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Review on Quantitative Assessment of Corporate Governance

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Abstract

Recently a lot of different institutions and research centers around the world gradually launch their corporate governance assessment system, making each interested party to get to know the corporate governance level and making reasonable decisions. This essay is based upon corporate governance and assessment connotation, summarizes and concludes the research progress of domestic and overseas corporate governance quantitative assessment, finding that corporate governance quantitative assessment mainly relies on composite indicator assessment, but there is still big difference in the starting point, targeted object and assessment indicator of assessment indicator system, so some people question the validity and applicability of this assessment indicator system. Based on this, this essay points out that the existent literature review has some problems such as assessment subject is vague, missing out some key indicators, weighting subjectively and failing to abide the principle of " substance over form", thus bringing up corresponding suggestion.

Key word: Corporate governance; The evaluation systems; Substance over form; Improvement suggestions

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INTRODUCTION

In recent years, a number of domestic and foreign companies have been frequently exposed corporate scandals, which make corporate governance issues continuously attract community-wide attention and research. When making investment decisions, investors are no longer confined to the financial statements analysis, and corporate governance level has become one of the key factors that investors examine in making investment decisions. A series of surveys made by McKinsey & Company targeted at individual and institutional investors showed that most investors were willing to pay a higher premium for companies with sound corporate governance (Newell & Wilson, 2002). Doidge, Karolyi and Stulz (2004) found in the study that the corporate governance level was closely associated with growth of investment opportunities, ownership concentration, external financing needs and protection of investors' rights. Multiple angles have verified that it is of great practical significance to conduct research on the evaluation system of corporate governance. Corporate governance is related to the fields of investors' decision-making, corporate earnings management, corporate performance, corporate finance and corporate social responsibility, even to the survival and development of the corporation. Documents in these areas widely employ researches on quantitative evaluation system of corporate governance. However, we find that the existing index systems of corporate governance evaluation systems at home and abroad have different evaluation contents. Some indicators can not effectively reflect the real situation of corporate governance, and some key indicators are omitted, which causes the application error. Some scholars have misunderstandings of corporate governance connotation and neglect stakeholder evaluation, resulting in a lack of necessary integrity of corporate governance evaluation. Therefore, starting from the connotation of corporate governance, this thesis summarizes existing research progress, points out the existing problems in the evaluation system of corporate governance and puts forward improving recommendations.

1. CONNOTATION AND EVALUATION CONCEPT OF CORPORATE GOVERNANCE

Corporate governance issues in the modern sense arise from the separation of ownership and management right, as well as the resulting agency relationship. Theory circle began to focus on corporate governance issues from the study of Berle and Means (1932), but until the 1980s, after corporate governance was proposed as a concept, it got people's wide attention and emphasis. So far, the academic circle has still remained differences and debate in understanding of corporate governance connotation.

At present, two common views exist at home and abroad: The first view is taking shareholders as the core of corporate governance,which was held by representatives including Berle and Means (1932), Jensen and Meckling (1976), Shleifer and Vishny, (1997), and Tirole (2001). The view is that business owners (usually shareholders) invest physical capital to form corporate property. They bear the residual risk of corporate, so the core of corporate governance is to protect the interests of shareholders and it should follow the principle of supremacy of shareholders' rights and interests. The biggest advantage of this view is that the interests of business owners are protected, and such unilateral governance model also help to improve the efficiency of decision-making. However, shareholders are only the initial capital investment people, while the value added generated in the process of production and operation also depends on joint participation such as staff and operators, who also bear the associated risks. The blind pursuit of maximizing shareholders' interests may also lead to companies ignoring to shoulder their social responsibility, which is not conducive to their long-term development. Therefore, neglect of human capital as well as interests of other stakeholders makes this view be widely disputed.

The other view is the governance of stakeholders, which were held by representatives including Freeman(1984), Cochran and Wartick (1988), Blair (1995), Yang (1998) and Li (2001). The view is that corporate governance should put stakeholders at the same position with shareholders, whose core is that multi parties jointly participate in the governance. Capital and labor required for companies' operations take the whole society as their acquisition room, and their products and services in turn are needed by the whole society. This nature determines that companies, from start-up to operations, should take the safeguard of multi-party interests such as all investors, employees and consumers as the starting point and the code of conduct. The advantage of this view is that the interests of other stakeholders in addition to the owner are taken into account, and also including due social responsibility of companies. This view holds that companies' residual control rights should be jointly assumed by multi-party and corporate governance is a multi-participatory governance, which is conducive to long-term survival and development of companies. However, the biggest flaw of this view is the definition of stakeholders. Therefore, if the range of stakeholders can be better divided, this view should be relatively ideal corporate governance model.

