Study on the Improvement of the Independent Director System of Listed Companies

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Abstract: The independent director system of listed companies originated from British and American countries, mainly to safeguard the interests of minority shareholders. However, China does not use the unitary system model represented by the United States, so there are many problems in the process of implementation. This paper discusses the problems existing in the implementation of the independent director system, and puts forward reasonable suggestions to promote the independent director system.

1. Introduction

Most of the listed companies in China are state-owned holding companies. Under this ownership structure, the major shareholders or actual controllers will control the company's management, and many listed companies will become the "ATM" of major shareholders. In order to improve the corporate governance structure, China securities regulatory commission (CSRC) promulgated the guidance on the establishment of independent director system in listed companies in August 2011, marking the beginning of the comprehensive implementation of independent director system in China. The independent director system originated from Britain and the United States. The rights of companies represented by the United States are set in a unitary mode. In China, the right setting of the company is a dual mode. However, due to the different corporate structure, China has suffered many problems in the process of implementing the independent director system.

2. An overview of the independent director system

2.1 The meaning of independent director

Independent director is independent from the shareholders, only makes an independent and objective judgment on corporate affairs. Independent directors are independence, objectivity and impartiality. Firstly, independence includes independence of legal status and independence of expression of will. Secondly, objectivity refers to that independent directors are experts with rich
management experience, who can improve the objectivity of decision-making of the board of directors. Thirdly, fairness means that independent directors only represent the interests of all shareholders, and will fairly perform the duties of independent directors.

2.2 Development history of independent director system of listed companies in China

The first is the formation stage. In 1997, China securities regulatory commission first established the independent director system in the form of documents within the industry. Second is the development stage. From 1997 to 1999, China securities regulatory commission promulgated the opinions on further promoting the standardized operation of overseas listed companies and deepening the reform. The third stage is the deepening stage. From 1999 to 2001, China securities regulatory commission issued the guidance on the establishment of independent director system in listed companies. The fourth stage is the comprehensive stage. From 2001 to now, China securities regulatory commission has promulgated the guiding opinions, which marks the comprehensive implementation of the independent director system. The code of governance for listed companies specifically stipulates the independent director system.

2.3 Function of independent director system of listed companies

First of all, the independent director serves not only the interests of specific insiders or small groups, but also the overall interests of the company and all shareholders. On the one hand, independent directors should review and approve the rationality and legitimacy of the company's financial goals, plans and actions. On the other hand, the establishment of independent directors can improve the independence of decision-making of the board of directors, and help improve the governance structure of listed companies. Secondly, as the interest defenders of minority shareholders, when controlling shareholders harm the interests of other minority shareholders, independent directors should exercise their legitimate rights to protect the interests of minority shareholders. Finally, independent directors can provide professional guidance for the management and improve the scientific decision-making of the company.

3. Problems existing in the independent director system of listed companies

3.1 Independent directors are not truly independent

The emergence of independent directors in China's listed companies is largely determined by the company's management, which inevitably leads to the phenomenon of "The vase director". Some independent directors infringe the interests of minority shareholders. While providing guidance for the operation and management of listed companies, independent directors will consider whether listed companies will make corresponding punishment for their behaviors. Independent directors cannot achieve true independence, which is not conducive to the stable operation of the company.

3.2 Independent directors are not really understanding

Most of the independent directors of listed companies in China are scholars, experts and government officials. According to the guidance, the actual working time of independent directors
is at least 15 days per year. However, due to the particularity of their identity, they seldom have time to do so. Therefore, even if they have a broad vision and rich experience, but also cannot achieve a real understanding of the company's complex business. Therefore, the professional quality of the independent directors of China's listed companies is very important.

3.3 Independent directors lack reasonable incentive mechanism

At present, China's listed companies mainly carry out reputation incentive for independent directors. Although reputation incentive can promote independent directors to speak up for the overall interests of the company to a certain extent, but it cannot be used as an incentive mechanism to urge independent directors to perform their duties. In addition, reasonable compensation incentive should be carried out. Compensation mechanism can mobilize the enthusiasm of independent directors to participate in corporate affairs. Therefore, the independent director system of China's listed companies lacks a reasonable incentive mechanism.

3.4 The rights and responsibilities of independent directors are unclear

The unclear rights and responsibilities of the independent directors of listed companies is an important reason for the ineffective implementation of the independent director system in China. As an important participant in the company's decision-making, independent directors should have independent rights of business supervision and the right to convene an interim general meeting of shareholders under special circumstances. Independent directors should also fulfill corresponding obligations. For example, in the decision-making of the company, they should take the overall situation as the priority and actively safeguard the overall interests of the company. However, most of the independent directors of listed companies in China are nominal ones without real rights, and there are independent directors who put their own interests first.

4. Suggestions on improving the independent director system of listed companies

4.1 Improve the independence of independent directors

In order to improve the integrity of the listed company structure, it is necessary to improve the independence of independent directors. Firstly, independent directors should be guaranteed from the system, and the right of holding temporary general meeting of shareholders should be granted to independent directors under special circumstances. Secondly, the proportion of independent directors should be increased.

4.2 Improve the recruitment mechanism of independent directors

The appointment of independent directors must be independent and they should not be appointed by individual major shareholders or company directors. At the same time, an evaluation mechanism for independent directors should be established to carry out regular assessment and evaluation of independent directors. Therefore, the election system of public recruitment can be adopted or the system can be handed over to specialized recruitment companies.

4.3 Establish reasonable incentive mechanism
Firstly, listed companies can combine the cash remuneration of independent directors with stock options, which can promote independent directors to take every decision of the company seriously. Secondly, independent directors should have actual control rights. This can promote independent directors to play a better role. To achieve the corresponding unification of the rights and obligations of the independent director, the independent director should perform the corresponding obligations while exercising the corresponding rights.

4.4 Clarify the rights and responsibilities of independent directors

In order to better serve the company and contribute to its development, independent directors must clarify their obligations. First of all, as a qualified independent director, they must have good professional quality and moral integrity, and constantly enrich themselves professional knowledge. Secondly, in order to better deal with the problem of "insiders", independent directors must be clear about their rights, such as the right to know information, the right of supervision, the right of veto and so on. When the company's internal decision-making goes wrong, a qualified independent director must take the initiative to speak up and actively solve the problems.

5. Conclusion

The independent director system of China's listed companies is constantly developing and improving. It not only puts forward requirements for the independent director, but also the listed company itself should strive to improve the internal and external environment of the company. For example, listed companies should improve the legal framework of corporate governance, solve the problem that the independent director system exists in name only, and provide a good environment for independent directors to be independent and sensible. In addition, the state should improve relevant laws and regulations to provide legal guarantee for the improvement of the independent director system of listed companies.

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