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Construction and Empirical Study of a Risk Assessment System for the Contractual Control Model in Chinese Private Higher Education

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Abstract

The classified management reform has transformed the risks of the contractual control (variable interest entity, VIE) model in Chinese private higher education from a single compliance risk into a systemic risk. Drawing on risk management and educational governance theories, this study constructs a risk assessment system comprising five dimensions—legal compliance, corporate governance effectiveness, financial health, operational robustness, and social benefit realization—and fifteen indicators, selected from twenty-two candidates through two rounds of Delphi consultation. The analytic hierarchy process and fuzzy comprehensive evaluation are applied, supplemented by a veto rule and a dual early-warning mechanism. An assessment of a education group (Group X) yields a composite score of 74.66, rated relatively low risk (borderline) under the weighted criterion but moderate risk under a non-compensatory pessimistic criterion, with the social benefit dimension triggering a specific early warning. A retrospective assessment of a distressed group (Group Y) shows that the system issued a Level-3 warning two years before risks materialized, demonstrating discriminant validity. A tiered, coordinated governance path for regulators, sponsors, and investors is accordingly proposed.

Keywords

classified management, private higher education, contractual control model (VIE), risk assessment, governance optimization

1. Introduction

Private higher education is an important component of China's higher education system. In recent years,

driven by capital and the logic of scale expansion, private education groups have accelerated their entry into capital markets, and the contractual control (VIE) model has become widespread. While facilitating group-based schooling and broadening financing channels, this model has also brought hidden risks such as structural instability, financial opacity, high tuition fees, excessive market concentration, and regulatory evasion, posing potential threats to the public-welfare nature of education and the order of schooling.

The Private Education Promotion Law revised in 2016 established a classified management framework distinguishing for-profit from non-profit private schools [1]; the 2021 Regulation on its implementation refined the regulation of classified registration, related-party transactions, and benefit transfers [2]; and the 2023 Trial Measures of the China Securities Regulatory Commission brought VIE structures under filing-based administration for overseas listing [3], further compressing the room for institutional arbitrage. The contractual control model links overseas listed entities, domestic school entities, sponsors, and investors through contractual agreements, and its risks are both endogenous and spillover in nature: the former are rooted in disputes over the legal validity of contractual arrangements and agency conflicts, while the latter manifest as the transmission of any weakened link along the control chain, triggering multidimensional systemic risks across legal, financial, and reputational domains that traditional single-dimension compliance review and financial monitoring can hardly identify.

Existing research has focused mainly on the legal regulation of VIEs [4,5], the listing of educational assets [6,7], governance problems [8], and risk prevention [9-11], but three gaps remain: first, most studies concentrate on a single legal or financial dimension, lacking a comprehensive framework covering legal, governance, financial, operational, and social benefit dimensions; second, there is no dedicated measurement instrument for the distinctive risk structure of the contractual control model in private higher education under the classified management policy; third, empirical tests are rare, and indicator validity has seldom been examined against case data. This study constructs a risk assessment system applicable to the classified management context, conducts an empirical evaluation of a representative listed education group and a retrospective validation of a distressed group, and reveals the structural characteristics and transmission mechanisms of risk, thereby providing a quantitative basis for differentiated regulation and governance optimization.

2. Construction of the Risk Assessment Indicator System

2.1 Theoretical Logic and Assessment Principles

Beck noted that risks in modern society are systemic, invisible, and chain-reactive [12]; Giddens emphasized the manufactured uncertainty of modern institutional risks [13]. VIE risks in private higher education are precisely the institutional projection of these features in the capitalization of higher education. The intertwining of endogeneity and spillover determines that assessment must adopt a holistic, systematic approach, connecting risk identification to indicator measurement through a goal level–criteria level–indicator level hierarchical structure. The system follows three principles: the

systematic principle, covering key risk domains of the VIE structure and capturing cross-dimensional transmission; the qualitative-quantitative integration principle, measuring hard risks such as finance and governance while also addressing soft risks such as legal validity, policy direction, and social reputation; and the dynamic assessment principle, establishing a dual-track regular-and-triggered mechanism under which regular assessments are conducted at least annually and triggered assessments are launched immediately upon major events such as policy adjustments, key personnel changes, control contests, or regulatory penalties.