It can be seen that stakeholder governance view is more in line with social development and stability, so it is accepted by most scholars as well as this thesis. Therefore, we believe that corporate governance is a process jointly participated by multi-party. Through a series of combinations of internal and external institutional arrangements and reasonable governance structure setting, it is possible to achieve the balance of rights, responsibilities and interests of major stakeholders, thereby improving companies' decision-making capacity and efficiency, enhancing their capacity for sustainable development, maintaining the common interests of all stakeholders, and ultimately maximizing the interests of companies. Accordingly, the connotation of corporate governance evaluation takes the connotation of corporate governance as the core, and the principles of corporate governance as evaluation guidelines. In the evaluation process of corporate governance, objective and fair evaluation should be made according to rationality of corporate governance structure, compliance of corporate operations, fulfillment of responsibilities by all levels of stakeholders, interests safeguard of major stakeholders, timeliness and completeness of information disclosure as well as the achievement of the objectives of corporate governance.

2. RESEARCH PROGRESS OF CORPORATE GOVERNANCE'S QUANTITATIVE EVALUATION

2.1 Foreign Research

The earlier formal specification research abroad on quantitative evaluation of corporate governance was the first set of formal evaluation procedures of the Board designed in 1952 by American Institutional Investors Association. Early launch of corporate governance's quantitative evaluation mostly targeted at unilateral governance or a single aspect to conduct evaluation, failing to form a relatively complete system. The first corporate governance evaluation system abroad was corporate governance service system of US Standard & Poor's (S&P) (1998). After modification, it introduced corporate governance evaluation (scoring) system (2004)for global listed companies, and actually carried out applications. Since then, the European Deminor company (Deminor) (1999) had developed a European corporate governance rating services, whose introduction was a major breakthrough in the area of corporate governance, providing investors with a benchmark in the investment decision-making.Meanwhile, the rating agency also represented corporate clients. Making advantage of scorecards and relevant methods draws up "corporate governance profile" in detail which was regarded as disclosed "corporate governance evaluation and investors report". CLSA Asia (2000) also introduced corporate governance evaluation system for global companies. In addition, Japan Corporate Governance Institute introduced company-level corporate governance evaluation index system (JCGIndex) and so on. These are typical evaluation systems of corporate governance worldwide. Main index constitution is seen in Table 1.

Table 1
The Systems of Representative Corporate Governance Evaluation at Home and Abroad and Their Features

The organization or individual of corporate governance evaluation	Evaluation level	First grade index setting	Features
Standard & Poor's（S&P）	Country level	Legal basis, market basis, information disclosure regulations, and supervision	This evaluation system is a corporate governance evaluation standard for global companies, but it just concerns the financial stakeholders, so it is not comprehensive.
	Corporate level	Ownership structure, the rights and inter relationship among the financial stakeholders, the structure and operation procedure of the board of directors, the financial transparency and information disclosure.	
Deminor	Country scoring	The law analysis of corporate governance	This evaluation system heads for organization investors' interests, and more concerns the impact of corporate governance environment on corporate governance level rather than evaluations of corporate social responsibility stakeholders, etc.
	Corporate scoring	The rights and obligations of the stockholders, the scale of taking over and defense. The structure and function of the board of directors, and the corporate governance disclosure.	
Credit Lyonnais Securities Asia（CLSA）CLSA	Scoring of countries and regions	Corporate transparency, the political and regulatory environment that affects corporate governance and maximization of corporate value , comprehensive rules and supervision regulations as well as implementation of relevant laws and regulations, institutional mechanism of corporate governance culture, and the adoption of Generally Accepted Accounting Practices.	This evaluation system is a global corporate governance evaluation system, focusing on evaluating governance of the board of directors. Meanwhile, it not only evaluates the protection for the interests of big stockholders, but also pays concerns evaluation of protection for minority stockholders and fairness. The unique advantage of this evaluation system is that it pays attention to the evaluation of corporate social responsibility ,which is rare among so many corporate governance evaluation systems.
	Corporate scoring	Management constraints， protection or fairness for minority stockholders, transparency，the board of directors structure and independence, the responsibility of the board of directors, the accountability of the board of directors, cash rewards for stockholders, social responsibility of corporations.	
Japanese Corporate Governance Index (JCGIndex)	Corporate level	Operator responsibility system, the function and composition of the board of directors, the experienced implementation of top manager system, communication between the stockholders and the transparency.	This evaluation system is dominated by stockholders' equity and makes evaluation from performance target, which complies with the stockholders' interests. The disadvantage of this evaluation system is that the evaluation result can not reflect the other major stakeholders' interests, and setting of the evaluation shall be improved.
China Corporate Governance Index (CCGINK)	Corporate level	Holding stockholder's behavior，directors and the Board of Directors，the supervisors and the board of supervisors，managers，information disclosure and internal control system， stakeholders.	In this evaluation system, it regards the stakeholders as one index to evaluate. The setting of the evaluation content obtains universal approval, but it does not evaluate the security of staff's or stakeholders' interests.
Research center of Shanghai Stock Exchange	Corporate level	Stockholder's behavior regulations, constraints and incentives of key person, stockholder's right, transparency, the structure of the board of directors.	This evaluation system design for China's listed corporations, without considering the external environment and macro factors of corporate governance due to mere consideration of single corporation.

