

Financial Reporting and Disclosure Practices in China*

Hai Lu**

Rotman School of Management
University of Toronto

Jee-Eun Shin

Rotman School of Management
University of Toronto

Mingyue Zhang

Rotman School of Management
University of Toronto

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Abstract

We provide survey-based evidence on financial reporting and disclosure practices in China. We use the survey items used in prior studies based on U.S. CFOs (Graham et al., 2005; Dichev et al., 2013) as a benchmark to compare our results. We find some similarities between the U.S. and Chinese firms, but highlight some major differences in the perceptions on financial reporting and disclosure at Chinese firms. For example, Chinese firms do not consider analyst consensus forecasts as important earnings benchmarks, do not believe that voluntary disclosures reduce the cost of capital, and do not exhibit incentives to disclose bad news faster than good news. We provide additional evidence from follow-up questionnaires and on-site interviews that corroborate our main findings and explore the potential explanations. Taken together, our findings suggest that institutional differences at the country-level impose challenges on international studies that rely on theoretically-motivated empirical proxies or research questions from the U.S. setting.

Keywords: Financial Reporting, Disclosure, Information Quality, China

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**Corresponding author: E-mail address: Hai.lu@rotman.utoronto.ca

Postal address: 105 St. George Street, Rotman School of Management, Toronto, ON M5S 3E6, Canada

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1. Introduction

A growing stream of research suggests that institutional differences at the country-level may have significant implications in understanding corporate financial reporting outcomes (Bhattacharya, Daouk and Welker, 2003; Leuz, Nanda and Wysocki, 2003; Bushman, Piotroski, and Smith, 2004). There are a series of surveys of CFOs at U.S. public firms which allow academics to gain substantial insights on the practice of financial reporting and earnings quality among U.S. firms (Graham and Harvey, 2001; Graham, Harvey, and Rajgopal, 2005; Dichev, Graham, Harvey, and Rajgopal, 2013) to validate and/or reconcile findings in academic literatures. However, there is only limited evidence about whether such financial reporting practices vary in different countries, particularly those from the emerging markets with significant differences in institutional and legal environments. In this study, we fill this void in the literature by presenting novel survey-based insights about financial reporting practices at Chinese firms, and comparing them with the responses from U.S. firms.

We focus on Chinese firms for several reasons. First, the Chinese market is the second-largest economy after the U.S.,¹ and there is an increasing number of studies focusing on the Chinese market and corporate practices.² Second, the Chinese economy exhibits significant differences from the U.S. market. These institutional differences include the role of the government, the legal system, governance mechanisms, and cultural and social norms, which combined influence the corporate information environment in China (Chen et al., 2011; Piotroski

¹ Country ranking based on nominal GDP available at <https://www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx>

² Lu and Fu (2014) provide a review of the empirical literature published in 15 leading accounting and financial journals from 1998 to 2013. The annual number of published articles has increased from zero in 1998 to about 20 in 2013.

et al., 2015; Wong, 2016). Finally, the majority of these studies apply theories from studies based on U.S. firms to develop empirical proxies, and interpret their empirical results. Yet, the institutional differences in China warrant caution in applying the theories based on U.S. firms to Chinese firms. Accordingly, the evidence in this study has direct implications for the development of theories and empirical proxies based on Chinese firms. Our study also has broader implications for international studies that examine financial reporting outcomes across different countries by providing an example of how country-level differences of information mechanisms may result in different financial reporting outcomes.

To examine the financial reporting and disclosure practices in China, we survey the secretaries of the board of directors of Chinese listed companies. The Corporate Law of the People's Republic of China (2005) requires all listed firms to appoint a secretary to the board of directors (hereinafter referred to as board secretary) who serves as a top manager responsible for corporate information disclosures as well as financing and investment decisions. We employ the same questions as used in the survey instruments in Graham et al. (2005) and Dichev et al. (2013), and provide a direct comparison with the survey responses of CFOs at U.S. firms.³ The survey items fall into three broad categories: (1) features of reported earnings; (2) motives to manage earnings; and (3) voluntary disclosure practices. Our evidence shows similarities in the answers to many questions, but also highlights significant differences in financial reporting and disclosure practices between U.S. firms and Chinese firms in each of these categories.