2.2 Indicator Selection: From Candidate Pool to Formal Indicators

Indicators were selected along the risk transmission chain of the contractual control model: contractual arrangements, governance structure, capital circulation, school operation, and social impact. Twenty-two candidate indicators were first formed on the basis of classified management requirements, existing research, and preliminary fieldwork. Two rounds of Delphi consultation were then conducted with a panel of ten experts from seven fields, namely private education policy, education law, corporate governance, financial management, higher education management, risk management, and securities investment analysis. In the first round, four redundant indicators were deleted and two pairs of near-synonymous indicators were merged according to necessity, independence, and measurability; the second round confirmed indicator connotations and thresholds. The expert activity coefficient was 100% in both rounds, the mean authority coefficient (Cr) was 0.86, and Kendall's W in the second round was 0.71 ($p < 0.01$). The formal system finally comprises five criteria dimensions and fifteen indicators (Table 1).

Table 1. Risk Assessment Indicator System for the Contractual Control Model in Private Higher Education

Criteria level (B)	Indicator level (C)	Connotation	Data sources
B1 Legal compliance	C1 Compliance of contractual validity	Completeness, legality and enforceability of VIE agreements	Agreement texts, legal opinions
	C2 Compliance of foreign investment access	Whether the use of overseas-raised funds constitutes de facto foreign control	Negative lists, approval documents
	C3 Adaptability to regulatory policies	Classified registration, VIE policy adjustments and risk disclosure	Policy documents, compliance reports, annual reports
B2 Corporate governance	C4 Soundness of governance structure	Board composition, proportion of	School charters, governance documents

effectiveness		independent directors, decision-making mechanisms	
	C5 Regularity of related-party transactions	Pricing fairness, procedural compliance and scale reasonableness	Audit reports, announcements
	C6 Information disclosure transparency	Completeness and timeliness of domestic and overseas disclosure	Annual reports, announcements, penalty records
B3 Financial health	C7 Solvency	Asset-liability ratio, current ratio, interest coverage ratio	Audit reports
	C8 Profitability and sustainability	Return on equity, operating margin, revenue growth and surplus reinvestment	Audit reports
	C9 Cash flow stability	Cash flow changes, operating cash flow vs. net profit, free cash flow	Audit reports
B4 Operational robustness	C10 Enrollment stability	Enrollment changes, admission completion rate, student source structure	School statistics, education authority data
	C11 Faculty stability	Student-faculty ratio, proportion of full-time teachers, core teacher turnover	HR data, education statistics
	C12 Teaching quality assurance	Undergraduate teaching evaluation, flagship programs, graduate employment quality	MoE evaluation reports, employment statistics
B5 Social benefit realization	C13 Maintenance of educational public welfare	Classified registration, education investment ratio, fee regulation,	Financial reports, pricing data

		scholarship coverage	
	C14 Protection of teacher and student rights	Student rights protection, teacher contracts and social insurance, career development support	Labor contracts, social insurance records, school documents
	C15 Social reputation and credibility	Public opinion, administrative evaluation, administrative penalties, donations	Media reports, government disclosures

2.3 Indicator Connotations and Threshold Setting

(1) Legal compliance is the most prioritized dimension; its core risk lies in whether contractual agreements can produce effects equivalent to equity control[5]. C1 examines whether the agreements violate mandatory legal provisions or public order and good morals; C2 examines whether the use of overseas-raised funds constitutes de facto foreign control; and C3 examines classified registration and the adequacy of policy disclosure, with the disclosure requirements of HKEx Listing Decision HKEx-LD43-3 serving as an important reference [14].

(2) Corporate governance effectiveness addresses agency problems arising from the separation of control and ownership. As VIEs achieve control through agreements rather than equity, corporate governance may deviate from actual control, intensifying insider control and benefit transfer risks [8]. C4 assesses board composition, the proportion of independent directors, and decision-making regularity; C5, based on the requirements of openness, fairness and impartiality, adopts a warning threshold confirmed through Delphi consultation, namely related-party transactions exceeding 15% of annual total revenue or pricing obviously deviating from fair market value; and C6 examines both domestic and overseas disclosure to mitigate the information asymmetry of full disclosure abroad but opacity at home.

