INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ACCOUNTING, FINANCE AND MANAGEMENT SCIENCES

OPEN ACCESS JOURNAL

Vol 14, Issue 1, (2024) E-ISSN: 2225-8329

Analyzing The Factors Affecting The Quality of Accounting Disclosure of Chinese Listed Companies Based on Corporate Governance Perspective

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To Link this Article: http://dx.doi.org/10.6007/IJARAFMS/v14-i1/20895 DOI:10.6007/IJARAFMS/v14-i1/20895

Published Online: 27 March 2024

Abstract
In the Chinese capital market, it has become a general consensus that the poor quality of accounting disclosure is mainly rooted in the imperfections of corporate governance mechanisms. Therefore, it is particularly important to explore in depth the factors affecting the quality of accounting disclosure of Chinese listed companies. This dissertation first systematically comprehends the intrinsic association between the internal corporate governance structure and the quality of accounting disclosure, and then, from the perspective of internal corporate governance, provides an in-depth analysis of multiple aspects that affect the quality of accounting disclosure of listed companies in China, which includes key factors such as internal shareholding structure, board operation, performance of independent directors, and the behavior of the company's senior executives. Through this study, I expect to provide valuable theoretical references for Chinese listed companies to improve the quality of accounting disclosure.
Keywords: Corporate Governance, Accounting Disclosure Quality.

Conceptualisation of Corporate Governance and Quality of Accounting Disclosure

Corporate Governance

In the 1980s, the British economist Ticker first put forward the concept of Corporate Governance in his book Corporate Governance, which aroused the attention of scholars. Cadbury et al (1992), who served as a member of the UK Corporate Governance Committee, pointed out that corporate governance is a series of systems and processes that guide and control a company. Blair (1995) believes that the connotation of corporate governance has two interpretations, the narrow level of corporate governance refers to the institutional contract regarding the structure and role of the company's board of directors, shareholders' rights, responsibilities and interests, etc.; and the broader point of view Corporate governance is to determine the rules about the ownership, operation and distribution of benefits of the company with a set of laws and systems, these rules determine the direction of the company, the authority of managers, the mode of operation, the distribution of risks and returns, and other issues.

This view is also recognised by some domestic scholars. In his work, Wu Jinglian (1994) regards the shareholders, board of directors and management of an enterprise as an organisational structure of corporate governance. In an enterprise, shareholders, board of directors and management form a relationship of mutual constraint and balance. Based on the agency theory, corporate governance addresses the agency problem that arises when ownership and management of a firm are separated (Fama and Jensen, 1983). This study will follow the concept of corporate governance in the narrow sense, which mainly involves the equity structure, board of directors, independent directors, corporate executives and other related factors within corporate governance.

Quality of Accounting Disclosure

In the Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board (IASB), accounting information is considered to consist of four main quality characteristics: understandability, relevance, reliability and comparability. In China, the quality requirements for accounting information are set out in the Accounting Standards for Business Enterprises (ASBE), including reliability, relevance, completeness, understandability, comparability, substance over form, materiality, prudence and timeliness.

According to Ge Jiapeng (2003), accounting information is the information that accountants prepare by organising the books of accounts into a unified balance sheet, cash flow statement, income statement, and statement of changes in owner's equity, so that it can be used by internal and external stakeholders.

Yu Yunchun (2002) believes that accounting information disclosure refers to the real information about the company's operating conditions and internal changes that a listed company prepares and publishes to the public at a specified time in accordance with the normative requirements of the Company Law, the Securities Law, and the Accounting Law, and is subject to the supervision of the relevant authorities during the disclosure process.

Therefore, for listed companies, standardised and effective disclosure of accounting information is very necessary. Whether the information disclosed is true and effective, whether the subject of disclosure is objective and fair, whether the time of disclosure is timely, and whether the recipients of information disclosure are on an equal footing are all factors that will affect the quality of a company's accounting information disclosure.

The relationship between corporate governance and the quality of accounting disclosures

Bushman (2001) found a strong link between corporate governance structure and the quality of accounting information.

Eugene (2003) argues that substantial changes at the corporate governance level play an important role in improving the quality of accounting information of firms and that it has become particularly necessary to improve the quality of accounting information by reforming the corporate governance level.

According to Qiao Xudong (2003), the quality of accounting information disclosure is related to the form of corporate governance mechanism. Listed companies can improve the quality of accounting information disclosure by improving the corporate governance structure, thus promoting the development of the capital market.