First, our survey evidence reveals that Chinese firms consider earnings as the most important performance measure reported to outsiders. This result is consistent with the results from U.S.

³ The survey questionnaire is available on John Graham's website. The relevant survey items used in our study were translated into Chinese. A detailed overview of the relevant items with the corresponding survey items from Graham et al. (2005) and Dichev et al. (2013) is provided in Appendix 1.

surveys. Yet, the Chinese responses differ when asked about the most important benchmark for earnings figures, and their motives to meet/beat their earnings benchmarks. In particular, whereas U.S. CFOs rank analyst consensus forecast of EPS as the second most important earnings benchmark, the Chinese counterparts rank analyst consensus forecasts last after self-reported earnings figures from the current or past period. Moreover, when asked for the motives to meet earnings benchmarks, Chinese firms prioritize the need to satisfy the firms' existing stakeholders (such as investors, customers, and suppliers). This response is in contrast to the survey evidence based on U.S. CFOs who emphasize capital market considerations such as building credibility with the investor base, and maintaining or increasing stock price. Collectively, our survey evidence together with evidence from site visits and a follow-up questionnaire suggest a weaker role of capital markets and analysts as credible corporate governance mechanisms in the Chinese setting.

Second, our survey findings exhibit some differences in the motives to manage earnings at Chinese and U.S. firms. Influencing stock price, and meeting earnings benchmarks were ranked as the utmost motivations to engage in earnings management at both, Chinese and U.S. firms. Yet, whereas management motives to influence their own compensation and career outcomes are relatively predominant at U.S. firms, Chinese firms place a relatively higher importance at pleasing other non-management level stakeholders. We further ask about the preference for smooth earnings. Although a majority of our survey respondents indicate that they prefer smooth earnings paths, in stark contrast with U.S. firms, few Chinese firms are willing to make small or moderate adjustments to achieve smooth earnings. The difference in the willingness to make adjustments to achieve smooth earnings between Chinese and U.S. firms may be explained by the belief that Chinese firms perceive accounting standards as inflexible to allow for earnings adjustments.

Finally, our survey findings exhibit differences in voluntary disclosure practices at Chinese and U.S. firms. Similar to the survey results of U.S. CFOs, the cost of capital motive behind financial disclosure is not predominant among Chinese firms. However, examining the difference between the percentage who agree and disagree reveals that the majority of U.S. CFOs believe in a direct link between voluntary disclosure and cost of capital, whereas Chinese counterparts do not. Moreover, our survey evidence also shows that potential litigation costs do not constitute significant constraints in Chinese firms' voluntary disclosure decisions. In fact, unlike the survey evidence of U.S. CFOs that provide corroborating evidence for the incentives to disclose bad news faster to reveal unfavorable news to the market in a timelier fashion (Skinner 1994, 1997), Chinese firms do not appear to have such incentives, which is further confirmed during our interviews with executives of listed companies.

Our study makes a contribution by providing a holistic perspective of financial reporting and earnings quality in China. In the past decades, opacity in Chinese capital markets has been a significant concern among investors, even though many reporting requirements are similar to that in the U.S.⁴ Unlike the strong emphasis on the investor community in the U.S, our survey-based evidence from Chinese firms sheds new light on the increased focus on a variety of the firms' existing stakeholders such as suppliers, customers, and investors that influence the Chinese corporate information environment. The predominant focus on capital market consequences for financial reporting decisions at U.S. firms resulted in theoretically-motivated empirical proxies or research questions in accordance with this notion.⁵ Yet, our survey-based evidence highlights that

⁴ For example, Piotroski and Wong (2012) report survey results on global transparency initiated by Pricewaterhouse Coopers. They show that among 48 countries surveyed with regards to the country's accounting and financial reporting transparency from 2001 to 2009, China continues to rank in the bottom five in terms of its opacity score.

