

Listed Company Governance Evaluation System and Its Application in China

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Abstract: This article is based on the public information of Chinese listed companies, based on the 2019 sample, the statistical data in this article shows that In the 1.0 stage of corporate governance in China, the "ceiling effect" appears, the structural indicators of corporate governance tend to be homogeneous, the governance level of listed companies has been improved continuously in 2003-2019, and increased year by year after the decline in 2009 ; with the development of the regulatory reform of corporate governance in recent years, listed companies can basically meet the minimum requirements for governance regulation, but the jump from governance 1.0 to governance 2.0 requires the optimization and upgrading of standards based on the status quo of governance.

Keywords: Listed Company; Corporate Governance; Governance Evaluation; Governance Index

1. Introduction

Corporate governance reform has become the focus of China's economic development, and the perfect corporate governance mechanism plays a very important role in ensuring the market order. In the past two decades, the research content has expanded from the theoretical research of governance structure and mechanism to the practical research of governance mode and principles, and the research focus has gradually shifted to the construction and application of corporate governance evaluation system. The effectiveness of corporate governance is related to the success or failure of the reform of state-owned enterprises. The level of corporate governance directly affects the decision-making of capital investors ^[1]. At present, the most important system construction in China's micro-economy field is to establish an effective corporate governance system. Good corporate governance is the system basis for the separation of ownership and management right, which can not only guarantee the interests of shareholders, but also guarantee the independent operation of the company ^[2].

The quality of corporate governance is the basis and core of corporate quality, and how to evaluate the quality of corporate governance becomes crucial. Corporate governance evaluation is to use scientific evaluation indicators to quantify the quality of corporate governance in the form of an index. Representative studies of foreign scholars mainly include the G index built in 2003 by Gompers, Ishii and Metrick based on the 24 corporate governance provisions of the American Center for Investor Responsibility Research in 2003 ^[3] And the E index constructed by Bebchuk, Cohen, and Ferrell in 2004 And the empirical research based on these indices proves the positive impact of good corporate governance on corporate value ^[4]. In establishing a corporate governance evaluation system suitable for China's national conditions, we should not only learn from the theory and practice of corporate governance in developed countries on corporate governance, but also explore the stage characteristics of China's market economy development, so as to master the improvement of China's corporate governance structure and mechanism, the current situation and existing risks of corporate governance ^[5].

2. The Development of the Governance Evaluation System of Listed Companies

The China Institute of Corporate Governance of Nankai University has developed the first systematic governance evaluation system for Chinese listed companies in China, and released the China Listed Company Governance Index (CCGING) based on the system. Specifically, the CCGING formation underwent three stages.

The first stage: explore the brewing stage, formulate the "China Corporate Governance Principles" and build the "China's Listed company governance evaluation index system". After years of research and repeated revisions, it was finally determined as six dimensions, including six first-level indicators: shareholder management, board management, supervisory board management, information disclosure and stakeholder governance, with a total of more than 80 specific evaluation indicators.

The second stage: growth by leaps and bounds: the corporate governance index of listed companies in China and the Corporate Governance Evaluation Report of China have been officially launched, and based on the evaluation index system and evaluation standards, a corporate governance index (CCGING) for listed companies in China has been established. The China Corporate Governance Evaluation Report was first released in 2004. The report applies CCGING to conduct the first comprehensive and quantitative evaluation and analysis of large samples of the data of listed companies in China (2002), and then issues annual corporate governance reports year by year.

The third stage: application promotion stage, China's listed company governance evaluation system application stage. It applies specifically to the SASAC's research project on the construction and evaluation of the board of directors of wholly state-owned central enterprises and the "China Economic Development Index for Small and Medium-sized Enterprises", and the design of the standard system for the evaluation of the governance of insurance companies in China; in 2008, the SASAC of the State Council entrusted the evaluation of the governance of centrally owned enterprises; the development of the database of China's corporate governance index; the research and development of China's corporate governance stock index; and the design of China's corporate governance scorecard.