According to Meng Yue (2011), in terms of corporate governance, increasing the shareholding of supervisory board members helps to reduce the risk of management manipulation of accounting information.

Pan Ying and Xin Qingquan (2014) showed that the lack of rationality in the shareholding structure of Chinese listed companies directly affects the effectiveness of corporate governance, which ultimately has a negative impact on the quality of accounting information disclosure.

Tan Jianghui (2015) similarly pointed out that in the face of the problem of distortion of accounting information in Chinese listed companies, in addition to the traditional improvement methods, reforms from the perspective of corporate governance are also key. Gradually improved corporate governance can promote the standardisation of accounting information disclosure, thus forming a virtuous circle.

These studies emphasise the strong link between corporate governance structure and accounting information quality, while providing different ways and means to improve accounting information quality. Corporate governance plays an important role in safeguarding the quality of accounting information and the healthy development of the capital market. Studies by scholars at home and abroad on the relationship between internal corporate governance and accounting information disclosure quality mainly focus on equity knot board characteristics, management behaviour and internal control. However, although existing studies have achieved some results, there are still many issues that need to be further explored and researched.

Analysis of Factors Affecting the Quality of Accounting Disclosure of Chinese Listed Companies from the Perspective of Corporate Governance

Shareholding concentration and quality of accounting disclosure

Wu Jinglian (2001) points out that the relationship curve between corporate equity concentration and the effectiveness of corporate governance is an inverted U-shape, and that ownership, whether overly dispersed or concentrated, can have a detrimental effect on the establishment of a sound corporate governance structure.

Wei Wanting (2019) found that evaluating the equity concentration of listed companies in China's heavy pollution industry has a significant negative impact on corporate environmental accounting disclosure.

Chen, Yuxue and Hu, Xiaoya (2020) concluded that the higher the equity concentration, the likelihood of disclosing untrue accounting information decreases.

Lu Yuru (2021) argues that corporate governance affects accounting disclosure through shareholding structure, board characteristics, the utility of the supervisory board, as well as governmental and social governance; similarly the accuracy, timeliness, and completeness of accounting disclosure also affect corporate governance, and there is an indelible and natural interaction between the two.

Mao Xiaoyuan (2021) found that while the equity structure factor has a negative effect on disclosure quality, i.e., it is not conducive to the improvement of disclosure quality. The effect of executive influence factor on disclosure quality is negative but not significant.

In these studies, there are three different views on the relationship between equity structure, equity checks and balances, and accounting disclosure quality: the conflict of interest view suggests that an increase in equity concentration may lead to a decrease in the quality of accounting disclosure; the equity checks and balances view points out that moderate equity checks and balances can help to improve the quality of accounting disclosure; and the U-shaped relationship view suggests that there is a U-shaped relationship between equity concentration and the quality of accounting disclosure, i.e., moderate equity concentration can contribute to the quality of accounting information. The U-shaped relationship view suggests that there is a U-shaped relationship between equity concentration and the quality of accounting disclosure, i.e., moderate equity concentration can promote the improvement of accounting information quality.

Therefore, the relationship between shareholding structure, shareholding checks and balances and the quality of accounting disclosure is complex and multifaceted, and is affected by many factors, including corporate governance mechanisms, laws and regulations, and the market environment. Different studies may draw different conclusions based on different data and methods, which reflects the complexity and multi-faceted nature of this issue. In practical decision-making, it is necessary to consider a variety of factors and develop a shareholding structure and governance strategy that is suitable for the company's characteristics in order to maximise the quality of accounting disclosure.

Executive Shareholding Ratio and Quality of Accounting Disclosure

As the decision makers, formulators, and even executors of the company's accounting policies, senior management is bound to have a significant impact on the quality of accounting disclosure, and research in this area mainly involves the characteristics of management, executive control, and management compensation.

Qiaodi (2012) showed that the proportion of shares held by the largest shareholder, the proportion of A-share common stock, and the proportion of shares held by executives have a significant effect on the quality of accounting disclosure; while the proportion of shares held by the board of directors, the size of the board of directors, the proportion of independent directors, and the size of the supervisory board do not have a significant effect on the quality of accounting disclosure.

Lin Fang (2012) studied the relationship between management power and surplus management in listed companies, and concluded that the greater the management power the easier the implementation of surplus management, and unlike the management of non-state-owned companies who are more willing to use accrual surplus management, state-owned companies are more inclined to use real surplus management in terms of expenses.