⁵ For example, as highlighted in our survey evidence, these include: the use of analyst consensus forecasts to measure market expectations, earnings smoothness to measures earnings management incentives, and theoretical motivations to explain conditional conservatism measures.

Chinese firms do not prioritize capital market consequences, but rather consider its existing stakeholders when communicating corporate information. This finding has important implications in motivating and designing research related to financial reporting and disclosure decisions using Chinese data.

Our study contributes to the survey evidence of U.S. financial executives provided by Graham et al. (2005) and Dichev et al. (2013). Their work has advanced our understanding of practitioners' opinions on and motives for financial reporting and disclosure decisions that enabled researchers to reconcile empirical findings based on large archival datasets of U.S. public firms. Our work provides novel survey evidence of Chinese financial executives, which exhibit some significant differences from the responses of U.S. counterparts. Our work shows that such country-level differences extend beyond institutional differences, but are deeply rooted in practitioners' perceptions and practices that can only be unraveled by field interviews and surveys directly asking them about their opinions.

Our study also contributes to international studies by providing a direct comparison of results based on the same survey questions in two different countries. Employing the same survey method as used in prior studies increases the comparability across the responses, and alleviates some concerns that may arise due to differences in the questions being asked. For example, Bloom and Van Reenen (2007) develop a survey methodology, and construct a measure of management practices in order to investigate and explain differences in management practices across firms and countries in different sectors. Similarly, our study aims to provide an in-depth analysis about the differences of financial reporting and disclosure practices between U.S. and Chinese firms.

The remainder of the paper is organized as follows. Section 2 provides the motivation for our study with regards to the need to examine financial reporting practices in different countries.

Section 3 illustrates the design and delivery of the survey. Section 4 reports our evidence on Chinese board secretaries' view related to the features of earnings. Section 5 reports their view related to motives to manage earnings, and Section 6 reports their view related to voluntary disclosure practices in China. In Section 7, we provide additional evidence based on a follow-up questionnaire, and interviews from site visits that corroborate our survey findings and provide insights into explanations regarding the observed differences. We conclude with Section 8.

2. Literature Review and Motivation

Bushman, Priotoski, and Smith (2004) note that the corporate information environment is shaped by a multifaceted system that constitutes of firm-, regional-, and country-level influences. Therefore, understanding the economic implications of corporate financial reporting, requires an understanding of whether and how such different influences impact the information-generating mechanisms. In this study, we study the practices of financial reporting and disclosures in China and focus on the country-level differences between China and the US. We highlight key differences in the Chinese setting that may have important implications in understanding the Chinese corporate information environment.

First, the dominant role of government entities and politicians in the Chinese economy may result in different managerial incentives to disclose information. The capital market, including the lending market, is highly influenced by the central government. The central government maintains controlling ownership in many large Chinese listed firms. Moreover, business transactions are highly dependent on social networks, called *Guanxi*, rather than on maintaining investor relationships in the capital market. Second, the absence of an independent and well-developed legal system may imply that financial reporting decisions are less consequential such that litigation costs are significantly lower in China (Wong, 2016). In conjunction with the predominant role of

the central government in the capital market, the lack of a credible enforcement mechanism may suggest that managers in Chinese firms may have less incentives to consider capital market consequences (i.e. cost of capital, stock price) when making disclosure and reporting decisions.

Prior empirical research using Chinese data confirms that financial reporting incentives of Chinese managers are heavily influenced by government regulations. For example, the Chinese stock market maintains a regulatory ROE benchmark for rights issues. Moreover, there is a regulation that qualifies Chinese firms for delisting if it reports a loss for three consecutive years. Prior empirical studies show that earnings management among Chinese firms is prevalent to meet such regulatory requirements (Chen and Yuan, 2004; Haw et al., 2005; Yu, Du, and Sun, 2006). Prior empirical research also confirms capital market-related motivations to engage in earnings management by Chinese firms. For example, Aharony et al. (2010) suggest that companies use related-party sales of goods and services opportunistically to manage earnings before IPO. They also provide evidence of such tunneling behavior in the post-IPO period to engage in earnings management that is suggestive of minority shareholder expropriation problems in China (Jiang et al., 2010).

