



Contents lists available at ScienceDirect

## Journal of Accounting and Economics

journal homepage: [www.journals.elsevier.com/journal-of-accounting-and-economics](http://www.journals.elsevier.com/journal-of-accounting-and-economics)

## Financial reporting and disclosure practices in China

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## ARTICLE INFO

## Article history:

Received 10 June 2021

Received in revised form 31 March 2023

Accepted 3 April 2023

Available online xxx

## JEL classification Codes:

G10

G18

M41

M48

N25

P52

## Keywords:

Financial reporting

Disclosure

Information quality

Field study

China

## ABSTRACT

We study financial reporting and disclosure practices in China using survey methods similar to prior studies of U.S. firms (i.e., Graham et al., 2005; Dichev et al., 2013). Comparing earnings features, motives to manage and smooth earnings, and voluntary disclosure practices between the two countries, we reveal three major differences. First, Chinese firms exhibit a stronger preference for predictive, relative to verifiable, attributes of earnings that can signal stable firm performance to their stakeholders. Second, smooth earnings are desired by various stakeholders and can be achieved through coordination among connected stakeholders, which is conceptually different from earnings management. Third, Chinese firms consider public disclosure as less relevant in the reduction of the cost of capital. In addition, Chinese firms do not have a bias towards conservative reporting. We explain and reconcile these differences as resulting from some unique institutional features of China. Our study provides novel field evidence that contributes to, expands, and directly corroborates existing empirical studies.

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## 1. Introduction

China's economic significance has grown in recent decades, making it the second largest economy in the world. While China has continuously introduced new regulations to assimilate shareholder-driven practices of financial markets in the West, various institutional differences spanning cultural norms and socio-economic structures still play a considerable role in shaping the Chinese capital market. For instance, prior studies suggest that connections among many non-arm's length stakeholders contribute to the functioning of capital markets in China (e.g., Ball et al., 2000; Allen et al., 2005; Wong, 2020). In this paper, we use a field-based survey approach to directly study how such institutional factors shape firms' financial reporting and disclosure practices in China.

A survey approach enables us to extend prior archival studies, providing evidence about unobservable coordination efforts and private communication channels among non-arm's length stakeholders in China. While a series of surveys of CFOs at U.S. public firms have allowed academics to validate and reconcile findings on financial reporting and disclosure practices in the accounting and finance literature (e.g., Graham and Harvey, 2001; Graham et al., 2005; Dichev et al., 2013), these survey

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<https://doi.org/10.1016/j.jacceco.2023.101598>

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Please cite this article as: H. Lu, J.-E. Shin and M. Zhang, Financial reporting and disclosure practices in China, Journal of Accounting and Economics, <https://doi.org/10.1016/j.jacceco.2023.101598>

findings primarily reflect the financial reporting incentives of arm's length shareholders. Our study extends this prior research by examining firm responses in China, where information demand is shaped by various stakeholders that are non-arm's length. Moreover, our study complements the extensive archival literature on financial reporting and disclosure practices in China (Lennox and Wu, 2022).

To compare our findings with the financial reporting and disclosure practices in the U.S., we begin by designing a survey instrument that closely mirrors those used in prior U.S. studies (Graham et al., 2005; Dichev et al., 2013). Specifically, our survey directly asks executives at Chinese firms about their perceptions of earnings quality, their earnings management and smoothing incentives, and their motives for voluntary disclosure decisions. Based on extensive follow-up field engagements including additional open-ended questionnaires, additional survey instruments, and onsite field interviews, we reconcile the observed differences with institutional features between the stakeholder-driven governance model of China and the shareholder-driven governance model of the U.S. (e.g., Ball et al., 2000a; Ball et al., 2000b, 2003; Chen et al., 2011; Piotroski et al., 2015; Wong, 2016, 2020).

Our survey results highlight three notable discrepancies in financial reporting and disclosure practices between China and the U.S. First, Chinese firms exhibit a stronger preference for predictive attributes of earnings that can signal stable firm performance to their shareholders and other stakeholders. This is in contrast to U.S. firms that emphasize the ability to validate or justify reported earnings figures, for example, by avoiding the use of long-term estimates. Chinese corporate executives also exhibit demand for justifiable accounting figures, suggesting the important role of accounting information in China.

Second, international empirical studies that consider earnings management and earnings smoothing commonly assume similar financial reporting incentives – i.e., satisfying the information demand from investors. In contrast, our field-based evidence reveals that the motives and channels to engage in earnings management are distinct from those to engage in earnings smoothing in China. Although smooth earnings paths comprise a desirable earnings feature by various stakeholders due to resulting signaling of stable firm performance, Chinese firms would not necessarily engage in earnings management using discretion within accounting standards to accomplish this.

The reasons Chinese executives differentiate between earnings smoothing and earnings management are rooted in the importance of non-arm's length stakeholders in the Chinese economy. Coordination with major connected stakeholders provides for a more effective means to smooth earnings than via earnings management. It allows firms to signal that they have a stable network of stakeholders and that their relational contracts function well. This public signal of key stakeholders' relationships is valuable to all arm's length stakeholders (including shareholders), who do not have access to private communication channels with the firms. It is also valuable to non-arm's length stakeholders that have access to private communication channels because it serves as a validation mechanism.

Third, with regards to voluntary disclosure practices, we document direct evidence that Chinese firms consider public voluntary disclosure to be less relevant in the reduction of cost of capital. In addition, whereas U.S. firms have stronger tendencies to adopt conservative voluntary disclosure policies such as timely loss recognition due to high litigation risk, most Chinese firms would not differentiate the treatment of good news from bad news. We find that the portion of Chinese firms willing to disclose good news faster than bad news is significantly larger than those willing to commit to conservative disclosure policies in order to disclose bad news faster than good news.

Our additional field evidence includes open-ended questionnaires, on-site field visits and interviews, allowing us to unravel the institutional factors that prompt the three main discrepancies we observe between survey results in China and the U.S. These institutional factors relate to the network of connected stakeholders, the dominance of retail investors, and concentrated ownership structures. They also relate to weak legal systems in China, which prevent the use of public information disclosures in playing an effective role for the mitigation of shareholder agency conflicts as in the U.S.

First, the focus on the ability to signal overall stable firm performance in reported earnings figures is consistent with the stakeholder-driven governance model in China. That is, Chinese firms consider the demands of various stakeholders, including the government, employees, suppliers, and customers, instead of prioritizing those of their arm's length retail investors. Under the shareholder-driven governance framework in the U.S., firms consider earnings attributes like justifiability and/or verifiability to be relatively more important, allowing firms to project future earnings growth subject to lower litigation costs. In contrast, a preference for predictive earnings attributes is consistent with the notion that there is substantial demand for stable firm performance beyond promoting the transparency of financial information in the Chinese market (Ball et al., 2000a).

Second, the notion that Chinese firms consider earnings management and earnings smoothing as two distinct constructs corroborates the strong influence of various stakeholders in firms' financial reporting decisions in China (Ball et al., 2000a, 2000b, 2003). In the shareholder-driven economy of the U.S., firms have incentives to manage earnings within accounting standards mainly by targeting the demand for information by investors – for example, by beating or meeting earnings targets (Dhaliwal et al., 2004), by meeting compensation requirements (Laux and Laux, 2009), and by maintaining smooth earnings paths (Burgstahler and Dichev, 1997b). Thus, investor-driven motives, including (long-term) investors' desirability for smooth earnings paths, are considered major drivers for firms' engagement in earnings management activities in the U.S. Financial reporting in the stakeholder-driven economy of China, however, is targeted at a larger audience. That is, smooth earnings are not only desired by investors. More importantly, they also signal firms' stable performance to stakeholders, which can be achieved by the coordination among key stakeholders. This makes engaging in earnings management within accounting standards to achieve smooth earnings relatively unattractive for Chinese firms. Due to the prevalence of private communication channels between powerful stakeholders and firms, connected stakeholders may obtain such information either from

the firms directly or via other related stakeholders, lowering the effectiveness of earnings management within accounting standards. In addition, powerful major stakeholders such as the government, banks, customers, and suppliers, can facilitate the earnings smoothing process through viable coordination efforts, which in turn signal firms' strong connected network in the Chinese economy.

Third, the observed differences associated with firms' voluntary disclosure practices between U.S. and Chinese firms can be reconciled with the stakeholder-driven governance model rooted in connections. For example, the availability of private communication channels with major stakeholders, such as the government and banks, reduces the need for using public disclosures to lower the cost of capital. It also explains why proprietary costs comprise the primary concerns for Chinese firms' voluntary disclosure decisions, possibly in an attempt to limit the disclosure of details pertaining to their connections with important stakeholders. In addition, the relatively weaker demand for conservative accounting practices in the treatment of good versus bad earnings news is also consistent with the notion that litigation risk in China is low. It is also consistent with the prevalence of private communication channels in China that mitigates firms' incentives to communicate accounting disclosure information to shareholders in a public and timely manner.

Of particular concern in using a survey-based method in the Chinese context is the possibility that the survey responses exhibit bias due to political influences. We do not find statistically significant differences among the survey responses provided by the state-owned enterprises (SOE) and non-SOE executives. Moreover, we do not observe biased responses towards government-related considerations when such answer options were additionally included in a second iteration of the survey. These findings mitigate selection bias concerns that our survey respondents may possess political cost concerns, making their opinions representative of the overall population of Chinese firms.

The main contributions of our study are threefold. First, this study provides novel field evidence on financial reporting and disclosure practices in China. While financial reporting and disclosure differences between the U.S. and China are relatively well documented in the literature, prior archival research only indirectly alludes to explaining these differences based on observable institutional factors. We contribute by providing direct evidence of practitioners' motives for their financial reporting and disclosure practices and how they are shaped by connected stakeholders' incentives. We explain such differences in motives based on specific institutional and/or governance related factors. Our study, thus, opens the "black box" on Chinese firms' financial reporting and disclosure practices, which is analogous to research on the inputs and processes of analyst forecasts using survey and field-based data (e.g., [Soltes, 2014](#); [Brown et al., 2015](#)).