To be continued

Continued

The organization or individual of corporate governance evaluation	Evaluation level	First grade index setting	Features
Hai Tong Securities Research Center	Corporate level	Equity structure, stockholders' right, governance structure, match between governance and management, information disclosure of financial governance.	This evaluation system serves various corporate stakeholders mainly evaluating whether the corporation complies with the effective corporate governance standards, however , setting of the evaluation index is incomplete.
Dapeng Securities Co., Ltd	Corporate level	Ownership structure and its influence, stockholder's right, financial transparency and information disclosure, the structure and operation of the board of directors.	This evaluation system is based on the corporate governance evaluation system promoted by Standard & Poor's and Deminor focusing on governance of the board of directors, but the evaluation content is not complete enough.

In addition to the typical evaluation system launched by the above companies or institutions, the representative researches of foreign individual scholars are: Researches on the establishment of corporate governance quantitative evaluation system by Howard (2004), Strenger (2004), Lazarides and Drimpetas (2011), Zheng and Zhou (2012) and other scholars. Howard Sherman (2004) believed that the enterprise focusing on corporate governance and transparency would create higher returns and economic performance, and reduce capital costs over time. Based on the database consisting of related data of more than 4,100 companies, and with the global corporate governance standard released by the organization for economic cooperation and development (OECD) as the rating standard, Howard (2004) and his team evaluated the board accountability, financial information disclosure, shareholder rights, compensation policies, market control, shareholder base, corporate reputation and industrial relations, supervision measures, environmental behaviors and other aspects, identified 20 companies who got the highest scores in corporate governance, and established the Governance Metrics International GMI. Strenger (2004) systematically expounded. The German Scorecard on corporate governance, which had a standardized format and can be effectively applied to the corporate self-evaluation and comparison between industries. The main evaluation standards of the Scorecard include 7 aspects, such as the promise of corporate governance, shareholders and general meetings of shareholders, cooperation between the management committee and the board of supervisors, the management committee, the board of supervisors, transparency, and the report and audit of annual financial statements. The advantages of the Scorecard lie in that it can be applied to improve the corporate governance and can be applied by the analysts and investors in practice. Its shortage is that it is not comprehensive enough in the evaluation. Through the analysis, Lazarides and Drimpetas (2011) found that the company scale, concentration of the leadership or authority and characteristics of director board are the main factors affecting the quality of corporate governance. Therefore, they used binary variables to construct the corporate governance quality evaluation index. At the same time, they used the annual reporting data to identify the mechanism and practice of corporate governance, and used the orderly probit model to identify the driver of corporate governance. The advantages of this index are that the index establishes the evaluation for these aspects by identifying the factors that generate impacts on the quality of corporate governance; therefore, through focusing on the index, decision makers can create a legal supervision framework which can improve the level of corporate governance. But its deficiencies lie in that data are obtained from the annual financial report, and the distortion of accounting information will directly affect the evaluation results, so the reliability of the information needs to be improved. Taking helping investors to make investment decisions as the purpose, Zheng and Zhou (2012) established the intelligent corporate governance analysis and rating system, ICGA with key factors in the related corporate governance documents released by the U.S. Securities and Exchange Commission (SEC), including rules and regulations, codes of conduct, moral rules, information of director board, senior executive compensation system, and insider trading information as starting points of the corporate governance evaluation. The system can provide independent and reliable corporate governance information for government agencies, investors, securities analysts, accountants, financial institutions, etc.