Whereas capital market consequences can explain many motives for firms' voluntary disclosure decisions in the U.S, given the dominant role of the government in the Chinese capital market and the weak legal environment, the incentives for voluntary disclosures are relatively less clear at Chinese firms. The empirical evidence so far finds mixed motives for voluntary disclosures at Chinese firms. Li and Qi (2008) investigate the impact of corporate governance on voluntary disclosure and find a positive relation between higher managerial ownership and the level of voluntary disclosure. Cheung, Jiang, and Tan (2010) apply the OECD Principles of Corporate Governance to assess the transparency of 100 major Chinese listed companies, and show that

investors reward Chinese companies for more voluntary disclosure suggesting that favorable capital market outcomes may constitute a driver in Chinese firms' voluntary disclosure decisions. Yet, the empirical results in Wang et. al. (2008) do not suggest that voluntary disclosure is associated with reductions in the cost of debt capital. Moreover, using a unique regulatory setting regarding the voluntary disclosure of the pricing method of related-party transactions, Lo and Wong (2011) find that earnings management and its incentives, board composition, and ownership structure significantly influence the voluntary disclosure decisions of managers.

In addition to studies that are confined to examining financial reporting outcomes in a single country, an increasing number of international studies aim to examine how they vary depending on different country-level factors. For example, Bushman, Piotroski, and Smith (2004) suggest that corporate transparency is significantly influenced by the political economy and legal/judicial regimes. Leuz, Nanda, and Wysocki (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. Moreover, Bhattacharya, Daouk, and Welker (2003) examine three dimensions of reported accounting earnings for 34 different countries – earnings aggressiveness, loss avoidance, and earnings smoothing – based on which they create an earnings opacity time-series measure for each country. They conclude by arguing for a relationship between the level of accounting opacity in a country and cost of capital.

Whereas empirical studies that compare financial reporting outcomes between different countries can provide insightful descriptive evidence, they may be subject to significant internal validity concerns if country-specific differences have not been sufficiently accounted for. First, as illustrated earlier, institutional differences may subject managers in each jurisdiction to different disclosure incentives. Accordingly, whereas examining capital market-related outcomes such as

stock price and/or cost of capital as a function of financial reporting characteristics may be of relevance in the U.S, it may not be the case in China where managers' disclosure incentives are primarily influenced by government regulations. Second, international empirical studies may be subject to measurement concerns in capturing earnings characteristics if researchers do not account for institutional differences that has implications for the empirical proxies used in the study. In particular, fundamental to most studies that compare financial reporting practices in different countries is the critical assumption that the definition of earnings quality is homogenous across different countries. Yet, financial reporting and disclosure practices in each country are influenced by social and cultural norms, which may challenge the inherent assumptions about financial reporting quality as maintained in prior studies. Unfortunately, such differences are difficult to capture for researchers based on publicly available archival data.

Our study addresses this gap in the literature by using a combination of field interviews and a survey instrument to Chinese firms. We ask Chinese board secretaries (who serve the equivalent role as CFOs at U.S. firms) to describe their perceptions related to financial reporting and voluntary disclosure practices. Our objective is to provide field evidence on whether such practices exhibit differences (1) from prior academic theories on financial reporting and voluntary disclosure decisions – thus, providing complementary evidence to prior survey-based studies (Graham and Harvey, 2001; Graham, Harvey, and Rajgopal, 2005; Dichev, Graham, Harvey, and Rajgopal, 2013); and (2) from the survey findings based on U.S. firms – thus, providing novel evidence that directly compares financial reporting and voluntary disclosure practices between two countries: China and the U.S.