Second, we corroborate existing China-based empirical research by confirming the conjectures and empirical evidence documented on lack of timely loss recognition in the Chinese market as shown in [Ball et al. \(2000a\)](#), [Ball et al. \(2000b\)](#) and [Ball et al. \(2003\)](#). We further document that smooth earnings paths in China are desirable because they signal firms' capability to maintain sustainable earnings through a powerful stakeholder network. This is motivated by Chinese firms' desire to communicate the strength of their relational network to all stakeholders, which is distinct from U.S. firms' incentives to smooth earnings to satisfy their shareholders. Moreover, our study is the first to provide evidence showing that Chinese executives consider earnings management within accounting standards and earnings smoothness to be two distinct constructs.

Finally, our study makes an important theoretical contribution by reconciling the differences in financial reporting and disclosures within an overarching framework of connected stakeholders. This framework also incorporates details on specific Chinese institutional features such as the dominance of retail investors, concentration of ownership, and weak legal systems. Such a reconciliation is important because it can justify and complement many existing archival findings (e.g., [Lennox and Wu, 2022](#)). Moreover, it provides a theoretical framework for future China-related research that can better inform researchers on which design factors should be considered to further explore financial reporting and disclosure related topics in China.

## 2. Background and motivation

### 2.1. Understanding the corporate information environment: beyond institutional differences

Prior literature suggests that the corporate information environment is shaped by a multifaceted system that consists of firm-, regional-, and country-level influences. Therefore, understanding the economic implications of corporate financial reporting requires an understanding of whether and how these different influences affect information-generating mechanisms ([Bushman et al., 2004](#)). A stream of international studies aim to examine how financial reporting outcomes vary depending on different country-level factors. For example, [Leuz et al. \(2003\)](#) show that earnings management exhibits country-level differences based on the development of equity markets, dispersion of ownership structures, strength of investor rights, and legal enforcement. [Bhattacharya et al. \(2003\)](#) examine three dimensions of reported accounting earnings for 34 countries, including earnings aggressiveness, loss avoidance, and earnings smoothing. Based on these features, they create an earnings opacity time-series measure for each country, and conclude that there is a positive relationship between the level of accounting opacity in a country and the cost of capital.

Despite abundant evidence of cross-country differences in financial reporting outcomes, understanding the *drivers* for such discrepancies is challenging due to the multifaceted nature of the corporate environment. Prior empirical work provides evidence on how governance models influence financial reporting outcomes. For example, [Ball et al. \(2000a\)](#) distinguish between shareholder and stakeholder governance models and show that accounting earnings are less timely in reflecting

economic losses under the stakeholder governance framework.<sup>1</sup> In addition, Ball et al. (2003) discuss the institutional environments and enforcement mechanisms in four East Asian countries to explain variations in financial reporting and disclosure practices. Specifically, they show that financial reporting outcomes in countries that have adopted “high quality” accounting standards similar to those in common-law countries generally fail to exhibit earnings properties of similar quality. Moreover, they find that the cross-country variation in earnings properties among these four East Asian countries is associated with the extent of market-orientation. This provides further evidence of the role of stakeholder and agent (e.g., regulators, managers and auditors) incentives in influencing financial reporting outcomes.

Nonetheless, leveraging country-level classifications to distinguish between differences in institutions and/or incentives does not provide sufficient evidence for understanding the drivers of financial reporting and disclosure practices. Political influences, market demands, and cultural norms are unique to each individual country such that an in-depth understanding of the specific institutional factors is warranted. Surveys and interviews, thus, provide fruitful means to complement existing findings documented in the empirical studies by offering direct anecdotes from practitioners. Whereas a series of field-based research (e.g. Graham et al., 2005; Dichev et al., 2013) has contributed to a better understanding in the U.S., such evidence is lacking in the context of other countries.

## 2.2. The financial reporting and disclosure environment in China

The rapid development of the Chinese capital market has drawn much attention from investors and regulators seeking to understand the financial reporting outcomes of Chinese companies. Consequently, the number of academic studies focusing on the Chinese market has steadily increased over the past decades (Lennox and Wu, 2022). Existing studies on the Chinese market show that financial reporting outcomes in China exhibit some distinct properties due to the unique institutional setting of China. These properties include (1) a stakeholder-as opposed to a shareholder-driven governance framework, (2) different firm ownership structures, (3) the prevalence of more relationship-based business transactions, and (4) weaker legal systems. Below, we consider each of these institutional factors in turn.

First, the classification between a shareholder versus stakeholder driven corporate governance model is rooted in differences in the origin of accounting incentives (e.g., Ball et al., 2000a; Ball et al., 2000b; 2003). When the demand for accounting originates in markets such as in the U.S., exclusive corporate governance rights are normally given to shareholders who select the members of the governing board. Corporate governance regulations in such markets, thus, encourage more monitoring of managers by external debt and equity markets.<sup>2</sup> In contrast, when economic activity involves coordination among diverse stakeholders such as governments, banks, and employees, accounting practice is no longer shaped only by shareholders. The stakeholder-driven governance model has implications for the role of financial reporting in agency conflict resolution. Under the market-oriented shareholder model, accounting standards evolve over time by becoming commonly accepted in practice. Under the stakeholder-driven governance model, governments usually maintain significant influence in establishing and enforcing national accounting standards – typically with representation from major political groups such as labor unions, banks, and business associations. Accordingly, whereas public information disclosure constitutes a key channel for alleviating information asymmetry problems under the shareholder-driven governance model, financial reporting is less shaped by market participants’ demands in the stakeholder-driven governance model. Instead, private communication and close relations with major stakeholders constitute a viable and effective communication channel. Mitigating agency conflicts with shareholders is not the only objective of firms’ financial reporting and disclosure practices under such a stakeholder governance model. Rather, firms possess strong incentives to consider the interests of networks of all related stakeholders (Wong, 2020).

Second, Chinese firms are characterized by firm ownership structures that differ significantly from those in the U.S. Concentrated firm ownership structures give rise to peculiar agency conflicts between controlling and minority shareholders. Controlling shareholders can comprise the government or private founders, whereas minority shareholders are outside shareholders and are typically small retail investors. Chinese firms, thus, have fewer incentives to mitigate agency conflicts with minority shareholders via financial reporting. Instead, they prioritize maintaining stable contractual relationships with key stakeholders, including the government (Piotroski and Wong, 2012; Wong, 2016; Jiang and Kim, 2020). Prior China-related work has extensively examined the role of the government in shaping the corporate information environment of state-owned enterprises (SOEs), whose controlling shareholders are governments. In addition to pursuing economic profit maximization for their shareholders, SOEs also pursue social and political objectives of diverse stakeholders. In return, SOEs enjoy implicit government privileges in equity and debt markets, such as more lenient listing requirements and lower debt default risk. Studies document evidence that SOEs generally exhibit a poorer information environment than non-SOEs (e.g., Gul et al., 2010; Chen et al., 2010). SOEs in protected industries exhibit fewer earnings management incentives than SOEs in

<sup>1</sup> Some studies operationalize different governance models by distinguishing between code-law and common-law countries. Code-law countries represent a stakeholder governance model due to the involvement of major political groups such as labor unions, banks and business associations in the establishment and enforcement of accounting standards. Common-law countries, in contrast, represent a shareholder governance model that strongly emphasises the role of capital markets.

<sup>2</sup> For example, the New York Stock Exchange Listing Manual and the Nasdaq Marketplace Rules require a majority of the board members to be independent. Companies must identify their independent directors and detailed information on board members is usually contained in annual reports and proxy statements filed with the Securities Exchange Commission.

unprotected industries (Aharony et al., 2000).<sup>3</sup> Overall, the empirical evidence is consistent with the notion that firms with concentrated owners have less incentive to resolve agency conflicts via financial reporting.<sup>4</sup>

Third, the unique social structure in China gives rise to many relationship-based business transactions (Greif and Tabellini, 2017). Chinese firms are more likely to interact with many stakeholders that are non-arm's length for which social networks comprise stronger enforcement mechanisms than explicit contracts (Rajan and Zingales, 1998; Hung et al., 2015; Li et al., 2020).<sup>5</sup> Building long-term relationships with stakeholders, including governmental institutions, is fundamental in driving successful business operations in China. This constitutes an integral element for devising business strategies and the growth of the private sector (Allen et al., 2005; Hout and Michael, 2014; Greif and Tabellini, 2017; Wong, 2020). In addition, many of the relationship-based business transactions do not occur at market prices. This gives rise to adverse managerial incentives to disclose information publicly (Jian and Wong, 2010). Consistent with the heightened role of private communication channels to alleviate information asymmetry problems among diverse stakeholders, research shows positive market reactions and improved analyst forecast accuracy after analysts meet with firms (e.g., Cheng et al., 2016; Han et al., 2018; Bowen et al., 2018; Cheng et al., 2019) and that firms use embedded analysts to disseminate private information (Li et al., 2020).

Finally, the role of the legal regulatory environment is crucial in shaping financial reporting and disclosure incentives. In market-oriented economies such as in the U.S., timely public information disclosure constitutes an important channel through which shareholder's due diligence is exercised. Thus, shareholder litigation is an important mechanism to enforce high quality financial reporting. In contrast, expected litigation costs resulting from financial reporting and disclosure outcomes are relatively lower in China. Empirical evidence supports this notion as both the number of accounting-related lawsuits and related penalties in China remain significantly lower than those in the U.S. Recent trends do, however, show that liability threats have also increased for Chinese firms (Lennox and Wu, 2022, Table 1). The weak legal environment in China provides less obvious incentives for firms to engage in voluntary information disclosures.