Some scholars have studied its effectiveness and reliability by applying the existing corporate governance evaluation. Dallas and Patel (2004) and Annelies et al. (2010) believed that corporate governance rating should be actively provided, and there was no contractual relationship between corporate governance rating agencies and companies. Although the complexity of information makes it difficult to make accurate evaluation of corporate governance, corporate governance rating is still an effective index for evaluating the quality of corporate governance. However, not all results of corporate governance evaluation system can be trusted. Daryl Koehn and Ueng (2005) compared two kinds of typical corporate governance rating system, and carried out the empirical analysis: the data sources and composition of evaluation index system of Governance Metrics International (GMI) and in the United States institutional Shareholder Services (ISS) are not the same. The research results show that investors should not excessively rely on the corporate governance score that ISS provides, and there is no result showing that there is a positive correlation between the high corporate governance score and corporate governance in the profit of high quality. Klapper and Love (2004) used the latest data of corporate governance in 14 emerging market companies for analysis, and found that the corporate governance level was related with the degree of information asymmetry. The research results of Chhaochharia et al. (2008) showed that, in Europe, although the corporate governance was spontaneous to a large extent, corporate governance rating seemed to increase with time, thus improving the level of corporate governance to be closer to the needs of outside investors. This also raises the relevant discussion: whether the corporate governance should be regulated by the law, or decided by the "invisible hand" market. These findings provide help for the effectiveness of recent research to observe the good corporate governance guidelines.

The quantitative evaluation of corporate governance and related research range in foreign countries are relatively wide, and many corporate governance researches apply the quantitative evaluation data of corporate governance. Therefore, the corporate governance evaluation quantitative research not only plays an important guiding role in the evaluation of corporate governance level, but also contributes to the related research fields of corporate governance.

2.2 Domestic Research

The domestic research on corporate governance evaluation is later than that of abroad. From the theoretical basis of corporate governance evaluation, Pei (2001) of China Eagle Securities Co., Ltd. analyzed the main foreign corporate governance evaluation system and Chinese corporate governance characteristics at the present stage in combination with the Chinese company governance environment, made some modification based on Deminor, Standard & Poor's, and other more mature foreign corporate governance evaluation system, and put forward Chinese corporate governance evaluation system framework. The listed corporate governance evaluation project group of Haitong Securities Institute (2002) also launched the listed corporate governance evaluation system, and performed the actual application. The evaluation system was established based on the reality of the listed corporate governance in China and the relevant laws and regulations of China. The listed corporate governance index (CGI) that the evaluation system launched was mainly used in the situation that the company complies with the corporate governance standards, and provided service to all interest subjects of the enterprise. In China, the Corporate Governance Research Center of Nankai University launched earlier Chinese listed corporate governance evaluation system (2003), had launched Chinese Listed Corporate Governance Index (CCGINK) for many years, and was widely recognized and applied. The Research Department of the Shanghai Stock Exchange has been working in the field of corporate governance research, in 2000 promulgated the Shanghai Stock Exchange Listed Corporate Governance Guidelines Consultation, and then, Hu and Danian (2002) further launched the Chinese listed corporate governance evaluation index system.

In addition to the above mentioned institutions and research centers' researches on the establishment of corporate governance evaluation system, domestic individual scholars also performed the research individually. Based on the analysis of the problems existing in the corporate governance process of state-owned enterprises, He (2006) put forward the corporate governance evaluation system for state-owned enterprises, and that the change of evaluation system involved four aspects including the governance structure, shareholder structure, rights of shareholders and information disclosure. On the basis of the domestic and international researches as well as the data availability and objectivity, Liang (2006) set up 20 specific indexes for corporate governance evaluation index system from the following six aspects: equity structure, the general meeting of stockholder and stockholder's right, the board of directors, the board of supervisors, as well as information disclosure. Lu (2007) established a China's listed corporate governance evaluation system from the following seven aspects: structure and operation factors of the board of directors, equity structure, the general meeting of stockholder and the stockholder's right, the board of supervisors, incentive and constraint of senior management, stakeholders as well as corporate transparency. Meanwhile, she made use of Delphi method to determine the weight among indexes, and evaluates with scores. Liao and Zhai (2009) researched the listed corporate governance evaluation system based on the perspective of the protection for small and medium-sized investors. They established the first grade evaluation index from three aspects, equity structure, stockholder's right, investors' relations management. And, they set the second and third grade index specifically. With analytic hierarchy process, Yan (2010) established insurance corporate governance evaluation index system covering eight first grade indexes as well as related and specific indexes, the eight first grade indexes are the board of directors governance, the board of supervisors governance, mechanism of stockholders' equity, manager governance, mechanism of information disclosure, stakeholder governance, corporate governance culture, and corporate social responsibility. And he evaluated with scores.