Chuan (2013) examines the impact of the departure of first-time executives on firm value for Chinese A-share firms and finds that in the long run, the departure of first-time executives leads firms to place greater value on a formal public disclosure system due to a decline in contracting ability with external stakeholders, and the quality of the resulting accounting information improves.

Chen Dong (2012) tested the relationship between executive compensation, corporate tax avoidance and accounting disclosure quality and found that the quality of corporate accounting disclosure declines as the degree of tax avoidance increases, while rising executive compensation mitigates the negative correlation between the two.

The above findings enrich the understanding of the complex relationship between corporate governance, executive shareholding, corporate compensation and accounting disclosure quality, and provide useful references for corporate decision-making and policy formulation. Due to conflict of interest and information asymmetry between managers and shareholders, managers sometimes engage in behaviours that maximise their personal interests to the detriment of shareholders and the firm. When a firm faces the risk of bankruptcy, managers also face the crisis of losing their authority, which makes them reluctant to make risky strategic decisions. Increasing executive shareholding will align management interests with those of shareholders, reduce the agency costs of executives, and closely link executive interests with those of shareholders and the long-term performance of the firm.

Board independence and quality of accounting disclosure

Beasley (2006) specifically examined the relationship between board composition and accounting information fraud and similarly concluded that the proportion of independent directors has an impact on accounting information fraud, i.e. the greater the proportion of independent directors, the less likely it is that accounting information fraud will occur.

Peng Daiwu (2007) through the study, in order to really improve the distortion of accounting information put forward the improvement of the corporate governance structure of the proposal, mainly including: the diversification of the company's shareholding, improve the incentive mechanism, increase the proportion of independent directors, the establishment of a sound external monitoring mechanism measures.

Tian Qiaodi (2012) explores the relationship between corporate governance and the quality of accounting disclosure using a sample of listed companies with excellent and unqualified disclosure ratings on the Shenzhen Stock Exchange in 2010. The combined data show that the proportion of shares held by the largest shareholder, the proportion of A-share common stock, and the proportion of shares held by executives have a significant effect on the quality of accounting disclosure; while the proportion of shares held by the board of directors, the size of the board of directors, the proportion of independent directors, and the size of the supervisory board do not have a significant effect on the quality of accounting disclosure.

Seraina (2017) argues that independent directors are the mainstay in disciplining the behaviour of corporate executives, and that the higher the percentage of independent directors on the board, the more executives will be inclined to disclose high quality accounting information.

The relevant empirical results of Ma Chongming (2017) show that:The larger the proportion of independent directors in agricultural listed companies helps enterprises to increase the authenticity and transparency of accounting information and improve the quality of information disclosure.

Changhong (2017) pointed out that the number of independent directors has a significant positive effect on the quality of corporate accounting disclosure, and that there is a negative correlation between the size and composition of the board of directors of agricultural listed companies and the quality of corporate accounting disclosure.

Bajra (2018), based on the data available on European firms listed in the United States, after a study, concluded that when the quality of the board of directors is higher, the quality of accounting disclosure also improves.

Ren Guangqian (2019) evaluates the supervisory board composition of state-owned listed companies by the number of supervisory boards, the ratio of the number of supervisors and independent directors, the proportion of supervisors' shareholding and the number of supervisory board attendees, and evaluates the effectiveness of supervisory boards' supervision through financial indicators such as the asset-liability ratio, and points out that the effectiveness of the supervision of the supervisory boards of state-owned listed companies shows a significant correlation with the characteristics of the supervisory board members' composition.

A number of the above-mentioned studies have highlighted the close relationship between corporate governance structure and the quality of accounting information. These studies reveal that independent directors play a key role in the board of directors, and that a high proportion of independent directors helps firms to disclose high-quality accounting information more actively, thus reducing the possibility of accounting information fraud. In addition, the size and composition of the board of directors also affect the quality of accounting disclosure to some extent. Overall, these studies provide useful insights for a deeper understanding of the impact of corporate governance structure on accounting information quality. In practice, firms may consider optimising the composition of the board of directors, increasing the proportion of independent directors, and establishing an effective supervisory board to enhance the quality of accounting information disclosure.

Duality of Chairman and Managing Director and Quality of Accounting Disclosure

Forker (2002) used empirical analyses to study a number of listed companies in the United States. The study found that the level of accounting disclosure may be reduced when the managing director is also the chairman of the board, while a higher proportion of independent directors may have a positive impact on accounting disclosure.