### 2.3. Motivation for field-based studies in China

Despite the increasing volume of China-related studies, there is very limited evidence from the field. Given the abundant evidence on the prevalence of multiple connected stakeholders in China's relationship-based economy, whether and how they influence firms' reporting and disclosure decisions is unclear. Empirical studies based on publicly available archival data are limited in unraveling the underlying mechanisms for firms' reporting and disclosure incentives as most coordination efforts and private communication among connected stakeholders are unobservable. Therefore, existing archival research can only indirectly allude to explanations for empirical observations, based on institutional factors and motivated by theoretical predictions. Accordingly, we leverage various field-based methods including a comprehensive survey along with follow-up questionnaires, and interviews to complement existing prior studies. We believe that a field-based approach allows for opening the "black box" regarding firms' reporting decisions, especially when facing demands from arm's length retail investors and major non-arm's length stakeholders such as in China. Thereby, our field-based work can provide guidance for motivating and designing more practice-relevant China-related research.

## 3. Survey design

### 3.1. Survey instruments

To highlight the differences between our survey findings and those based on U.S. firms, we adopt survey questions in Graham et al. (2005) and Dichev et al. (2013), which are based on a review of the voluntary disclosure, earnings management,

<sup>3</sup> SOEs in "protected" industries (petrochemicals, energy, and raw materials) comprise state monopolies, under the direct supervision and control of the State Council. In contrast, SOEs in "unprotected" industries are mostly under the supervision of provincial or local governments and do not receive direct aid from the central government.

<sup>4</sup> Prior literature also shows that Chinese firms are influenced heavily by government regulations (Wong, 2016). For example, the Chinese stock market maintains a regulatory ROE benchmark for rights issues. In 1996, a guideline by the China Securities Regulatory Commission required listed companies to maintain an ROE of at least 10 percent in each of the previous three years before they can apply for rights issue. There is also a delisting provision carried out in 2001 that requires public firms to be delisted if they report a loss for three consecutive years. Empirical studies show that earnings management among Chinese firms is prevalent in the face of such regulatory requirements (Chen and Yuan, 2004; Haw et al., 2005; Yu et al., 2006).

<sup>5</sup> The distinction between arm's length and non-arm's length systems lies in the power of explicit contracts. Whereas arm's length transactions are protected by explicit contractual agreements between relevant parties, this is not necessarily the case for non-arm's length transactions. Thus, the former has a much stronger reliance on the strength of legal systems and enforcement. Accordingly, some literatures refer to non-arm's length systems synonymously with relationship-based systems (e.g., Rajan and Zingales, 1998).



and earnings quality literature. We downloaded the questionnaires used for the two studies and selected the questions that fell into three categories: (1) features of reported earnings; (2) motives to manage and smooth earnings; and (3) voluntary disclosure practices. We began with the survey items used in [Graham et al. \(2005\)](#) and eliminated questions that required respondents to perform calculations and those that were specific to the U.S. context.<sup>6</sup> Given the similarity in the nature of the questions, we chose not to include all of the questions from [Dichev et al. \(2013\)](#). Instead we used their survey items to complement our survey with four additional questions that specifically asked about the definition of “high quality earnings”, and about earnings management motives. [Appendix 1](#) provides a summary of the organization of the paper with the corresponding survey items as used in [Graham et al. \(2005\)](#) and [Dichev et al. \(2013\)](#).

### 3.2. Survey audience

The objective of the survey is to target audiences who are mainly responsible for financial disclosure-related practices within the organization. In the U.S. context, CFOs are selected as they are the “direct producers of earnings quality”. They are knowledgeable about accounting- and finance-related matters and advise other key decision makers based on financial information ([Dichev et al., 2013](#)). In the Chinese context, we argue that a comparable role for U.S. CFOs is that of board secretaries. We highlight major differences in the corporate management structure at U.S. and Chinese firms and provide several reasons for conducting our survey based on board secretaries.

First, although there is no board secretary position in U.S. firms, the Corporate Law of the People's Republic of China (2005) requires that a listed firm appoint a secretary to the board of directors.<sup>7</sup> Moreover, the Code of Corporate Governance for Listed Companies in China explicitly states that the secretary of the board of directors shall be in charge of information disclosure, including the formulation of rules for information disclosure (see [Appendix 2](#)). The responsibilities of a board secretary largely overlap with those of a CFO in U.S. firms. Besides having primary responsibility for corporate information disclosure decisions, many board secretaries are also involved in investment and financing decisions.<sup>8</sup> Second, as [Jiang and Kim \(2015\)](#) note, the concept of “top managers” has a different connotation in the Chinese context. Whereas the position of CEO and CFO exists within Chinese firms, these roles are associated with a narrower span of control compared to those of CEOs and CFOs in U.S. firms. In China, it is the president or the chairperson of the board who is in charge of actively “managing” the firm.<sup>9</sup> Third, in practice, it is the board secretary who will be held accountable for any financial misconduct, and there are numerous instances when board secretaries were held liable for fraudulent financial reporting ([Wang et al., 2019](#)).<sup>10</sup> Therefore, we base our survey on Chinese board secretaries – the *de facto* CFOs at Chinese public firms.

### 3.3. Survey delivery

Our survey was administered and distributed by New Fortune Magazine in China (hereafter, referred to as “New Fortune”) in 2017.<sup>11</sup> New Fortune was founded by the Shenzhen Stock Exchange and is influential in the financial media in China. It conducts a series of surveys, and offers annual rankings such as “New Fortune All-star Analysts”, “Golden Board Secretary”, “China's Wealthiest People Top 500”, “Best Investment Banks”, and “Most Promising Business Models”. Our survey invitation was distributed to board secretaries. New Fortune asked them to complete the survey within two weeks in February 2017. Specifically, New Fortune created a website-based survey link exclusively open to all eligible board secretaries considered for the “Golden Board Secretary”. The survey and voting for the “Golden Board Secretary” are two independent events, and board secretaries did not participate in the voting for the “Golden Board Secretary”. The website link containing our survey questions was sent to 2,094 board secretaries. There were 210 participant responses to our online survey. There were 207 valid responses, representing a response rate of 9.89%, which is comparable to previous voluntary surveys with CFOs.<sup>12</sup> For example, [Graham et al. \(2005\)](#) reported a response rate of 8.4% for their internet-based survey, [Graham and Harvey \(2001\)](#) report a response rate of 9% for their fax-based survey, and [Dichev et al. \(2013\)](#) report a response rate of 5.4% for their e-

<sup>6</sup> To increase the response rate, we eliminated questions that required detailed calculations. As discussed in more detail in Section 3.3, we delivered the survey by creating a website link containing the survey questions. Because most of the survey respondents were likely to access it via their smartphones, performing detailed calculations would discourage them from responding to the survey. Moreover, some questions (and answer options) are specific to the institutional environment in the U.S. We eliminated these as they would be irrelevant to our survey audience.

<sup>7</sup> The position of board secretary started in England in 1841.

<sup>8</sup> 74% of our follow-up survey respondents answer that they are involved in these decisions.

<sup>9</sup> [Jiang and Kim \(2015\)](#) note that studies focusing on the firm's general manager or the CEO when examining top managers' investment and financial decisions in China can result in erroneous interpretations. These studies rely on the incorrect assumption that Chinese general managers or CEOs are active decision-makers within the firm.

<sup>10</sup> For example, in 2012, there were 18 board secretaries who received disciplinary penalties from the Shanghai and Shenzhen Stock Exchanges, and 12 board secretaries who received administrative sanctions from the China Securities Regulatory Commission.

<sup>11</sup> We conducted a second survey in February 2020 to address potential survey bias concerns and explore results by including some of the unique institutional features of China that we learned from all our previous field engagements. A summary of the timeline of all our field engagements including the surveys, onsite visits, and interviews, are shown in [Appendix 3](#). The results from the second survey are presented in the Online Appendix.

<sup>12</sup> Among 210 respondents, we exclude two responses from staff of New Fortune and one repeat response from the same board secretary.

mail-based survey. Our sample consists of large and small firms, which is also comparable to the sample firms from S&P 1500 in Dichev et al. (2013).<sup>13</sup>

### 3.4. Survey caveats

Our study is also subject to the general caveats associated with survey data (e.g., Dichev et al., 2013; Graham et al., 2011; 2014; 2017). We address the caveats as follows: First, survey respondents are likely to differ systematically from firms that choose not to answer. To address this concern, we checked the representativeness of our survey respondents. Table 1 provides a descriptive overview of our sample from the first survey. Panel A shows characteristics of the survey respondents and Panel B shows firm-related characteristics, along with a comparison with all Chinese public firms. As shown in Panel A, the majority of the survey respondents are male (72.5%) and between 39 and 48 years of age (46.4%). Panel B shows that 26.09% of our surveyed firms are SOEs. Due to the unique ownership characteristics of SOEs, we also report all survey results separately for SOEs versus non-SOEs. We further test for the significance of the difference in their responses. Overall, the descriptive statistics in Panel B provide some confidence that our sample is representative of the average public firm in China.

Second, we conduct additional analyses to address concerns that survey respondents were not truthful in their responses, especially for questions that are likely to invite government scrutiny. For example, in our survey design, questions that are more likely to be subject to government scrutiny and the risk of self-censorship are located in the latter part of the questionnaire, such that the survey responses preceding them are less likely to be biased (Chen and Yang, 2019).<sup>14</sup> Moreover, we conducted a large-scale second survey that incorporated some of the questions from the reported survey to show that the key findings remain similar across the different survey samples. We also note that New Fortune has conducted its own annual surveys for more than a decade and that no governmental bodies have ever approached them regarding survey content. The anonymity of survey respondents has always been protected. The voluntary nature of the survey and the long history of New Fortune's survey practices would largely mitigate concerns regarding the truthfulness of the survey responses provided. Despite efforts to address the aforementioned concerns associated with survey data, there might still remain systematic tendencies that could bias the results reported in this study. We note that such concerns cannot be eliminated completely, and our inferences could thus be affected in questions that are likely subject to political bias.

## 4. Discussion of survey results

We begin by highlighting differences between the Chinese responses and U.S. responses from prior studies. For every individual survey item, if possible, we report the ranking of the provided response choices in our Chinese survey and the corresponding U.S. survey. We also present the “raw” continuous rankings from the Chinese responses.