(3) Financial health is the material foundation of sustainable operation. The overseas listed entity extracts school operating surplus through agreements and injects funds back as loans and prepayments, creating complex cross-border capital flows[11]. C7 sets five thresholds for the asset-liability ratio: below 40% for low risk, 40%-55% for relatively low risk, 55%-70% for moderate risk, 70%-85% for relatively high risk, and above 85% for high risk, with reference to the Basic Standard for Enterprise Internal Control [15] and corrections through Delphi consultation in light of industry characteristics. C8 and C9 assess earnings quality and cash flow stability respectively, guarding against the manipulation-type risk of book profits with cash bleeding.

(4) Operational robustness is the business foundation for resisting risk shocks. The capital logic of pursuing scale expansion may transmit to schooling and induce heavy capital operation with light connotation building [16]. C10 identifies enrollment crises caused by over-expansion or reputational decline; C11 guards against cost compression eroding the faculty; and C12 examines undergraduate teaching evaluation, flagship programs, and graduate employment quality.

(5) Social benefit realization is the most education-specific dimension. C13 assesses whether service fees and similar items excessively transfer operating surplus and erode reinvestment capacity; C14 examines bottom-line indicators such as student rights, teacher labor contracts, and social insurance; and C15 examines public opinion, administrative evaluation, penalties, and donations, with a bottom line stipulating that any administrative penalty during the assessment period places C15 directly at relatively high risk (Level 4) or above.

2.4 Weight Determination

Weights at both levels were determined by the analytic hierarchy process, synthesizing the two rounds of judgment matrices of the ten experts by geometric averaging. The criteria-level weight vector is $W = (0.420, 0.236, 0.134, 0.134, 0.076)^T$, with $\lambda max = 5.022$, $CI = 0.005$, and $CR = 0.005$, far below 0.10; the CRs of the indicator-level matrices range from 0.002 to 0.083, all passing the consistency test. The top three combined weights are compliance of contractual validity (0.226), compliance of foreign investment access (0.125), and soundness of governance structure together with regularity of related-party transactions (tied at 0.101), reflecting the judgment of legal foundation first (Table 2).

Table 2. Combined Weights of the Risk Assessment Indicators for the Contractual Control Model in Private Higher Education

Criteria level	Weight	Indicator level	Local weight	Combined weight
B1 Legal compliance	0.420	C1 Compliance of contractual validity	0.538	0.226
		C2 Compliance of foreign investment access	0.298	0.125
		C3 Adaptability to regulatory policies	0.164	0.069
B2 Corporate governance effectiveness	0.236	C4 Soundness of governance structure	0.428	0.101
		C5 Regularity of related-party transactions	0.428	0.101
		C6 Information disclosure transparency	0.144	0.034

B3 Financial health	0.134	C7 Solvency	0.448	0.060
		C8 Profitability and sustainability	0.299	0.040
		C9 Cash flow stability	0.253	0.034
B4 Operational robustness	0.134	C10 Enrollment stability	0.403	0.054
		C11 Faculty stability	0.321	0.043
		C12 Teaching quality assurance	0.276	0.037
B5 Social benefit realization	0.076	C13 Maintenance of educational public welfare	0.447	0.034
		C14 Protection of teacher and student rights	0.355	0.027
		C15 Social reputation and credibility	0.198	0.015

Note: combined weight = criteria-level weight × local weight; the CRs of all indicator-level judgment matrices are below 0.10.