3. Survey Design

We use the financial reporting and voluntary disclosure practices in the U.S. as a benchmark, and consider the survey findings based on U.S. firms as the starting point for this study. Specifically, we use the survey questions in Graham et al. (2005) and Dichev et al. (2013), which are based on a review of the voluntary disclosure, earnings management, and earnings quality literature. We download the questionnaires used for the two studies and select 15 questions that fall into three categories: (1) features of reported earnings; (2) motives to manage earnings; and (3) voluntary disclosure practices. 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).⁶

3.1. Survey Audience: Chinese Board Secretaries

The objective of the survey is to target an audience that is the most 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”, are knowledgeable about accounting- and finance-related matters, and represent 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, the Corporate Law of the People’s Republic of China (2005) requires a listed firm to appoint a secretary to the board of directors (See Appendix 2).⁷ There is no board secretary position in U.S. firms, and the responsibilities for board secretary largely overlap with those for a CFO in U.S. firms. Second, the daily work of the board secretary involves multiple tasks, such as improving information quality, assisting in making information disclosure decisions, and maintaining relationships with investors. They are primarily responsible for corporate information

⁶ The questionnaires are available on John Graham’s website.

⁷ The position of board secretary started in England in 1841.

disclosure decisions, and are involved in investment and financing decisions as claimed by 74% of our survey respondents. Moreover, the Code of Corporate Governance for Listed Companies states that “the secretary of the board of directors shall be in charge of information disclosure, including formulating rules for information disclosure, [and] providing publicly disclosed information about the company to investors” (See Appendix 2). Third, as Jiang and Kim (2015) note, the concept of “top managers” has a different connotation in the Chinese context. Whereas the position for CEO and CFO exists within Chinese firms, these roles are associated with a narrower span of control compared to those by CEOs and CFOs in U.S. firms.⁸ In China, it is the president or the chairperson of the board who is in charge of actively “managing” the firm. Fourth, 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., 2018).⁹ Therefore, we base our survey on Chinese board secretaries – the *de facto* CFOs at Chinese public firms.

3.2. Survey Delivery

Our survey is administered and distributed by New Fortune Magazine in China (hereinafter referred to as New Fortune) in 2017.¹⁰ New Fortune was founded by the Shen Zhen Stock Exchange and is an influential financial media in China. It conducts a series of surveys, and offers

⁸ 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 may result in erroneous interpretations. This is because such studies are relying on the incorrect assumption that Chinese general managers or CEOs are active decision-makers within the firm.

⁹ For example, in 2003, Ningxia Yinchuan Intermediate People's Court sentenced Ding Gongmin, the board secretary and chief accountant of YinGuangXia (stock code 000557) for 2.5 years with a fine of up to RMB 80,000 due to fraudulent financial reporting. The former board secretary, Dong Bo, was also sentenced for 3 years with a fine of RMB 100,000. In 2012, there were 18 corporate secretaries that received disciplinary penalties from the Shanghai and Shenzhen Stock Exchanges, and 12 corporate secretaries that received administrative sanctions from the CSRC (i.e., China Securities Regulatory Commission).

¹⁰ Our survey is conducted annually, and we have collected the most recent 2018 survey responses, which are available upon request. We also maintain the discretion to change, add, or drop particular survey items for future survey distributions if necessary.

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 is distributed to board secretaries who can complete the survey within two weeks in February. The survey and voting for the “Golden Board Secretary” are two independent events, and board secretaries did not participate in the voting of the “Golden Board Secretary”. New Fortune created a website-based survey exclusively open to all eligible board secretaries considered for the “Golden Board Secretary”. A website link containing our survey questions was sent to 2,094 board secretaries. 210 participants responded to our survey online, with 207 valid responses, representing a response rate of 9.89%.¹¹ Our response rate is comparable to previous survey papers with financial executives. For example, Graham et al. (2005) reported a response rate of 8.4% for their internet-based survey to CFOs, Graham and Harvey (2001) report a response rate of 9% for their fax-based surveys, and Dichev et al. (2013) report a response rate of 5.4% for their e-mail-based surveys. Our sample consists of large and small firms, which is also comparable to the sample firms from S&P1500 in Dichev et al (2013).¹²

Table 1 provides a descriptive overview of our surveyed sample. The majority of the survey respondents are male (72.5%) and between 39 and 48 years of age (46.4%). Panel C provides a summary of firm characteristics for the surveyed firms and compares them to the average of all Chinese public companies. The descriptive statistics provide some confidence that our sample is representative of the average public firm in China.