**Table 1**  
Descriptive statistics of survey sample.

Panel A: Survey respondents characteristics		
Gender	Percentage	
Male	72.50%	
Female	27.50%	
Age	Percentage	
59–68	2.40%	
49–58	27%	
39–48	46.40%	
29–38	24.20%	
Panel B: Firm Characteristics		
	Survey sample	All public companies
Average total assets (in billion RMB)	61.92	63.46
Average total debt (in billion RMB)	51.20	53.57
Average revenue (in billion RMB)	15.24	10.16
Average net income (in billion RMB)	1.10	0.94
SOE (%)	26.09%	29.16%

This table reports descriptive characteristics of 207 valid responses in the first survey sample. Panel A provides information related to survey respondents. Panel B reports firm characteristics of surveyed firms. The financial information of surveyed and all public companies are calculated based on information at the end of 2017.

<sup>13</sup> The S&P1500 sample includes S&P 500 large firms, S&P 400 mid-cap, and S&P 600 small firms.

<sup>14</sup> These questions refer to those reported in Tables 3 and 4 on the motives for earnings management and comprise the penultimate questions in our survey instrument.

**Table 2**

To what extent do you agree that this statement captures important features of “high quality earnings”?

Chinese ranking	US ranking	High quality earnings ...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating	Non-SOEs (% agree or strongly agree)	SOEs (% agree or strongly agree)
1	3	Are sustainable	69.08	4.35	26.57	0.90***	71.90	61.11
2	5	Are useful predictors of future cash flows	62.32	3.86	33.82	0.72***	64.05	57.41
3	4	Are useful predictors of future earnings	57.00	4.35	38.65	0.66***	56.86	57.41
4	11	Are less volatile than cash flows	56.04	6.28	37.68	0.62***	57.52	51.85
5	7	Do not include one-time or special items	51.69	4.35	43.96	0.64***	51.63	51.85
6	8	Require fewer explanations in company communications	37.68	7.73	54.59	0.34***	38.56	35.19
7	2	Avoid long term estimates as much as possible	36.23	5.80	57.97	0.34***	37.25	33.33
8	12	Have fewer accruals	40.10	5.80	54.10	0.40***	41.18	37.04
9	9	Result from conservative recognition of assets and liabilities	26.09	9.66	64.25	0.20***	27.45	22.22

This table reports unconditional analysis of the responses from the first survey. Respondents were asked to indicate their level of agreement with each statement on a scale of −2 (strongly disagree) to +2 (strongly agree). Column 1 (2) indicates ranking of responses (Dichev et al., 2013). Column 3 shows survey items. Column 7 reports the average rating, where higher value corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of −2 (strongly disagree), −1 (disagree), 0 (neutral), 1 (agree), and 2 (strongly agree). Column 7 also reports the results of a *t*-test of the null hypothesis that each average response is equal to 0 (neither agree nor disagree). \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

#### 4.1. Features of reported earnings

Features that constitute high quality earnings have been discussed extensively in the accounting literature. Dechow et al. (2010) argue that desirable earnings features are contingent on the decision context, which makes it difficult to designate a one-size-fits-all definition for “high quality earnings”. Following Dichev et al. (2013), we investigate how executives in China perceive the desirability of different earnings characteristics.<sup>15</sup> We report the results in Table 2. In general, U.S. and Chinese firms consider earnings that are sustainable, persistent, and contain information that helps to predict future earnings and cash flows as high-quality.

However, the results also suggest that Chinese firms consider the ability to explain reported earnings figures to outsiders to be relatively less important than U.S. firms. In particular, the top three highest-ranked survey responses by Chinese firms focus on predictive features of earnings properties that can signal forward-looking sustainability of firm performance. Moreover, the relative priority for the earnings property designated “are less volatile than cash flows” (row 4) exhibits significant differences between the Chinese and U.S. responses. Whereas Chinese executives have ranked it fourth, it was considered as one of the least important earnings properties for U.S. executives (ranked 11th). This evidence is also consistent with the preference for less volatile earnings to signal stable performance by Chinese firms. Another item that exhibits significant differences in the relative importance between Chinese and U.S. responses is the earnings property designated “avoid long term estimates as much as possible” (row 7). Whereas U.S. CFOs ranked it second, it was only ranked seventh by Chinese board secretaries. Long-term estimates involve managerial discretion and can significantly affect verifiability of reported earnings figures. Thus, using justifiable and reasonable assumptions to derive such estimates would be crucial to avoiding reporting earnings figures that could be misleading about firm performance.

Taken together, Chinese firms consider earnings features that allow for signaling stable performance to be more important than those that emphasize justifiability and/or verifiability to outsiders. Such a pattern is less prevalent in the rank-ordering of survey responses by U.S. firms. These results can be explained by the unique institutional features in China. First, a very large proportion of investors at Chinese firms comprise less sophisticated individual investors who have lower bargaining power. Thus, justifiability and/or verifiability of earnings is not the primary concern for Chinese companies. Second, Chinese firms are less reliant on financial reporting to mitigate agency conflicts due to the prevalence of connected stakeholders and concentrated firm ownership structures. Instead, financial reporting and firm disclosures in China serve the main purpose of signaling stability to a diverse set of stakeholders – e.g., job security for employees, continued business opportunities for suppliers, better reputation to its customers, and stability of tax revenue sources for the government. Maintaining firm stability also facilitates the maintenance of long-term contractual relationships with important stakeholders and signaling of firms' strong capability to coordinate among stakeholders to maintain stable firm performance (Ball et al., 2003). For example, in January 2021 Yongcheng Coal and Electricity Holding Group, a state-owned coal miner, survived a series of defaults by successfully coordinating among all 48 holders of a bond (\$310 million) and attaining unanimous agreement to a conditional extension proposed by the company.<sup>16</sup> During this process, government officials and controlling shareholders (another SOE)

<sup>15</sup> Earnings characteristics considered in the prior literature include: persistency; smoothness; predictability; freedom from special or non-recurring items; conservative; close to cash flows; small changes to total accruals.

<sup>16</sup> Available at <https://asia.nikkei.com/Business/Markets/China-debt-crunch/China-s-Yongcheng-and-Unigroup-survive-despite-series-of-defaults>.



**Table 3**

Please rate the importance of the motivations for companies that use earnings to misrepresent economic performance.

Chinese ranking	US ranking	Companies manage earnings to ...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating	Non-SOEs (agree or strongly agree)	SOEs (agree or strongly agree)
1	1	To influence stock price	52.18	17.87	29.95	0.34***	56.21	40.74**
2	2	Because there is outside pressure to meet earnings benchmarks	49.28	15.46	35.26	0.29***	48.37	51.85
3	11	To influence other stakeholders such as customers, suppliers and employees	31.88	21.26	46.86	0.01	30.72	35.19
4	6	To avoid violation of debt covenants	19.81	25.60	54.59	-0.17***	19.61	20.37
5	12	Because they feel other companies misrepresent performance	16.91	35.75	47.34	-0.38***	18.95	11.11
6	4	To influence executive compensation	14.01	32.37	53.62	-0.34***	13.73	14.81
7	5	Because senior managers fear adverse career consequences if they report poor performance	14.01	34.78	51.21	-0.38***	14.38	12.96
8	8	Because they believe such misrepresentation will likely go undetected	7.24	57.49	35.27	-0.81***	5.23	12.96

This table reports unconditional analysis of the responses from the first survey. Respondents were asked to indicate their level of agreement with each statement on a scale of -2 (strongly disagree) to +2 (strongly agree). Column 1 (2) indicates ranking of responses (Dichev et al., 2013). Column 3 shows survey items. Column 7 reports the average rating, where higher value corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of -2 (strongly disagree), -1 (disagree), 0 (neutral), 1 (agree), and 2 (strongly agree). Column 7 also reports the results of a *t*-test of the null hypothesis that each average response is equal to 0 (neither agree nor disagree). \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

mentioned the coordination efforts from key stakeholders.<sup>17</sup> The success of these coordination efforts reflects the company's strong network of important stakeholders in the Chinese economy that allows for continued stable performance even during economic downturns.

#### 4.2. Motives to manage earnings

##### 4.2.1. Earnings management

We asked respondents to rate the importance of motivations for companies that use earnings to misrepresent economic performance.<sup>18</sup> The results are presented in Table 3. The survey items incorporate emphases for different types of stakeholders. The first two rows, "to influence stock price" and "outside pressure to meet earnings benchmarks" are relevant to investors. Row 3 takes into consideration customers, suppliers and employees. Row 4 is about debtholders, row 5 considers peer companies, rows 6 and 7 relate to managers, and row 8 focuses on regulators.

The findings reveal significant differences in comparison to the responses to the U.S. survey. First, in general, Chinese firms show less support for the different listed motives than U.S. firms. Among the eight investigated factors, only "to influence stock price" (row 1, 52.17% agree) and "outside pressure to meet earnings benchmarks" (row 2, 49.28% agree) exhibit a positive average rating, suggesting that these two factors pertaining to investors attention motivate managers' earnings management behavior. These results are consistent with the notion that the wide use of accounting figures by investors and financial analysts to value stocks creates an incentive for managers to manipulate earnings to influence share price in the short-term. However, the results show that, unlike U.S. firms, Chinese firms do not have earnings management incentives to signal stable performance to debtholders, to influence managers' compensation or employment outcomes, or to risk regulatory scrutiny. The percentage of those that agree or strongly agree to these incentives is all below 20%. Second, the overall rank-ordering of the different motivations exhibit some notable differences between Chinese and U.S. firms. Whereas investors constitute the primary reason for firms to misrepresent economic performance in both countries, management incentives comprise a considerable factor for manipulation of reported earnings in the U.S. Instead, motives related to other stakeholders (such as customers, suppliers, and employees) are more likely to influence Chinese firms' financial reporting decisions.

Incentives to engage in earnings management are contingent on managers' perceived opportunity and cost and benefit analysis. To examine this possibility, we asked respondents about how the flexibility exists to manage earnings under current accounting standards in China. The results from Dichev et al. (2013) reveal that under U.S. GAAP, managers still consider having some flexibility in financial reporting, whereas Chinese managers (83.09%) express having moderate or too little discretion (as reported in Table 4 Panel A). Following Dichev et al. (2013), we avoid asking board secretaries about earnings

<sup>17</sup> Available at [https://news.stcn.com/sd/202012/t20201217\\_2636653.html](https://news.stcn.com/sd/202012/t20201217_2636653.html) and [https://news.stcn.com/news/202011/t20201116\\_2538018.html](https://news.stcn.com/news/202011/t20201116_2538018.html).