2.5 Veto Rule and Dual Early-warning Mechanism

Since a simple weighted average may allow strong performance in other dimensions to compensate for fundamental compliance risks, a veto bottom line and a dual early-warning mechanism are established. First, the veto rule: if the maximum membership degree of C1 or C2 falls in the high-risk grade, the overall risk is directly rated Level 4 (relatively high) or above. Second, threshold warning: if the combined membership degrees of relatively high and high risk for C1 or C2 reach 0.5, the overall risk is no lower than Level 3 (moderate), and a special legal compliance warning must be listed separately in the report. Third, social benefit specific warning: triggered when the combined relatively high and high membership degrees of B5 reach 0.30 or the B5 score falls below 65; the report must list risk source analysis and a rectification checklist, regulators should conduct focused tracking with reference to Level-3 warnings, and two consecutive triggers escalate the response. This mechanism does not alter the current weighted rating but prevents risks in low-weight dimensions from being systematically diluted; both thresholds were confirmed in the second Delphi round.

3. Empirical Evaluation and Results

3.1 Case Selection and Data

Following the principles of typicality and data availability, Group X, listed private higher education group adopting a VIE structure, was selected as the assessment object. Listed in 2017, Group X had approximately 282,000 enrolled students as of August 2025, covering application-oriented

undergraduate and vocational colleges across regions; as a leading institution with a high degree of grouping, scaling, and compliance, assessing it tests the system's identification precision under relatively convergent risk. All assessment information comes from public annual reports, announcements, HKEXnews, and education authority disclosures, with the 2024-2025 academic year as the assessment point. Group Y, which was listed around 2019, experienced a control contest and administrative penalties in 2021, and suffered sharp enrollment contraction thereafter, was selected for retrospective assessment. The two groups represent the typical states of borderline risk and risk outbreak respectively, constituting a two-way test of the system's discriminant power.

3.2 Evaluation Method and Implementation

The analytic hierarchy process determined indicator weights, and the fuzzy comprehensive evaluation method handled the fuzziness and uncertainty of information [17]. For quantitative indicators with clear thresholds (e.g., the asset-liability ratio), piecewise linear trapezoidal membership functions were constructed; indicators whose larger values indicate higher risk apply directly, reverse indicators are processed inversely, and boundary values follow the thresholds determined through Delphi consultation. Qualitative indicators were rated independently and back-to-back by the ten experts based on the same public information, each judgment requiring supporting evidence; ratings were converted to scores, synthesized by geometric averaging, and normalized into membership vectors. Kendall's W was 0.71 ($p < 0.01$), Cronbach's α was 0.86, and a four-week retest of a random 30% of the indicators yielded a Spearman coefficient of 0.84, indicating consistency and stability. The evaluation set comprises five grades—low, relatively low, moderate, relatively high, and high—corresponding to a non-equidistant score vector (95, 82, 67, 50, 20) to strengthen high-risk identification. Composite scores are demarcated by adjacent anchor midpoints (left-closed and right-open): 88.5 or above for Level 1, [74.5, 88.5) for Level 2, [58.5, 74.5) for Level 3, [35, 58.5) for Level 4, and below 35 for Level 5.

3.3 Assessment Results of Group X

After fuzzy synthesis and weighted calculation, the results for Group X are shown in Table 3. The composite score is 74.66, only 0.16 above the boundary between Level 2 and Level 3, placing the group in the borderline zone between relatively low and moderate risk. The maximum membership degree of B1 falls in moderate risk (0.447), triggering neither the veto rule nor the 0.5 threshold, but as the maxima of C1 and C2 both fall in moderate risk, a special legal compliance note is attached. B2 performs best, with low and relatively low risk combined at 0.640; B3 and B4 score 78.09 and 80.19, within controllable ranges; and B5 scores 63.71, the lowest among the dimensions, with relatively high and high risk combined at 0.315, triggering the social benefit specific warning. Rule-by-rule review maintains the rating of relatively low risk (borderline), but requires listing social benefit risk sources and a rectification checklist with Level-3 focused tracking. Under the non-compensatory pessimistic criterion, which rates by the highest risk among the dimensions' maximum membership degrees, Group X is rated Level 3 because both B1 and B5 are moderate. Together the results show that, while the weighted rating stays at the lower bound of relatively low risk, moderate-risk dimensions suffice to

change the rating once the compensability assumption is abandoned.