4. Features of Reported Earnings

4.1. Importance of reported earnings

¹¹ Among 210 respondents, we exclude two testing responses from staff of New Fortune and one repeated response from the same board secretary.

¹² S&P1500 sample includes S&P500, S&P400 mid-cap, and S&P 600 small firms.

When asked to rank the three most important financial metrics to outsiders among five measures, 110 (53.14%) respondents indicate that “earnings” is the most important measure (Table 2 row 1). For comparison, we report the ranking of the U.S. CFO responses for the corresponding questions as listed in Appendix 1. The preference for earnings as the most important performance measure reported to outsiders by Chinese firms is similar to what has been documented in Graham et al. (2005). Moreover, they highlight the emphasis on earnings from the survey responses as cash flows are more emphasized in the academic literature. This tendency is even more pronounced among Chinese firms. The proportion of U.S. firms that rank revenue and cash flow as most important is the same at 11.69%, whereas a significantly higher proportion of Chinese firms (28.02%) rank revenue as most important (compared to 14.49% that rank cash flow as most important).¹³

4.2. Earnings benchmarks

4.2.1. Importance of earnings benchmark

Whereas prior literatures have emphasized the importance of meeting earnings benchmarks (Burgstahler and Dichev, 1997; DeGeorge et al., 1999), we hypothesize that such incentives are more likely in an environment with strong capital markets and legal systems. We ask our respondents directly whether their firm sets explicit earnings targets. The corresponding results are reported in Table 3. Surprisingly, the majority of our respondents (58.94%) do not set explicit earnings targets. This result is in contrast to many of the empirical findings in prior literatures (primarily based on U.S. firms) that emphasize meeting or beating earnings benchmarks as an important performance indicator. We further ask our respondents to rank various earnings

¹³ We also conduct conditional analyses for all survey items that compare the responses when the sample is split based on various firm characteristics. Overall, our results are robust across the different groups of firms. These results are reported in the Online Appendix.

benchmarks based on their importance. Similar to Graham et al. (2005), we consider previous years' or seasonally lagged quarterly earnings, whether the firm reported a profit or loss, and analysts' consensus estimates. Table 4 (and Figure 1) summarizes the survey results. Unlike U.S. CFOs, the Chinese counterparts do not consider analyst consensus forecast of EPS as important. Whereas 73.5% of U.S. respondents agree that earnings benchmarks provided by analysts are important (Graham et al. 2005), only 30.92% of Chinese respondents agree with this statement. This discrepancy in the results between U.S. and Chinese respondents can be potentially explained by the role of the capital market in the respective countries. Healy and Palepu (2001) show that financial and information intermediaries (such as analysts) constitute significant building blocks as credible corporate governance mechanisms in a capital market economy. However, the predominant role of the government in the Chinese economy, not only as regulators, but also as capital providers and important stakeholders of the firm may weaken the role of analysts as credible information intermediaries.

Based on the role of analysts as sophisticated information intermediaries that facilitate the functioning of the capital market, many studies (see Healy and Palepu, 2001; Dechow et. al., 2010) use analyst forecasts of earnings as a proxy for market expectations to measure earnings surprises for U.S. firms. Yet, our survey evidence casts doubt for the role of analysts in the Chinese economy and has important implications for conducting research in the Chinese setting. From an empirical perspective, this implies a need to re-examine various proxies proposed in prior literatures in the Chinese setting. For international studies, it may imply potentially the need to consider alternative earnings benchmarks at the country-level incorporating the inherent institutional differences. For example, the answers from the US respondents are consistent with the vast majority of prior studies using consensus analysts' forecasts as earnings expectations while the answers from the Chinese

setting may suggest that market expectations should rather be proxied by seasonal random walk models with drifts.

4.2.2. Motivation to meet earnings benchmark

We ask respondents about their motivation to meet earnings benchmarks. Healy and Wahlen (1999), Dechow and Skinner (2000), and Fields et al. (2001) summarize several reasons for why managers would want to meet earnings benchmarks using discretionary accounting adjustments. They include motivations related to influence stock price, to signal performance to stakeholders, to influence employee bonuses, and to meet bond covenants. These survey findings are shown in Table 5, and exhibit significant differences from those in Graham et al. (2005).