Lin Listen (2010) studied the relationship between corporate governance and information disclosure using a sample of companies listed on the Shenzhen Stock Exchange in China. The results show that the shareholding ratio of the top ten shareholders is positively related to the quality of information disclosure, but the ratio of the number of independent directors and the chairman of the board who is also the general manager do not show a positive correlation. This contradicts the results of previous studies.

Rui (2011) investigated the impact of board structure on accounting information risk of listed companies in the Chinese stock market. He found that board size has a negative impact on accounting information risk, the frequency of board meetings has a positive impact on accounting information risk, and the chairman of the board who is also the general manager and the independence of the board do not have a significant impact on the quality of accounting information disclosure.

Meilian (2012) investigated the effect of heterogeneity of the independent director team on the quality of accounting disclosure from its perspective. The results show that the heterogeneity of knowledge background and age difference of the independent director team positively affect the quality of accounting disclosure, while the heterogeneity of tenure and the heterogeneity of the industry they belong to do not have a significant effect.

Ying (2018) argues that although the separation of the two positions of chairman and general manager has not been widely implemented in the heavy polluting industry, companies that have implemented it have a positive impact on carbon accounting disclosure. This may be related to the greater rights of major shareholders, and these companies are more willing to improve disclosure.

Based on data from listed companies in China's iron and steel industry from 2013-2019, Junhua and Liuyu (2020) found that both the chairman of the board of directors who is also the general manager and the low proportion of independent directors may adversely affect the quality of accounting disclosure of firms.

Taken together, these studies found that the governance structure of different companies and the industry environment in which they operate may play an important role in influencing the quality of accounting disclosure. In addition, factors such as the characteristics of the team of independent directors, the size of the board of directors, and the fact that the chairman of the board is also the managing director may also have a positive or negative impact on the quality of disclosure under different circumstances.

Conclusion

In summary, based on the current situation, listed companies still have many problems in accounting information disclosure. From the perspective of internal corporate governance:

On the one hand, the shareholding structure of Chinese listed companies is special, generally with concentrated shareholdings and low shareholding checks and balances. Too much concentration of shareholdings can cause major shareholders to intervene in the normal operation of the company for their own interests and manipulate accounting information, aggravating the problem of information asymmetry. Due to information asymmetry, small and medium-sized shareholders are unable to know the true information within the company, and thus are unable to play a monitoring role. With a low degree of equity checks and balances, outside shareholders have less say compared to controlling shareholders, and the monitoring effect of outside shareholders is greatly reduced. Behaviour that is detrimental to the interests of external shareholders, these behaviours make the quality of accounting information lower.

On the other hand the board of directors plays an important role in corporate governance and its function of monitoring management is becoming more and more prominent. In the research on corporate governance and accounting disclosure quality, the focus has gradually evolved towards a detailed and systematic approach to board characteristics and management behaviour. For board characteristics, research has focused not only on traditional structural factors such as size, number of meetings, and concurrent chairmanship, but also on dynamic factors such as the performance of independent directors and changes in chairmanship. In terms of management behaviour, in addition to traditional management incentives such as remuneration system, it also expands to dynamic factors such as executive characteristics, management power control and executive departure. Independent directors owe a duty of diligence to the listed company and all shareholders, and the higher the proportion of independent directors in a listed company, the more effective the suppression of management fraud, and thus the quality of accounting information will be higher.

Therefore, the quality of accounting information disclosure can be effectively improved by improving the corporate governance mechanism and enhancing the efficiency of corporate governance. First, optimising the shareholding structure can solve the problem of shareholding concentration within the company and reduce the risk of insider control. Equity diversification can be achieved through the introduction of strategic institutional investors, who value the long-term development of the company more than the speculative behaviour of retail investors, and who are not only capable of grasping the real operating situation within the company, but also have the incentive to monitor the truthfulness and adequacy of the accounting information disclosed by the company in order to obtain long-term returns. Secondly, improving the degree of equity checks and balances can strengthen the constraints of small and medium-sized shareholders on the opportunistic behaviour of large shareholders. Secondly, the board of directors should be constructed to enhance independence, for example, by increasing the proportion of independent directors, major shareholders should recuse themselves from the decision-making process of nominating and appointing or removing independent directors, and the salary of independent directors should not be linked to performance. In addition, the company should strengthen the construction of the board meeting system, and the board meeting should not just be a formality, but should have the ability to make scientific decisions, so as to promote the improvement of the quality of accounting information disclosure.

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