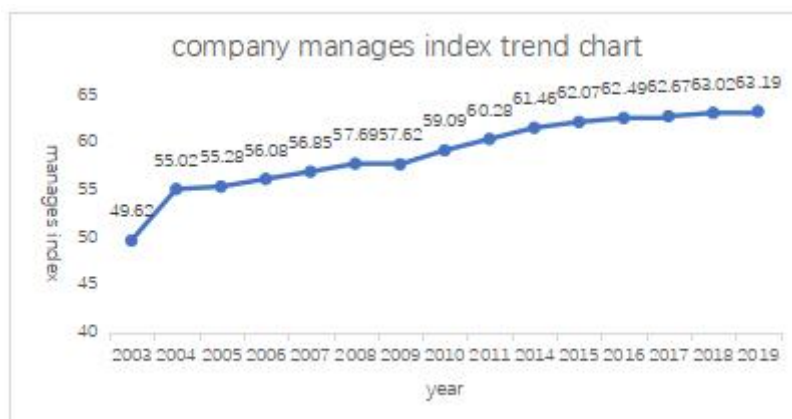
Based on the characteristics of the external institutional environment of listed companies in China, the Research Group of China Research Institute of Corporate Governance of Nankai University designed the Chinese Corporate Governance Evaluation System in 2003, and published the Chinese Corporate Governance Evaluation Report in the second year. In the following years, opinions were solicited from all walks of life and the evaluation index system was continuously optimized and revised, Based on the characteristics of the governance environment faced by listed companies in China, the evaluation index system focuses on the internal governance mechanism, emphasizes the information disclosure of corporate governance, the protection of interests of small and medium shareholders, the independence of listed companies, the independence of the board of directors and the participation of the board of supervisors in governance, and sets up 19 secondary indexes and more than 80 tertiary evaluation indexes to comprehensively and systematically evaluate the governance of listed companies in China from six dimensions of shareholder governance, board governance, board governance, management of the board of supervisors, management of managers, information disclosure and stakeholder governance.

Professor Lu Tong, director of the Corporate Governance Research Center of the Chinese Academy of Sciences, and others believe that "most of the corporate governance indices that exist at home and abroad only examine some dimensions of corporate governance but do not form a system. Because of the commercial orientation, the corporate governance indices selected are limited, and most of them have not been studied continuously. Only the corporate governance team of Nankai University has established a more detailed corporate governance evaluation system, including more comprehensive corporate governance indicators, and carries out corporate governance evaluation year by year ^[6].

3. Analysis and Prospect of Evaluation Results of Corporate Governance Evaluation System

The report on the 2019 Corporate Governance Index for China's Listed Companies released by the China Institute of Corporate Governance of Nankai University shows that the average corporate governance index for 2019 is 63.19, up 0.17 from 63.02 in 2018, and the average governance index for 2014, 2015, 2016, 2017 and 2018 is 61.46, 62.07, 62.49, 62.67 and 63.02 ^[7]. Compared with the

overall governance status of China's listed companies in the past nine consecutive years before 2011, the overall governance level shows an upward trend year by year. (as shown in Picture 1).



Picture 1: company manages index trend chart

Based on the evaluation results of CCGING, this paper draws the following conclusions: In the 1.0 stage of corporate governance in China, the "ceiling effect" appears, the structural indicators of corporate governance tend to be homogeneous, so improving governance standards can improve governance effectiveness. In general, the governance level of listed companies has been improved continuously in 2003- 2019, and increased year by year after the decline in 2009; with the development of the regulatory reform of corporate governance in recent years, listed companies can basically meet the minimum requirements for governance regulation, but the jump from governance 1.0 to governance 2.0 requires the optimization and upgrading of standards based on the status quo of governance, with more focus on the governance of listed companies and the improvement of regulation^[8].

Therefore, in order to improve the quality of corporate governance and promote the high-quality development of listed companies, this paper makes the following prospects for corporate governance evaluation. Firstly, in the critical period of economic transformation, to promote the reform of corporate governance in mixed ownership reform, we should persist in promoting the transformation of corporate governance in China from an administrative type to an economic type; secondly, we should reasonably use the characteristics of real-time, scale and diversity of big data information and give full play to its external supervision function. Taking the opportunity of the "big data" era, the diversification of information disclosure carriers and the visualization of the communication process are enhanced, making it more difficult for listed companies to disclose imperfect information^[9]; and finally, the arrival of new forms of governance such as platform governance, AI governance and big data governance shall be actively concerned about^[10]. New type of governance provides more new tools and forms for corporate governance, which makes information disclosure more rapid, governance direction more accurate, governance subject more diverse.

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