Table 3. Risk Assessment Results of Group X

Dimension	Low	Relatively low	Moderate	Relatively high	High	Dimension score
B1 Legal compliance	0.125	0.312	0.447	0.106	0.010	72.91
B2 Corporate governance effectiveness	0.300	0.340	0.205	0.100	0.055	76.22
B3 Financial health	0.270	0.400	0.220	0.090	0.020	78.09
B4 Operational robustness	0.330	0.405	0.175	0.070	0.020	80.19
B5 Social benefit realization	0.050	0.280	0.355	0.197	0.118	63.71
Weight	0.420	0.236	0.134	0.134	0.076	—

Note: dimension score = inner product of the evaluation vector and the score vector (95, 82, 67, 50, 20); composite score = weighted sum of dimension scores = 74.66.

3.4 Four Findings on Risk Structure

(1) Legal compliance is an institutional exogenous rigid constraint. Even for the well-performing Group X, the dimension's maximum membership degree remains moderate risk, confirming that the fundamental risk of the contractual control model lies in the uncertain fit between its legal foundation and classified management policy requirements. The Implementation Regulation's provisions on contractual control have substantive effects on the VIE's legal foundation, and the U.S. SEC's statement on the legal uncertainty of China-concept VIE structures [18] shows that this risk has drawn wide attention from international capital markets. Such institutional exogenous risks cannot be eliminated through institutions' own efforts, constituting a Sword of Damocles hanging over VIE structures.

(2) Governance effectiveness is a controllable key endogenous variable. Group X's excellent performance in this dimension suppressed its overall risk to the borderline relatively-low zone despite rigid legal constraints, showing that improving internal governance and regulating related-party transactions can significantly reduce overall risk. This finding empirically supports the COSO framework's tenet that governance structure is the foundation of risk management [19] and is consistent with Wang's finding that internal governance risks of private colleges can be mitigated through governance structure optimization [8].

(3) Financial health and operational robustness are sound overall but carry lagging hazards. Their relative stability reflects the generally strong financial strength and stable enrollment of private higher education groups, yet financial indicators are lagging: current stability does not guarantee resilience against subsequent policy changes or control contests, and the U.S. Holding Foreign Companies Accountable Act together with the twists of Sino-U.S. audit regulation may affect the VIE financing environment and transmit to financial health [20].

(4) Social benefit is the most easily underestimated lagged-transmission risk. Group X scores lowest in this dimension and triggers the specific warning, showing that profit-transfer pressure poses real challenges to educational public welfare and teacher-student rights; if not resolved early, it may evolve into reputational risk and erode enrollment and finance, forming cross-dimensional transmission. Assessment based solely on legal and financial indicators would systematically underestimate public-welfare erosion, forming a structural blind spot. The dimension's baseline weight is only 0.076, reflecting average risk contribution under normal conditions, whereas identifying lagging, erosive risks cannot rely on normal weighting alone and must be institutionally supplemented by the specific warning mechanism.

3.5 Stress Scenario and Risk Transmission Test

To test the implicit assumption of cross-dimensional compensability underlying weighted averaging, a stress scenario was designed. Suppose classified management policies tighten and disputes over VIE validity intensify: the evaluation vector of B1 is pessimistically revised to (0, 0.10, 0.35, 0.40, 0.15), with its score falling from 72.91 to 54.65; B5 is revised to (0.02, 0.20, 0.35, 0.28, 0.15), scoring 58.75; and the other dimensions remain at baseline. The composite score falls to 66.61, and the overall rating drops from Level 2 to Level 3 (moderate risk). This shows that a legal risk shock can break through the grade boundary within a single year and downgrade the overall rating; if social benefit risks transmit along the chain of public welfare impairment, reputation decline, enrollment contraction, and financial deterioration, the safety cushion of the financial and operational dimensions is limited. Admittedly, the scenario involves subjective transmission settings and serves boundary probing rather than precise prediction.