The above articles on corporate governance evaluation system are based on China's corporate governance features and China's related laws and regulations, such as, Listed Company Governance Guide，and Company Law. They all comply with China's reality. But the content of the evaluation differs from each other, which is mainly caused by the different evaluation targets, different information users, different causes and different evaluation points of the evaluation systems.

As the development of China's corporate governance evaluation system, the researches on all the typical evaluation systems are going on. Niu and Li (2004) compared and analyzed the governance evaluation systems of major corporations at home and abroad, and then they had doubt on the adaptability, evaluation criteria, and evaluation content, thus they thought the corporate governance evaluation system may include evaluation on social responsibility. Zhou (2004) analyzed the principles and targets of corporate governance as well as the present corporate governance evaluation models, and then he thought that it could establish China's listed corporate governance evaluation system from the three aspects, the corporate external governance evaluation, the corporate internal governance evaluation and the match between governance and management.

Zhang (2008) reviewed the practice of major corporate governance evaluation at home and abroad, then he reevaluate the corporate governance evaluation system at home and abroad. He thought that the evaluation content, value method, weight distribution and calculation principles of each corporate governance evaluation system were not the same, and the scope of application had its own focus. Comparing with the foreign evaluation, the domestic one concerns more on form rather than essence. Moreover, he pointed out that corporate governance evaluation should be "corporate governance evaluation on job performance", and the evaluation system should make clear what to evaluate and who does it. In addition, he said it was necessary to encourage several kinds of commercial organizations to be evaluation subject in future. Meng and Zhang（2009）compared and analyzed the typical corporate governance evaluation system at home and abroad, and they thought that it should pay more attention to the evaluation to the stockholders' behavior, independent director, and management incentive constraint mechanism when it comes to the evaluation of internal governance, meanwhile, it should pay attention to the evaluation of external governance. Li, Xu, and Song (2011) systematically combed the recent and related articles of corporate governance evaluation research in foreign companies as well as related and empirical researches based on corporate governance evaluation index. They proposed that the corporate governance environment should be included to design the corporate governance evaluation system, the evaluation object and content should be developed, and we should establish the corporate governance evaluation system that fits the transformed background in China. Meanwhile, they pointed out that we should consider the efficiency of corporate governance index and endogeneity of corporate governance when we applied the corporate governance index to do empirical research. Wu and Chen (2012) summed up the corporate governance researches at home and abroad based on the research background and connotation of corporate governance evaluation. They thought that the content of China's corporate governance evaluation lacked pertinency, the evaluation subject was not clear, and we should pay attention to the quality of evaluation information and the equity structure. The representative corporate governance evaluation systems at home and abroad are as shown in table 1.

3. MAIN PROBLEMS IN QUANTITATIVE EVALUATION OF THE CURRENT CORPORATE GOVERNANCE

At present, there are few documents on the problems in the quantitative evaluation of the corporate governance at home and abroad. Few relative documents point out its problems mainly including the disunity of evaluation criterion, the lack of evaluation on social responsibilities, the poor feasibility of the criteria for corporate governance and evaluation, the low reliability of the evaluated information and so on. However, these discussions are not comprehensive and deep enough. They ignore some key problems. For example, the evaluation of the present evaluation system which lacks the evaluations on the effect of governance does not combine the external form and internal essence of corporate governance and so on.