The primary reason for Chinese firms to meet earnings benchmarks is to signal stable business performance to relevant stakeholders, such as its investors, customers and suppliers (Table 5, row 1). This is in stark contrast to the findings in the U.S. survey where it has only been ranked sixth. 84.71% of Chinese respondents agree with this statement compared to only 58.5% of U.S. CFOs. On the other hand, U.S. firms state building credibility with the capital market (row 2) as the utmost motive for meeting earnings benchmarks, followed by motivations to influence stock price (row 4). These motives have been verified by several empirical studies that document an association between meetings earnings benchmarks at U.S. firms and market reactions. For example, Barth et al. (1999) document that U.S. firms with stable earnings growth are traded at a premium compared to other firms. Moreover, Skinner, and Sloan (2002) find a negative market reaction when U.S. firms miss earnings target. Our survey results suggest that such capital market considerations are also of importance to Chinese firms. 76.47% of respondents agree that meeting earnings benchmarks can help build credibility with the capital market, and 38.82% believe that it can influence stock price. Taken together, these results suggest that Chinese firms perceive

signaling performance to its stakeholders as relatively more important than capital market considerations.

Chinese and U.S. responses show similarities when considering the least relevant reasons for trying to meet earnings benchmarks. Motivations to meet earnings benchmarks to achieve employee bonuses (row 5), and to avoid a violation of debt covenants (row 6) are ranked in the bottom by Chinese and U.S. respondents. Even though several papers articulate that accounting choice is used to influence one or more of the firm's contractual arrangements (Watts and Zimmerman, 1986; Holthausen and Leftwich, 1983), such as executive compensation agreements and debt covenants (Healy, 1985; Smith and Warner, 1979), both survey results suggest that these factors only constitute second-order effects.

4.2.3. Consequences of failure to meet earnings target

We further ask about the consequences of missing an earnings benchmark to better understand company's motives to beat earnings target. The results are tabulated in Table 6, and are very similar to those as documented in Graham et al. (2005). Both Chinese (67.15%) and U.S. firms (80.70%) worry that missing an earnings benchmark would create uncertainty about the firm's future prospects (Table 6, row 1). Other prevalent reasons include concerns about outsiders' perception about the firm's potential problems (57.97% for Chinese firms, 60.0% for U.S. firms) and needs to explain why they missed the earnings benchmark (50.24% for Chinese firms, 58.2% for U.S. firms).

4.3. Earnings quality

Features that constitute high quality earnings have been extensively discussed in the accounting literature. Dechow et al. (2010) argue that "quality" is contingent on the decision context, such that a one-size-fits-all notion for high quality earnings is difficult to define. Prior

research suggest several different earnings characteristics that are desirable, and propose a number of earnings quality measures that embed such features (e.g. Dechow et al., 2010; Schipper and Vincent, 2003). Following Dichev, et al. (2013), we attempt to get evidence on how practitioners in China perceive different earnings characteristics as defined in the academic literature. These characteristics include: persistency (Penman and Zhang, 2002; Dechow and Schrand, 2004); smoothness (Francis et al., 2004; and Dechow and Schrand, 2004); predictability (Schipper and Vincent, 2003); free from special or non-recurring items (Dechow and Schrand, 2004); conservative (Watts 2003a, 2003b); close to cash flows (Sloan,1996; and Dechow and Dichev, 2002); small changes to total accruals (Jones, 1991; Dechow et al., 1995).

We ask survey respondents to rate the importance of these most commonly-used characteristics of earnings quality, and present the results in Table 7. Overall, all characteristics mentioned in the survey are regarded as important features, confirming the conceptual validity of many earnings quality measures as proposed in prior accounting literatures. In general, U.S. and Chinese firms consider earnings that are sustainable, persistent, and containing information to predict future earnings and cash flows as high quality. There are two notable differences between the responses by U.S. and Chinese firms. First, U.S. CFOs ranked “are less volatile than cash flows” (row 4) as eleventh, whereas Chinese board secretaries rank it fourth. Second, U.S. CFOs ranked “avoid long term estimates as much as possible” (row 7) as second, whereas Chinese board secretaries rank it seventh. Collectively, this evidence suggests that some perceptual differences exist between Chinese and U.S. firms in interpreting earnings figures.

