Suggestions for effective exercise of power by directors of large state-owned power grid enterprises

### 5.1 Recommendations for effective exercise of board of directors' power at the corporate level

First, the functional role of the special committee is strengthened as an important part of enhancing the effective exercise of power by the Board of Directors of the Company. Second, continuously improve the authorization system of the Board of Directors [12]. Third, we will continue to enhance the ability of the outside directors to exercise their power and guarantee the timeliness, professionalism and effectiveness of the service support of the outside directors.

## 5.2 Recommendations for effective exercise of authority by the board of directors at the secondary unit level

First, it regulates the shareholders to exercise their power and leaves enough space for the operation and decision-making of the board of directors of the subsidiary enterprises. The second is to classify and clarify the standards and requirements for the construction of the board of directors, and improve the assessment and evaluation and incentive mechanism. Third, systematically strengthen the support for the work of the board of directors.

## 6 Conclusion

The 20th CPC National Congress has proposed to improve the modern corporate system with distinctive Chinese features and accelerate the construction of world-class enterprises, which put forward higher requirements on the effectiveness of the board of directors of state-owned enterprises. Through the study, the connotation of effective exercise of power by the board of directors of state-owned enterprises is clarified, the model framework of effective exercise of power system by the board of directors of state-owned enterprises is constructed, and targeted countermeasure suggestions are put forward based on the evaluation results. In the next step, state-owned enterprises should promote the company to achieve high-quality development by building a high-quality board of directors. At the group level, we should vigorously improve the "effectiveness" of the operation of the board of directors and build a professional, responsible, standardized and efficient board of directors. At the level of secondary units, it is necessary to promote the quality of the board of directors, to promote the board of directors of secondary units to achieve "both the form and the spirit" and to function effectively.

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