a) The vagueness of evaluation subject causes the deviation in application. According to the relative documents, the original evaluation on corporate governance is just a one-way evaluation, which usually focuses on the function, structure and fulfillment of responsibilities of board of directors. This kind of evaluation usually holds the view that the essence of corporate governance is the governance of board of directors and the quality of corporate governance is related to the composition and actions of the board of directors to a great extent. Therefore, the broad of directors is chosen to be the subject of evaluation. However, the modern corporate governance is usually conducted by several parts. As a result, the choice of the subject of evaluation can directly cause the unicity and one-sidedness of the content for evaluation, which causes the partiality of the results of evaluation. At present, in the popular corporate governance evaluation system, the subjects mostly are made up of several parts such as broad of directors, general meeting of shareholders, board of supervisors, management and so on. To choose subject of evaluation in this way takes the multilateral governance into consideration, but almost all of its subjects of evaluation come from the stakeholders (especially the shareholders) from the internal corporate and even no consideration is given to other main stakeholders who take part in the corporate governance. Therefore, the present choice of the subject of evaluation still views from the internal corporate, which cannot meet demands of all parts. It is generally acknowledged that different subjects of evaluation have different views, demands and contents for evaluation. But the present quantitative evaluation of corporate governance does not clearly make the subject of evaluation . Thus, the results of evaluation may cause the wrong decision of other subjects.

b) Missing some key indexes, especially neglecting the index of stakeholders. We can see from Table 1 that in most evaluation index systems of corporate governance, the evaluation index of the first grade does not set the evaluation index to the stakeholders. In the main evaluation systems abroad, the evaluation system of corporate governance of Standard & Poor' s involves in this content, but it only pays attention to the right of the financial stakeholders. In the main domestic evaluation systems, only the evaluation index system of corporate governance which was put forward by CCGINK involves the evaluation of stakeholders in the first grade, but the specific index does not contain the evaluation on the benefit safeguard of workers and so on. Its essential reason is that there are divergences on corporate governance in the academic circle, which causes that there is no agreement on the issue that whether the attention and security should be given to the benefits of other stakeholders besides shareholders. Therefore, in the present index system, the key evaluation indexes such as stakeholders could lead to partial evaluation and false results. So, in the evaluation system of corporate governance, it is necessary to set multilevel index which specially aims at the stakeholders and this index should be one of the key evaluation indexes. The five principles of corporate governance that were put forward by OECD the Principles of Corporate Governance (1999) pointed out the functions of stakeholders on the corporate governance and advocated that all the shareholders should be treated equally; in Statement of Corporate Governance in US Round Table Business Meeting (1997) , the stakeholders were also put in important positions. It pointed out that in order to protect the long-term benefits of shareholders and the normal function of the corporation, the managers and board of directors must take the benefits of other stakeholders into consideration and the corporate had the responsibilities to treat employees equally. Code of Corporate Governance for Listed Companies in China (2002) which was formulated by China Securities Regulatory Commission had special provision on the security of the legal interests of stakeholders and defined the range of the stakeholders mainly as creditors, employees, suppliers, consumers, community and so on. Besides, the contributors (mainly are shareholders and creditors) had decisive effects on whether the corporate had the qualification to be legal corporation and operating conditions or not, but the operation and development of the corporation could be realized by the joint cooperation of managers, workers, clients and other stakeholders. The corporation that ignores the benefit of stakeholders must be temporary.

c) Lacking objective measure on the importance of these indexes causes that the weights of these indexes are not scientific. In practice, the evaluation of listed corporate governance is made by using the evaluation system of corporate governance and results are usually expressed with the corporate governance index. Different indexes have different significance in the evaluation system of corporate governance. So the significance of these indexes is mostly measured by the weight coefficient. However, in most evaluation systems of corporate governance, there are no relative explanation to the weight given by the related factors and no analysis and illustration on the relationship and degree of related factors. Obviously, almost all the evaluation documents adopt to assign subjectively or use the score model. Although it is convenient, there are important flaws. There is no document which measures the objective significance of these indexes. Only by clarifying the impact of every relative factor on the corporate governance and employing objective empowerment, can the weight of every index be given correctly and be scored. Therefore, the accuracy of the result of the present index system is doubtful.

d) There is no evaluation on the effect of governance, which could not bring the external form and internal essence of the corporate governance together. The quantitative evaluation of corporate governance can be shown externally and internally. The ownership structure of the corporate, management structure, the structure of the board of directors and so on belongs to external form, and most documents tend to evaluate externally. The effect of governance is the real level of governance, which belongs to internal essence that is ignored by the present documents. The external form and internal essence may be united and deviating. In other words, the corporate that have good external form may do not get great effect of corporate governance. Since there is not a best corporate governance model that is suitable for all companies, different corporate governance models have different effects. Only if the results are satisfactory, it can be considered that the level of corporate governance can meet the demands of stakeholders despite that some key factors do not totally obey the external standard of the evaluation of corporate governance. Therefore, the present documents only evaluate the corporate governance of the external form or management structure. The authenticity and reliability of its results are poor.