<sup>18</sup> Motivations to misrepresent earnings identified in prior research include satisfaction of capital market expectations and valuation; avoidance of violating contracting terms, e.g., debt covenants and compensation contracts; and compliance with anti-trust or other government regulations.

**Table 4**

Survey responses related to perceptions on accounting standards in China.

Panel A: The flexibility to manage earnings under current Accounting Standards in China.				
	Firms have ...	% of respondents	Non-SOEs	SOEs
1	Moderate discretion	42.99	42.49	33.33
2	Too little discretion	40.10	40.52	50
3	I don't know	15.46	16.34	12.96
4	Much discretion	1.45	0.65	3.71
Panel B: Percentage of companies use discretion within Accounting Standards to report earnings, which misrepresent the economic performance of the business.				
	All respondents	Non-SOEs	SOEs	
Mean	19.59	17.17**	26.85	
Median	10	7.50	20	
Std. dev.	24.51	23.74	25.34	
Min	0	0	0	
Max	90	90	90	
% Greater than 0	74.09	72.22	79.59	
% Greater than median	38.34	50	40.82	

Panel A reports the analysis of the responses to the stated survey question from the first survey. Column 2 states the items of the question, and column 3 reports the corresponding percentage of respondents that agreed to the respective item. Panel B reports the results to the stated survey question. Rows 2–6 present the mean, median, standard deviation, minimum, and maximum of the answers. Rows 7 and 8 present the percent of respondents who answered greater than 0 and greater than 10 (the median), respectively. Columns 3 and 4 present results for SOEs and Non-SOEs.

management in their own firms. Instead, we asked them to indicate the percentage of firms in China they believe use discretion *within* accounting standards to misrepresent earnings. These results are summarized in Table 4 Panel B. For Chinese firms, the mean and median answers to this question are 19.59% and 10% (with a standard deviation of 24.51%), while the mean and median answer by U.S. firms is 18.43% and 15% (with a standard deviation of 17.24%). Thus, both U.S. CFOs and Chinese board secretaries believe that about 19% of firms engage in earnings management *within* accounting standards. Taking together, the results in Table 4 Panel A and B indicate that Chinese firms consider that they have little discretion within accounting standards to manage earnings within accounting standards, making this behavior unappealing in China. Chinese executive might have to go beyond accounting standards to achieve certain earnings patterns.<sup>19</sup>

Collectively, the findings in this section corroborate the view that Chinese practitioners consider reported earnings figures to be a primary communication channel with investors (largely retail investors) and that these disclosures can signal better firm performance by influencing stock prices. This includes many arm's length, less influential, retail investors that cannot communicate with the firms privately. Our results also hint at the preference of private channels for communicating with other major stakeholders such as debtholders, controlling shareholders, and regulatory bodies which, in China, are characterized by non-arm's length transactions. That is, due to the limited role of public information disclosures in communicating with mainly retail investors without access to private communication, the potential benefits that Chinese firms reap when “managing” earnings using accounting choice is limited. That is, connected stakeholders can see through such earnings management techniques based on private information sources within their networks. This explains the relatively weak motives for Chinese firms to use discretion within accounting standards to misrepresent earnings.

Furthermore, our results do not exhibit meaningful differences between SOEs and non-SOEs. This result is surprising given the bulk of empirical evidence that points to SOEs having earnings management incentives to meet various regulatory requirements (Chen and Yuan, 2004; Haw et al., 2005; Yu et al., 2006; Lennox et al., 2020).<sup>20</sup> We also note that these results do not preclude the possibility that Chinese firms engage in real earnings management or other forms of earnings management that are beyond accounting standards (e.g., related party transactions).<sup>21</sup> The possibility of other legitimate ways to misrepresent economic performance is especially high in China due to the reliance on non-arm's length transactions and connected stakeholders. That is, Chinese companies may engage in real earnings management behaviors, such as related party transactions, through their long-term stakeholders. We devote additional attention to this possibility using an open-ended questionnaire and onsite field interviews, which are summarized in Section 5.

<sup>19</sup> For example, earnings distribution is truncated at zero in China due to requirements to (1) meet certain return on equity criteria before public companies can apply for permission to issue additional shares to existing shareholders (rights issues); (2) maintain profitability, otherwise, a public firm will be delisted if it reports net loss for three consecutive years (Chen and Yuan, 2004; Liu and Lu, 2007).

<sup>20</sup> Research that examines earnings management around regulatory thresholds focus on relatively “distressed” events, whereas our survey is not confined to such exceptional conditions. We therefore believe that our survey evidence provides a more general depiction of accounting-based earnings management motives by Chinese firms.

<sup>21</sup> Dechow and Skinner (2000) note that earnings management can include aggressive accounting choices within accounting standards and financial fraud.

**Table 5**

Do the following factors contribute to your company preferring a smooth earnings path?

Chinese ranking	US ranking	A smooth earnings path ...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating	Non-SOEs (% agree or strongly agree)	SOEs (% agree or strongly agree)
1	3	Assures customers/suppliers that business is stable	78.79	2.52	18.69	1.00***	79.59	76.47*
2	5	Promotes a reputation for transparent and accurate reporting	64.65	3.53	31.82	0.81***	68.03	54.90**
3	6	Conveys higher future growth prospects	63.64	4.04	32.32	0.71***	64.63	60.78
4	8	Clarifies true economic performance	58.08	4.55	37.37	0.68***	60.54	50.98
5	1	Convinces investors that firm is less risky	34.85	16.16	48.99	0.21***	36.05	31.37
6	9	Increases executive bonus	6.56	32.83	60.61	-0.35***	8.16	1.96*

This table reports unconditional analysis of the responses from the first survey. Respondents were asked to indicate their level of agreement with each statement on a scale of -2 (strongly disagree) to +2 (strongly agree). Column 1 (2) indicates ranking of responses (Graham et al., 2005). Column 3 shows survey items. Column 7 reports the average rating, where higher value corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of -2 (strongly disagree), -1 (disagree), 0 (neutral), 1 (agree), and 2 (strongly agree). Column 7 also reports the results of a *t*-test of the null hypothesis that each average response is equal to 0 (neither agree nor disagree). \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

**Table 6**

How large a sacrifice in value would your firm make to avoid a bumpy earnings path?

Firms make ...	% of respondents (China)	% of respondents (US)	Non-SOE (%)	SOE (%)
None	63.77	22	69.28	48.15
Small sacrifice	28.50	52	23.53	42.59
Moderate sacrifice	7.73	24	7.19	9.26
Large sacrifice	0	2	0	0

This table reports the results to the stated survey question from the first survey. Column 1 states the items, and column 2 reports the corresponding percentage of respondents that agreed to the respective item. Column 3 reports the corresponding statistics from the U.S. survey. Columns 4 and 5 show the percentage of respondents from SOEs and non-SOEs, respectively.

#### 4.2.2. Earnings smoothing

Earnings smoothness is a widely discussed attribute in the accounting literature (e.g. Burgstahler and Dichev, 1997a; Barth et al., 1999; and Leuz et al., 2003), and is often used as an empirical proxy for earnings quality and/or an element of earnings management incentives. The underlying motivation is that smooth earnings seem more predictable and sustainable, reflecting several of the desirable features of high-quality earnings. The results in Table 2 indeed show that Chinese board secretaries concur with the desirability of smooth earnings paths.<sup>22</sup> However, in Table 5, which summarizes the answers for the question why they prefer a smooth earnings path, notable differences are observed relative to those of U.S. CFOs. For example, Chinese firms rank “smooth earnings path signals customers/suppliers that the business is stable” (row 1, 78.79% agree) as the primary reason for preferring smooth earnings. Other highly-ranked reasons include “promotes a reputation for transparent and accurate reporting” (row 2, 64.65% agree), and “conveys higher future growth prospects” (row 3, 63.64% agree). In contrast, U.S. firms primarily consider investors (row 5). Unlike 88.7% of U.S. CFOs that consider a smooth earnings path to be perceived as “less risky by investors”, only 34.85% of Chinese board secretaries agree with this statement. Overall, these results confirm that Chinese firms consider a broader set of non-shareholder stakeholders.

Following Graham et al. (2005), we also gauge the extent of managerial intent for smooth earnings paths. We explicitly asked board secretaries how much sacrifice they would make to achieve smooth earnings. The results are presented in Table 6. Most respondents (row 1, 63.77%) indicate that they will not make any sacrifice in exchange for smooth earnings paths. Only 28.50% of board secretaries would sacrifice a small amount of value to avoid a bumpy earnings path. This contrasts starkly to the results of the U.S. survey responses. Whereas 78% of U.S. CFOs are willing to make small, moderate or large sacrifices to avoid a bumpy earnings path, only about 36% of Chinese firms are willing to make a sacrifice.

Taken together, our survey findings in this section recast the commonly held assumption in most empirical studies that managers have incentives to engage in earnings management to achieve smooth earnings paths, at least in the Chinese context. The results in Table 5 relating to motives for *earnings smoothing* when considered together with the results in Table 3 relating to motives for *earnings management* suggest differences in how Chinese executives consider these two constructs. That is, despite smooth earnings paths being considered as a desirable feature by both shareholder and non-shareholder stakeholders, Chinese firms would not necessarily engage in earnings management to smooth earnings. The reasons are mainly twofold. First, the existence of private communication channels between firms and some major stakeholders reduces the effectiveness of signaling stable firm performance by managing earnings within accounting standards, i.e., connected

<sup>22</sup> When asked whether they are indifferent between smooth and bumpy earnings paths, 95.65% of the board secretaries indicate that they prefer smooth earnings (untabulated).

**Table 7**

Do these statements describe your company's motives for voluntarily communicating financial information?