3.6 Retrospective Validation: The Case of Group Y

A single high-compliance case demonstrates operability but not discriminant validity. Using public annual reports, announcements, and administrative penalty decisions as data sources, Group Y was retrospectively assessed for 2019 (before the risk outbreak) and 2021 (after the outbreak), as shown in Table 4. In 2019, the composite score was 73.40, rated Level 3 (moderate risk): the maximum membership degree of B1 had already fallen in moderate risk, and the combined relatively high and high membership degrees of B5 reached 0.25, warranting a specific note under the rules. In 2021, the score dropped to 55.89, rated Level 4 (relatively high risk), with all five dimensions sinking. The system issued a Level-3 warning two years before the full outbreak without underestimating risks merely because finance and operations were still sound; the direction of grade transition is consistent

with the ex post evolution, demonstrating ex ante warning capability and discriminant validity, and confirming the institutional value of the specific warning's early signal and early response.

Table 4. Retrospective Assessment Results of Group Y

Dimension	2019 evaluation vector	2019 score	2021 evaluation vector	2021 score
B1 Legal compliance	(0.15, 0.30, 0.35, 0.15, 0.05)	70.80	(0.02, 0.08, 0.25, 0.42, 0.23)	50.81
B2 Corporate governance effectiveness	(0.20, 0.35, 0.30, 0.10, 0.05)	73.80	(0.05, 0.15, 0.30, 0.35, 0.15)	57.65
B3 Financial health	(0.30, 0.40, 0.20, 0.08, 0.02)	79.10	(0.10, 0.20, 0.35, 0.25, 0.10)	63.85
B4 Operational robustness	(0.28, 0.40, 0.22, 0.07, 0.03)	78.24	(0.05, 0.20, 0.40, 0.25, 0.10)	62.45
B5 Social benefit realization	(0.10, 0.30, 0.35, 0.18, 0.07)	67.95	(0.02, 0.10, 0.28, 0.40, 0.20)	52.86
Composite score (weighted)	—	73.40 (Level 3)	—	55.89 (Level 4)

Note: the five elements of each evaluation vector are the membership degrees of low, relatively low, moderate, relatively high, and high risk.

3.7 Robustness Checks

Robustness was tested in four ways. First, weight sensitivity: raising or lowering the legal compliance weight by 20% and cross-validating with the governance weight produced no rating jumps for either group. Second, random perturbation: 1,000 Monte Carlo simulations applying ±15% perturbations to the combined weights yielded a rating stability probability of 99.2% for Group X and unchanged rating directions for Group Y in both years. Third, fuzzy operator sensitivity: the max-min and weighted-average operators produced identical ratings, with composite score differences within 3.1%. Fourth, score vector sensitivity: under four alternative score vectors, Group X's composite score ranged from 73.48 to 76.92, falling into Level 3 under two vectors, which precisely confirms its borderline position between relatively low and moderate risk; the conclusions are therefore stated uniformly as borderline.

4. Tiered and Classified Governance Optimization Path

The empirical results show that the risks of the contractual control model exhibit a structure of rigid legal compliance constraint, mitigable governance effectiveness, and lagged social benefit transmission, with the two groups spanning Level 2 to Level 4. Governance optimization therefore cannot be one-size-fits-all but must proceed along three lines—regulators, sponsors, and investors—in strict correspondence with risk levels.

4.1 Regulators: A Differentiated Governance System of Precise Identification, Tiered Response, and Dynamic Tracking

The key to differentiated governance is to link regulatory responses strictly to assessment ratings. Group X, being borderline and under a social benefit specific warning, should receive Level-3 focused tracking; Group Y was rated Level 3 two years before its risk outbreak, showing that regulation must shift from ex post disposal to ex ante warning and tiered intervention. A red-yellow-blue classified regulatory ledger for VIE-structured private colleges is recommended: Level-1 schools enjoy simplified annual inspection and approval procedures, entering the blue list with priority for policy pilots; Level-2 schools receive routine monitoring and annual review, with borderline schools tracked as Level 3; Level-3 schools face sponsor interviews, special on-site inspections, and restrictions on new related-party transactions, entering the yellow list; Level-4 schools must reduce existing related-party transactions, suspend enrollment in new programs, and activate risk disposal plans; and Level-5 schools are ordered to rectify, face enrollment quota reductions and, where necessary, sponsor changes, entering the red list for focused disposal. Assessment results are linked to annual inspections, enrollment plans, and preferential policies.