4. ADVICE FOR IMPROVING PRESENT RESEARCHES ON THE QUANTITATIVE EVALUATION OF CORPORATE GOVERNANCE

a) To make the subject of evaluation clear. Based on the understanding of corporate governance and its connotation of evaluation, through analysis, the thesis holds that the evaluation of corporate governance should be based on many stakeholders. The results of evaluation of corporate governance should not only be applied to the practical corporate governance. What is more important is to make the benefit and its security situation of every stakeholders clear, especially that the outside investors can provide practical help to make investment decisions based on this. Only by regarding the multi-stakeholders as a whole and giving consideration and evaluation from their perspectives, can the evaluation results be accepted by more people. In other words, the results cannot be more objective and fairer unless the company is in the multi-stakeholders' positions to balance their interest. Therefore, the subject of the corporate governance evaluation is the key community of stakeholders in the company, based on which corporate governance evaluation index system is established to make quantitative evaluation of the listed company. The result should be used not only within the company but also by relative organizations like external investors and even government departments.

Furthermore, if the corporate governance evaluation is only carried out for China's listed companies, external governance environments such as whether the relevant laws and regulations are sound or not and if government regulations are strict should not be evaluated for they are the same. Therefore, the internal governance structure and governance effect should be evaluated as the focal point. It should be noted that a country's enterprises will have higher corporate governance ratings, shown by a large number of studies, when it has a strict law on shareholder protection and a sound legal environment. Consequently, the sound external laws and regulations and the strict enforcement of them are of great importance for corporate governance.

b) Investigating the comprehensive evaluation system of corporate governance and focusing on key indexes at the same time. It is considered in this thesis that the evaluation index about relative stakeholders should be set in the corporate governance evaluation system. Specific consideration should be given to the following two aspects. First, the governance structure of listed companies in China is usually corporate governance structure which is the core of corporate governance including general meeting of shareholders, board of directors, board of supervisors and management. They should, therefore, be individually assessed in terms of their performance of duties and governance effectiveness in corporate governance practices. Second, to definite stakeholders reasonably. A company's stakeholders could have no limitation but apparently not all of them can serve as main governors to directly participate in corporate governance. So, the advice in this thesis is that the range of stakeholders in the evaluation of corporate governance could be defined as directly relevant stakeholders and major non-social stakeholders including shareholders, business operators, creditors, employees and the community (including natural environment). We can learn from the analysis above that the specific index of stakeholders in the evaluation system of corporate governance should focus on employees and the community (mainly environmental protection and other aspects of social responsibility performance). It is advised that in terms of specific index setting, the evaluation should be made from three aspects as follows: employee involvement and protection of their interests, the environmental protection behavior and the fulfillment of other social responsibilities of enterprises (such as quality of products and price monopoly) The most important thing is the evaluation of each stakeholder's fulfillment of their responsibilities and protection of their interests that they deserve to have. It should be paid close attention in particular whether the interests of other enterprise stakeholders like employees and creditors are misappropriated when shareholders get their own profits.

c) Determining the index weights in a scientific way by empirical analysis or measurement of the role and importance of the related factors. We believe that considering the importance of corporate governance evaluation, it should be substantively measured by relative experts or agencies organized by the Ministry of Finance to provide a reference standard for the majority of enterprises when determining the weights of corporate governance index. For those companies' rich in data, they may also determine the weight with objective weighting method. While the companies which are good at research may also use the dynamic simulation of the corporate governance system of artificial intelligence such as system simulation technology and artificial neural networks to measure the specific relevant factors.

d) The index should be determined on the principle of combining the essence and form. And the essence of corporate governance evaluation should be paid more attention. The evaluation of governing effect can be added when setting the evaluation index system of corporate governance to effectively combine the form and substance of company management. For example, we can use many ways like anonymous questionnaires and chatting face to face to investigate whether there is the largest shareholder completely dominating the decision-making powers against the combination of form and essence of the major decision-making behavior and whether the rights and obligations of other shareholders or stakeholders are truly implemented. The effect index of corporate governance can be expanded with: real rights and obligations of stakeholders in the company, status and role of each position when making important decisions, the sustainable development capacity of the company, corporate value and so on.

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