Chinese ranking	US ranking	Voluntarily communicating information ...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating	Non-SOEs (% agree or strongly agree)	SOEs (% agree or strongly agree)
1	1	Promotes a reputation for transparent and accurate reporting	85.99	3.38	10.63	1.23***	86.93	83.33
2	2	Reduces the "information risk" that investors assign to our stock	79.23	3.86	16.91	1.09***	81.7	72.22
3	3	Provides important information to investors that is not included in mandatory financial disclosures	74.40	6.76	18.84	0.93***	74.51	74.07
4	4	Increases the predictability of our company's future prospects	71.50	4.83	23.67	0.87***	73.20	66.67
5	5	Attracts more financial analysts to follow our stock	47.83	9.18	42.99	0.49***	48.37	46.30
6	9	Reveals to outsiders the skill level of our managers	42.03	15.46	42.51	0.34***	42.48	40.74
7	8	Increase our P/E ratio	36.23	14.98	48.79	0.25***	38.56	29.63
8	7	Increases the overall liquidity of our stock	34.30	13.53	52.17	0.24***	34.64	33.33
9	10	Reduces our cost of capital	16.91	30.43	52.66	0.24***	17.65	14.81**

This table reports unconditional analysis of the responses from the first survey. Respondents were asked to indicate their level of agreement with each statement on a scale of  $-2$  (strongly disagree) to  $+2$  (strongly agree). Column 1 (2) indicates ranking of responses (Graham et al., 2005). Column 3 shows survey items. Column 7 reports the average rating, where higher value corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of  $-2$  (strongly disagree),  $-1$  (disagree),  $0$  (neutral),  $1$  (agree), and  $2$  (strongly agree). Column 7 also reports the results of a  $t$ -test of the null hypothesis that each average response is equal to  $0$  (neither agree nor disagree). \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

stakeholders with access to private information can notice such "manipulation", making earnings management less effective. Second, the prevalence of business networks enables firms to achieve smooth earnings paths by engaging in coordination efforts with some major stakeholders (e.g., Hout and Michael, 2014). Achieving smooth earnings via successful coordination among major stakeholders has a more powerful signaling effect about the firms' stable performance to other less important stakeholders, including retail investors, than by engaging in earnings management techniques within accounting standards. As shown in the example of Yongcheng Coal and Electricity Holding Group, highlighting the involvement of major stakeholders in coordinating smooth earnings paths signals the strength of firm's connection networks may allow them to overcome major economic difficulties. This coordination ability provides other stakeholders such as employees, customers, suppliers, and smaller retail investors with enhanced confidence in the fundamentals of the firm.

In sum, although smooth earnings is an earnings feature desired by Chinese executives, it is not considered a major motive to engage in earnings management. Chinese firms possess alternative and more powerful ways to signal smooth earnings paths – namely, through their coordinated stakeholder network. Many existing archival studies equate earnings smoothing with earnings management incentives. While this assumption can be justified in the U.S. setting where earnings smoothing and earnings management serve the same ultimate goal, to influence capital market outcomes, our findings highlight that this assumption may not hold in China with a prevalent role of non-arm's length stakeholders.

#### 4.3. Voluntary disclosure practices

##### 4.3.1. Motives and constraints of voluntary disclosure

We examine nine motives for voluntary disclosing financial information as shown in Table 7.<sup>23</sup> The results indicate that Chinese firms have very comparable motives to those of U.S. firms. Firms have incentives for voluntary disclosure to enhance capital market consequences, to signal management talent, and to augment mandatory disclosures. The most notable difference relates to the belief about the relationship between voluntary disclosure and cost of capital. Even though both Chinese and U.S. firms consider the cost of capital motive as one of the least important, only 16.91% of Chinese firms agree that voluntary disclosure of financial information will reduce the cost of capital (relative to 39.3% in the U.S.). This is consistent with the empirical finding that listed companies in China do not benefit from extensive voluntary disclosures through a lower cost of capital (Lan et al., 2013).

We also examine potential constraints for firms' voluntary disclosures including proprietary costs, litigation risk, political costs, agency costs, and disclosure precedent. The results are presented in Table 8. We highlight some notable differences between U.S. and Chinese firms. First, the proprietary cost argument is that managers will not fully disclose their private information due to the concern that some disclosures can negatively affect their competitive position in the product market (Verrecchia, 2001; Dye, 2001). Unlike the responses of U.S. firms, survey results reveal that Chinese firms consider proprietary

<sup>23</sup> Similar to Graham et al. (2005), we confine voluntary disclosure to the voluntary disclosure of financial information.

**Table 8**  
Limiting voluntary communication of financial information helps.

Chinese ranking	US ranking	Limiting voluntary communication ...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating	Non-SOEs (% agree or strongly agree)	SOEs (% agree or strongly agree)
1	2	Avoid giving away "company secrets" or otherwise harming our competitive position	67.63	7.25	25.12	0.77***	67.32	68.52
2	1	Avoid setting a disclosure precedent that may be difficult to continue	40.10	14.01	45.89	0.27***	37.25	48.15
3	6	Avoid attracting unwanted scrutiny by stockholders and bondholders	29.95	22.71	47.34	0.04	28.10	35.19
4	3	Avoid possible lawsuits if future results don't match forward-looking disclosures	26.57	25.12	48.31	-0.02	26.80	25.93
5	5	Avoid attracting unwanted scrutiny by regulators	21.74	30.92	47.34	-0.17**	20.92	24.07

This table reports unconditional analysis of the responses from the first survey. Respondents were asked to indicate their level of agreement with each statement on a scale of -2 (strongly disagree) to +2 (strongly agree). Column 1 (2) indicates ranking of responses (Graham et al., 2005). Column 3 shows survey items. Column 7 reports the average rating, where higher value corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of -2 (strongly disagree), -1 (disagree), 0 (neutral), 1 (agree), and 2 (strongly agree). Column 7 also reports the results of a t-test of the null hypothesis that each average response is equal to 0 (neither agree nor disagree). \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

costs (Table 8, row 1) to be the predominant reason for limiting voluntary disclosure. Whereas 67.63% agree that voluntary disclosure would give away "company secrets" and harm a firm's competitive position, only 7.25% disagree with this statement. Second, prior research argues that litigation costs can significantly affect managers' disclosure decisions.<sup>24</sup> As reported in row 4, litigation costs do not constrain voluntary disclosure decisions in China. Only 26.57% of respondents agreed that reducing voluntary disclosure can result in the avoidance of potential lawsuits if future results do not match forward-looking disclosures. The difference between percentage of respondents who disagree with this statement (25.12%) and those who agree is not statistically different. This result contrasts to that of U.S. firms. For 46.4% of U.S. firms, litigation cost is an important constraint that can limit their voluntary communication of financial information. Interestingly, unlike our previous results for mandated financial reporting disclosures, agency-related considerations constrain voluntary disclosures at Chinese firms more than at U.S. firms.<sup>25</sup> "Attracting unwanted scrutiny by stockholders and bondholders" (row 3) is ranked as the third most popular reason by Chinese firms, whereas it was ranked last by U.S. firms.

Taken together, the survey results in this section are consistent with stakeholders exerting significant impact on firms' voluntary disclosure decisions. As major stakeholders are relation-based, Chinese firms may possess few incentives to please capital providers in financial markets through voluntary disclosure to reduce their cost of capital. For example, the government, as a key stakeholder, has a significant influence on the provision of capital. Considering financial capital, firms are subject to government influence because the five biggest banks in China are all state-owned. It is very common in China that state-owned banks provide capital or extend overdue loans to companies to help them overcome financial difficulties and maintain stable operations – as in the case of Yongcheng Coal & Electricity Holding Group mentioned earlier. It is a similar situation for physical capital as most land is owned by the state. The availability of alternative private communication channels with such major connected stakeholders, thus, mitigates the need to influence cost of capital through public disclosures. Subsample analyses of SOEs versus non-SOEs corroborate this conjecture: the percentage of respondents that agree with this statement is significantly higher for non-SOEs (17.65%) than for SOEs (14.81%). In addition, the finding that proprietary costs comprise the predominant reason for limiting voluntary disclosure for Chinese firms is also consistent with their reluctance to reveal important relationship-based business secrets if any – information that also tends to be hard to disclose to investors (Li et al., 2020).

#### 4.3.2. Timing of voluntary disclosure

The literature contends that managers have differential incentives to release good news versus bad news. On the one hand, incentive misalignment between managers and shareholders provides incentives for managers to delay the release of bad news relative to good news (Kothari et al., 2009). On the other hand, if managers perceive the cost of withholding bad news to be large, they may prefer to disclose bad news faster than good news (Skinner, 1994; 1997; Baginski et al., 2002). Table 9 reports survey results regarding managers' incentives to time voluntary disclosures in China. Panel A shows that the tendency for managers to treat good news and bad news fairly is more pronounced among Chinese firms than U.S. firms. Whereas 52.90% of U.S. CFOs do not exhibit a preference for timing the release of good or bad news, the equivalent statistic in the Chinese survey is 86.47%. Another notable difference is that Chinese firms are more likely to disclose good news faster (12.56%) than bad news (0.97%), whereas the results from the U.S. survey reveal that U.S. CFOs have a stronger tendency to

<sup>24</sup> Skinner (1994, 1997) and Francis et al. (1994) argue that firms with bad news have an incentive to pre-disclose information to avoid litigation costs. Accordingly, voluntary disclosure is viewed as a channel to complement inadequate disclosures, and thereby reduce potential litigation costs. Some evidence also suggests that the disclosure of forward-looking information can increase litigation risks (Johnson et al., 2001).

<sup>25</sup> Nagar et al. (2003) and Berger and Hann (2003) suggest that agency issues would affect the amount of information disclosed to the public. For example, disclosing too much negative information affects management's compensation and attracts unwanted attention from other stakeholders.



**Table 9**

Survey responses related to timing of voluntary disclosure.