To keep tiered regulation law-based and procedurally sound, three points must be clarified. First, distinguishing the nature of measures: annual inspection, information disclosure, and credit archives are routine regulation under Article 41 of the Private Education Promotion Law; interviews, special inspections, and restrictions on new related-party transactions are administrative guidance and inspection under Article 63 of the Implementation Regulation, without punitive effect; and ordered rectification, enrollment suspension, and license revocation are administrative penalties that must strictly follow Article 62 of the Law and the Administrative Penalty Law. Second, trigger procedures: after ratings are finalized through publication and objection handling, education authorities should notify the conclusions, factual bases, and intended measures in writing, hear statements and defenses, and publish listing decisions, rectification requirements, and removal conditions. Third, proportionality and inter-agency coordination: the intensity of measures should match risk levels and harmful consequences; education, human resources, market regulation, financial regulation, foreign exchange, and securities authorities should establish information-sharing and coordinated disposal mechanisms, bridging the regulatory divide between domestic schooling and overseas listing [8], and place social benefit under focused monitoring to intervene promptly against public-welfare erosion and damage to teacher-student rights.

4.2 Sponsors: Transformation from Passive Compliance to Active risk Control

First, sponsors should optimize governance structures by raising the proportion of independent directors and staff representatives on boards and establishing recusal voting and collective decision-making for major matters, so as to compress the space for insider control. Second, they should build a firewall for related-party transactions, introducing independent third-party fairness assessments, keeping transaction scale within warning thresholds, and making special disclosures. Third, they should appoint internal compliance officers or risk management positions and conduct full-process compliance self-assessment under the dual-track regular-and-triggered mechanism, reporting to the board. Fourth, they should balance capital returns with educational investment, ensuring that operating surplus is prioritized for faculty development, teaching facilities, and student aid, and avoiding excessive dividends and profit transfers that erode educational public welfare. Fifth, they should list social benefit indicators as mandatory internal assessment items and respond promptly to specific warning signals, preventing the cumulative transmission of reputational and public-welfare risks.

4.3 Investors: Penetrating Due Diligence and a Responsible Investment Framework

Investors should incorporate multidimensional risk indicators into their decision models, attending not only to financial returns but also to legal compliance, governance effectiveness, and social benefit. The retrospective case shows that legal compliance and social benefit warning signals significantly precede financial deterioration, and purely financial due diligence can hardly cover VIE tail risks. Investors should therefore establish a penetrating due diligence mechanism covering contractual validity, related-party transactions, surplus transfers, and teacher-student rights along the control chain; add education-specific indicators to ESG frameworks and include teacher-student rights, educational public welfare, and information disclosure in post-investment monitoring; and, in particular, set social benefit specific warning signals as post-investment monitoring triggers that, once activated, initiate special due diligence reviews and dynamic adjustment of positions and risk exposure.

5. Conclusion

Against the backdrop of the classified management reform, the risk landscape of the contractual control model in private higher education has profoundly changed. This study constructs a five-dimensional risk assessment system covering legal, governance, financial, operational, and social benefit dimensions, correcting the compensability defect of weighted models through a veto bottom line and a dual early-warning mechanism. Theoretically, the system extends risk assessment from single-dimension compliance review to a systematic measurement of multidimensional nested risks; practically, it provides regulators, sponsors, and investors with an operable quantitative tool. Two-case testing shows that legal compliance risk is institutionally exogenous and constitutes a rigid constraint; governance effectiveness is the key endogenous variable controllable by institutions; and social benefit risk, transmitted with lags, is the most underestimated yet most destructive undercurrent. Group X's borderline score of 74.66 with a triggered specific warning, together with Group Y's transition from

Level 3 to Level 4 over two years, jointly indicates that governing the contractual control model requires the coordinated efforts of differentiated institutional supply by regulators, sponsors' transformation toward active risk control, and responsible investment by investors. This study has limitations: the stress scenario involves subjective transmission settings, and the two cases, though typical, call for larger-sample validation. Future research may extend the system to more listed groups and further refine the thresholds as classified registration progresses, so as to balance capital logic with educational public welfare and promote the high-quality development of private higher education amid standardization.

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