Panel A: Based on your company's experience, is good news or bad news released to the public faster?								
		Bad news faster	No difference	Good news faster	Average rating			
% of respondents in China		0.97	86.47	12.56	0.12***			
% of respondents in U.S.		26.60	52.90	20.50	−0.12			
SOEs		1.85	79.63	18.52	0.17			
Non-SOEs		0.65	88.89	10.46	0.10			
Panel B: Do the following statements describe your company's motives related to the timing of voluntary disclosures?								
Chinese ranking	US ranking	Motives related to timing of voluntary disclosures ...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating	Non-SOEs (agree or strongly agree)	SOEs (agree or strongly agree)
1	3	Good news is released faster because bad news takes longer to analyze and interpret	53.57	21.43	25	0.50**	47.06	63.64
2	2	Disclosing bad news faster reduces our risk of potential lawsuits	46.43	25	28.57	0.21	41.18	54.55
3	4	Good news is released faster because we try to package bad news with other disclosures which can result in a coordination delay	35.72	32.14	32.14	0.11	23.53	54.55
4	1	Disclosing bad news faster enhances our reputation for transparent and accurate reporting	28.57	28.57	42.86	0.04	35.29	18.18

Panel A reports the responses to the stated question from the first survey. Column 3 shows percentage of firms that do not differ in timing for good news and bad news. Column 5 reports the average rating, where higher value corresponds to tendency to disclose good news faster. Average rating is calculated based on respondents answer with a scale of −1 (bad news faster), 0 (no difference), and 1 (good news faster). Rows 3 and 4 show responses from SOEs and non-SOEs, respectively. \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively. Panel B reports unconditional analysis of the responses to the stated question from the first survey. Respondents were asked to indicate their level of agreement with each statement on a scale of −2 (strongly disagree) to +2 (strongly agree). Column 1 (2) indicates ranking of responses (Graham et al., 2005). Column 3 shows survey items. Column 7 reports the average rating, where higher value corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of −2 (strongly disagree), −1 (disagree), 0 (neutral), 1 (agree), and 2 (strongly agree). Column 7 also reports the results of a *t*-test of the null hypothesis that each average response is equal to 0 (neither agree nor disagree). \*\*\*, \*\*, and \* denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

disclose bad news faster.<sup>26</sup> Turning to the detailed reasons for the timing of information release in Panel B, the results support the view that Chinese firms do not exhibit asymmetric disclosure incentives to release bad news faster. Chinese firms express the strongest support for the statement “good news is released faster because bad news takes longer to analyze and interpret” (row 1). In contrast, U.S. firms show the highest level of agreement with reasons that support the faster disclosure of bad news relative to good news. Compared with U.S. firms who rank reputation for transparent and accurate reporting first, Chinese firms consider such reputation least important.

Overall, Table 9 shows that Chinese firms exhibit no trend to disclose bad news faster than good news. In fact, Ball et al. (2003) provide empirical evidence consistent with these incentives revealing the lack of timely incorporation of economics losses in China. This finding is consistent with Chinese executives' perception on smooth earnings paths and their preference for signaling stable performance to stakeholders. Additionally, it is also consistent with low litigation costs for Chinese firms due to weak legal systems that render pre-emptive and timely disclosure of bad news less valuable.<sup>27</sup>

## 5. Additional field evidence

### 5.1. Earnings management

As highlighted in Section 4.2.1, a notable finding is that, compared to the U.S. responses, Chinese firms tend to respond that they have weaker earnings management incentives. Our main survey items specifically refer to earnings management that is within the scope of accounting standards as in Dichev et al. (2013). Therefore, these survey responses do not address the likelihood of firms engaging in real earnings management and possible fraudulent manipulation, or, given the unique stakeholder-driven features of the Chinese economy, the possibility of engaging in coordination efforts with various stakeholders to maintain firm stability and smooth earnings. To delve deeper into this possibility, we distributed a follow-up questionnaire that did not confine earnings engagement to within accounting standards, but considered broader notions of earnings management, including both real earnings management and accounting fraud. Possible strategies included

<sup>26</sup> The U.S. survey in Graham et al. (2005) does not find support for asymmetric disclosure incentives of good versus bad news. Yet, when asked detailed questions about their motives related to the timing of voluntary disclosures, U.S. CFOs appear to be more likely to reveal bad news faster due to fear of adverse capital market consequences.

<sup>27</sup> Unlike in the U.S., Chinese firms are required to issue mandatory earnings forecasts. Since December 2000, Chinese regulators have established a mandatory disclosure system for earnings forecasts, and voluntary disclosures have supplemented the system (Huang et al., 2018). We note that such regulatory differences could also be a factor in explaining our findings related to voluntary disclosures.

fraudulent accounting transactions, misrepresentation of financial information, engagement in related party transactions, and the communication of private information. In the follow-up questionnaire, we used the same “other people” approach as [Dichev et al. \(2013\)](#) and asked respondents about potential ways that companies engage in when they consider to be misrepresentations of their economic performance. Respondents’ answers included: (1) inflating income; (2) related party transactions; (3) overestimating assets; (4) underestimating costs; (5) changes in accounting policies and estimation; (6) asset restructuring; (7) underestimating liabilities. The top three ranked categories represent fraudulent accounting behaviors – inflating income (30%), overestimating assets (15%), and underestimating costs (14%), followed by real earnings management through related party transactions (14%). Notably, only 8% of respondents expressed the view that firms manipulate earnings within the scope of accounting standards by using different accounting policies and estimates. In addition, the following quote provides an example of Chinese executives’ perception of the prevalence of practices beyond accounting standards to misrepresent earnings:

*“The main strategy is to arbitrarily change the accounting policies and estimates, boost revenue to increase profit at the end of the year, write-down assets and reverse impairment to adjust net income. Some may even inflate income by forging sales contracts.”*

## 5.2. Communication channels and connected stakeholders

Prior studies commonly refer to the predominance of private communication channels with long-term stakeholders as a major institutional factor that influences the Chinese corporate information environment. Several empirical studies document significant market reactions subsequent to firm meetings with analysts and investors (e.g., [Cheng et al., 2016](#); [Han et al., 2018](#); [Bowen et al., 2018](#); [Cheng et al., 2019](#)). To examine the importance of private communication channels for practitioners more directly, our follow-up survey asked firms about the role of public information disclosures to diverse stakeholder groups. The answers show that firms consider capital market participants such as shareholders, analysts, other investors, and the government as important stakeholder groups when making public disclosure decisions. In the question related to communication with key stakeholders about financial and other important information, 27% of our respondents acknowledge the reliance on informal channels.

Despite the prevalence of private communication channels, public disclosure still plays an important role in (1) communicating with investors without access to private information, (2) serving as a validation mechanism for non-arm’s length stakeholders who have access to private information, and (3) signaling a strong capability to coordinate among key stakeholders. For example, the ability to maintain stable firm performance and operations amid crises provides stakeholders with strong confidence in the firms’ capabilities to leverage their network of connections such as governments in order to overcome operational and financial difficulties. In one of our interviews with the executive of a listed company in China, the interviewee mentioned:

*“The governments are very cautious when participating in the market. The mentality of the Chinese government is that “these are all my businesses”. That is, when the economy is in a downturn, all market participants and companies are struggling together – banks, companies, supply chains, and capital markets are in the same boat. The biggest influence at this stage is the government. It doesn’t matter if you didn’t do what you promised to the government, but you must not tell the market that you screwed up, otherwise, the game is over. Everyone is trying to survive, with the hope that governments will coordinate and eventually help us out.”*

## 5.3. Voluntary disclosure incentives

Perusal of the answers related to voluntary information disclosure practices reveal that Chinese firms exhibit strong incentives for voluntary disclosures. This is especially the case for non-financial information that contributes to the signaling of stable firm performance in the long-term and that is valued by many non-shareholder stakeholders. This is contrary to the widely held assumption that Chinese firms will not engage in voluntary disclosures due to strict mandatory disclosure requirements. In fact, 86% of the respondents answered that they engage in voluntary disclosures by providing company-specific information on operating activities (51%), corporate strategy (19%), and share price-related matters (14%). Others include information related to investment and financing, social responsibility, and corporate image. For example, one of our respondents averred that:

*“While continuously expanding the scope of voluntary disclosure, the Company insists on disclosing innovative non-financial information. Such disclosure fully and effectively demonstrates the company’s business development achievements and social responsibility performance to the market and other stakeholders in a clear and concise manner.”*

Relatedly, another respondent suggested:

*“The voluntary disclosure of our company mainly focuses on the company’s strategy, environmental protection, social responsibility, and outcome of corporate governance.”*

A notable difference between the U.S. and Chinese firms revealed in our study is the treatment of good news and bad news. In fact, our field interviews confirm that most Chinese firms exhibit strong incentives for symmetric treatment of good and bad news. One interviewee stated:

*“Bad news and good news should be treated the same. News on the market may not be true, and they may just be rumors. Information that is disclosed by the company will be more reliable, more objective, and not exaggerated. There is no need to make strategic disclosure decisions. If you spend effort on what to disclose and when to disclose, you have no idea whether you will benefit eventually. So the easiest way is to do what you need to do – just disclose to the public in a more transparent and more comprehensive way – regardless of whether the news is good or bad.”*

Further insights from our field interviews suggest that a potential reason for the lack of evidence on different treatment of good and bad news at Chinese firms is due to pressures to abide by government regulations. Specifically, one interviewee noted:

*“The regulations from exchanges and China Securities Regulatory Commission are changing very fast. Sometimes, you just get yourself familiar with one regulation, then the new one comes.”*

## 6. Conclusion

This paper provides novel field-based evidence on financial executives' opinions and perceptions for financial reporting and disclosure practices in China. Chinese executives of public firms are directly asked about their incentives and the motives for their firms' financial reporting and disclosure practices. Using financial executive opinions and motives at U.S. firms as a benchmark, we find that Chinese firms differ in what they consider as “high quality earnings”, in their motives for earnings management and earnings smoothing, and in their incentives to disclose bad news relative to good news voluntarily. Further field-based evidence suggests that these differences are primarily rooted in the institutional differences associated the dominance of retail investors, concentrated ownership structures, weak legal systems, and the role of diverse stakeholder groups – including arm's length investors and non-arm's length stakeholders.

Our field evidence is consistent with a stakeholder-driven corporate governance model in China. Financial reporting is often considered as a vehicle to mitigate agency conflicts between firms and outside shareholders. The Chinese setting highlights that financial reporting may also have the important role of signaling stable performance to a variety of different stakeholders, including customers, suppliers, employees, and the government. Many of them constitute non-arm's length stakeholders, and may have private communication channels with firms, which undermines the effect of public disclosures to mitigate agency problems. That is, public disclosure in China helps to signal the ability to coordinate among major stakeholders to maintain stable firm performance.

The findings in this study thus have important implications for China-based empirical studies and international studies that aim to compare financial reporting practices across different countries. They suggest that researchers should consider the theoretical framework (shareholders vs. stakeholders) together with country-specific institutional differences in designing empirical tests. Capital markets are instrumental contributors to the efficient allocation of assets and the growth of the Chinese economy, but markets are arguably vulnerable to different embedded governance structures. [Ball et al. \(2000b\)](#) discuss the importance of institutional factors, together with accounting standards, in shaping the financial reporting practices in a stakeholder-oriented economy. Our study provides survey evidence directly confirming their arguments.

Our study is subject to the usual caveats common for survey-based methods. Of particular concern may be whether the board secretaries respond untruthfully to some questions, which we tried to address based on our additional efforts as illustrated in Section 3.4. Another potential caveat is that the survey was implemented about ten to twenty years after those in [Graham et al. \(2005\)](#) and [Dichev et al. \(2013\)](#). Therefore, comparisons between China and the U.S. rest on the assumption that the U.S. surveys would yield similar results if they were implemented during the same time period as our survey. However, we believe that this assumption is reasonable as the U.S. economy constitutes one of the most developed markets with few drastic changes in its institutional features. Ultimately, our evidence should provide a first steppingstone in providing large-scale field-based evidence to understand the financial reporting and disclosure environment in China. Our findings should provoke international research that incorporate details on local institutional features and governance model differences in motivating and explaining the corporate information environment.

## Acknowledgements

We are grateful to Michelle Hanlon (editor) and T.J. Wong (reviewer) for their very helpful and constructive suggestions throughout the review process. We also acknowledge the comments from Chen Chen, Russell Craig, Richard Crowley, Ilia Dichev, Mingyi Hung, Clive Lennox, Mark Ma, Wendy Rotenberg, Matthew Sooy, Joanna Wu, Aaron Yoon, Tianyu Zhang, and participants of the 2018 AAA Annual Meeting, 2019 CAAA Annual Conference, 2019 MIT Asia Conference in Accounting, 2019 China International Conference in Finance, and the third New Institutional Accounting Conference in China. We are grateful for the assistance on surveys and site visits from New Fortune Magazine, and the financial support from Guanghua-Rotman Centre for Information and Capital Market Research at Peking University and the University of Toronto. Lu acknowledges the support from the McCutcheon Professorship in International Business at the University of Toronto.

**Appendix 1. Survey questions in this study matched with those in [Graham et al. \(2005\)](#) and [Dichev et al. \(2013\)](#)**

	Tables in prior studies	Tables in this paper	Questions
Section 4.1: Features of Reported Earnings	<a href="#">Dichev et al. (2013)</a> , Table 4	<a href="#">Table 2</a>	To what extent do you agree that this statement captures important features of "high quality earnings"?
Section 4.2: Motives to Manage Earnings	4.2.1. Incentives and opportunity for earnings management		
	<a href="#">Dichev et al. (2013)</a> , Table 13	<a href="#">Table 3</a>	Please rate the importance of the following motivations for companies use earnings to misrepresent economic performance.
	<a href="#">Dichev et al. (2013)</a> , Table 7	<a href="#">Table 4</a>	How much discretion in financial reporting does the current accounting standard-setting regime allow?
	<a href="#">Dichev et al. (2013)</a> , Table 10	<a href="#">Table 4</a> Panel A <a href="#">Table 4</a> Panel B	From your impressions of companies in general, in any given year, what percentage of companies use discretion within accounting standards to report earnings, which misrepresent the economic performance of the business?
	4.2.2. Earnings smoothness		
	<a href="#">Graham et al. (2005)</a> , Table 8	<a href="#">Table 5</a>	Do the following factors contribute to your company preferring a smooth earnings path?
	<a href="#">Graham et al. (2005)</a> , Table 9	<a href="#">Table 6</a>	How large a sacrifice in value would your firm make to avoid a bumpy earnings path?
Section 4.3: Voluntary Disclosure Practices	4.3.1. Motives and constraints of voluntary disclosure		
	<a href="#">Graham et al. (2005)</a> , Table 11	<a href="#">Table 7</a>	Do these statements describe your company's motives for voluntarily communicating financial information?
	<a href="#">Graham et al. (2005)</a> , Table 12	<a href="#">Table 8</a>	Limiting voluntary communication of financial information helps ...
	4.3.2. Timing of voluntary disclosure		
	<a href="#">Graham et al. (2005)</a> , Table 13, Panel A	<a href="#">Table 9</a> Panel A	Based on your company's experience, is good news or bad news released to the public faster?
	<a href="#">Graham et al. (2005)</a> , Table 13, Panel B	<a href="#">Table 9</a> Panel B	Do the following statements describe your company's motives related to the timing of voluntary disclosure?

**Appendix 2. Chinese Regulatory Guidelines****Extract from Company Law of the People's Republic of China (Revised in 2013).**

Section 5: Special Provisions on the Organizational Structure of Listed Companies.

Article 123: A listed company shall have a secretary to the board of directors to be in charge of matters such as the preparation of the general meetings and the meetings of the board of directors of the company, the safekeeping of documents as well as the administration of the shareholders' information of the company and the handling of information disclosure.

Chapter XIII: Supplementary Provisions.

Article 216: The meanings of the following terms in the Law are defined as follows:

(I) "senior officers" refer to the manager, deputy manager and person in charge of financial affairs of a company and, in the case of a listed company, the secretary to the board of directors and other personnel specified in the articles of association.

**Extract from Code of Corporate Governance for Listed Companies.**

Chapter 7. Information Disclosure and Transparency.

(1) Listed Companies' Ongoing Information Disclosure.

87. Information disclosure is an ongoing responsibility of listed companies. A listed company shall truthfully, accurately, completely and timely disclose information as required by laws, regulations and the company's articles of association.

88. In addition to disclosing mandatory information, a company shall also voluntarily and timely disclose all other information that may have a material effect on the decisions of shareholders and stakeholders, and shall ensure equal access to information for all shareholders.

89. Disclosed information by a listed company shall be easily comprehensible. Companies shall ensure economical, convenient and speedy access to information through various means (such as the Internet).

90. The secretary of the board of directors shall be in charge of information disclosure, including formulating rules for information disclosure, receiving visits, providing consultation, contacting shareholders and providing publicly disclosed information about the company to investors. The board of directors and the management shall actively support the secretary's work. No institutions or individuals shall interfere with the secretary's work.

## Appendix 3. Timeline of Study

	Description	When	Subjects	Discussion of Outcomes
First Survey	Survey items based on <a href="#">Graham et al. (2005)</a> and <a href="#">Dichev et al. (2013)</a>	February 2017	Sent to Board Secretaries eligible for "Golden Board Secretary" (2,094 board secretaries with 207 valid responses)	Section 4
Post-survey Follow-ups	Onsite visits* Open-ended questionnaire** Interviews	July 2018 — August 2019	Board of Directors' offices of 300 listed companies with high transparency index score (Lu, 2019)	Section 5
Second Survey	Survey items augmented for stakeholder focus based on <a href="#">Graham et al. (2005)</a> and <a href="#">Dichev et al. (2013)</a>	February 2020	Sent to Board Secretaries eligible for "Golden Board Secretary" (3,836 board secretaries with 595 valid responses)	Online Appendix

\*List of Visited Companies.

Companies visited	Stock ID	Market Cap at the survey time (RMB, in billion)	Positions of interviewees	SOE/non-SOE	Industry
Anhui Conch Cement Co., Ltd.	600,585	155.43	Assistant CEO/Board Secretary	SOE	Construction materials
Hikvision Digital Technology Co., Ltd.	002415	359.93	Deputy CEO/Board Secretary	SOE	Electronic engineering
Suofeiya Home Collection Co., Ltd.	002572	33.98	CEO	Non-SOE	Light manufacturing
China Petroleum & Chemical Corporation	600,028	742.17	Head of Board of Directors Affairs	SOE	Light manufacturing
Leyard Optoelectronic Co., Ltd.	300,296	31.75	President/Co-founder	Non-SOE	Electronic engineering
NARI Technology Development Co., Ltd.	600,406	76.71	CFO/Board Secretary	SOE	Electrical equipment
Suning.com Co., Ltd.	002024	114.42	Vice President and Board Secretary	Non-SOE	Retailing
Baoshan Iron and Steel Co., Ltd.	600,019	190.96	Board Secretary	SOE	Steel
Iflytek Co., Ltd.	002230	82.13	Co-founder/Board Secretary	SOE	Computer
Xinjiang Goldwind Science & Technology Co., Ltd.	002202	67.03	President	Non-SOE	Electrical equipment

\*\*List of Questions in Open-ended Questionnaire.

No.	Question
1	What are the factors that make a firm big and stable?
2	What role does integrity and reputation of the firm play?
3	What are the problems with respect to the quality of information disclosure at Chinese public firms?
4	Why is information disclosure important for the management of the firm?
5	What are the benefits of reliable information disclosure?
6	What are the reasons for the occurrence of illegal behaviors in the Chinese capital market?
7	Do you think earnings management is a severe problem in China?
8	What are some ways of earnings management?
9	What kinds of pressures are firms subject to when they consider engaging in earnings management?
10	Do you disclose information voluntarily?
11	What kinds of information do you disclose voluntarily?
12	To develop a market with more integrity and trust, what should regulators, managers, and investors do?
13	What are your suggestions to make the Chinese capital market more transparent and trustworthy?

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