5. Motives to Manage Earnings

5.1. Incentives and opportunity for earnings management

Prior research identifies several motivations to misrepresent earnings: (1) capital market expectations and valuation; (2) contracting terms, e.g., debt covenants and compensation contracts; (3) anti-trust or other government regulation (Healy and Wahlen, 1999). Following Dichev et al. (2013), we ask respondents to rate the importance of the listed eight motivations for companies that use earnings to misrepresent economic performance. The results are tabulated in Table 8. In general, Chinese board secretaries show less support for all listed motives than the U.S. counterparts (Table 8; Figure 2). Among the eight investigated factors, only “to influence stock price” (row 1, 52.17% agree) and “outside pressure to hit earnings benchmark” (row 2, 49.28% agree) are significant factors that 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 can create an incentive for managers to manipulate earnings to influence share price in the short-term.

Different from results in Dichev et al. (2013) which documented that all the twelve motivations listed are regarded as important factors, the evidence from our survey shows that a higher proportion of respondents disagree with debt covenant concerns (row 4), peer pressure (row 5), executive compensation (row 6), career concerns (row 7), and the likelihood of being undetected by regulators (row 8) to be significant motives to use earnings to misrepresent economic performance. Overall, our evidence recasts the heightened concern for managers’ earnings management incentives at Chinese firms relative to U.S. firms.

Incentives to engage in earnings management is contingent on managers’ perceived opportunity. In other words, the extent by which managers perceive accounting standards to allow for managerial discretion in financial reporting may explain our results for overall low motives to engage in earnings management. To examine this possibility, we follow Dichev et al. (2013), and

ask our respondents about the flexibility 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 the majority of the Chinese counterparts (83%) express having moderate or too little discretion (as reported in Table 9 Panel A). Following Dichev et al. (2013), we also avoid asking respondents about earnings management at their own firms, and instead ask board secretaries to indicate the percentage of firms in China they believe use discretion within accounting standards to misrepresent earnings. These results are summarized in Table 9 Panel B. For Chinese firms, the mean and median answer to this question is 19.55% 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 standard deviation of 17.24%). Thus, both U.S. CFOs and Chinese board secretaries believe that around 20% of firms engage in earnings management within accounting standards. More interestingly, 69.08% of Chinese board secretaries feel that there are at least some firms manipulate earnings within Chinese GAAP. This is in stark contrast to the 99.4% as reported in Dichev et al. (2013). This result corroborates the survey results from the previous question that Chinese firms perceive accounting standards allowing for little discretion that result in weaker incentives to engage in earnings management. Yet, these results on the basis of accounting standards cannot provide an assessment of China's information environment. Rather it should be evaluated on the basis of practices and outcomes.

5.2. Earnings smoothness

Earnings smoothness is a widely discussed attribute in the accounting literature (Burgstahler and Dichev, 1997; Barth et al., 1999; and Leuz et al., 2003), and is often used as an empirical proxy for earnings quality. The underlying motivation is that smooth earnings seem more predictable and sustainable, reflecting several of the desirable features of high quality earnings. When asked

whether they prefer smooth or bumpy earnings paths, keeping cash flows constant, an overwhelming 95.65% of Chinese board secretaries indicate that they prefer smooth earnings (untabulated). We further ask why they prefer a smooth earnings path and summarize the results in Table 10. The top three ranked reasons of preferring smooth earnings are that “smooth earnings path signals customers/suppliers that the business is stable” (row 1, 78.79% agree), “promotes a reputation for transparent and accurate reporting” (row 2, 64.65% agree), and “conveys higher future growth prospects” (row 3, 63.64% agree). Although a significant portion of board secretaries (row 4, 58.08% agree) believe that a smooth earnings path clarifies true economic performance, this motive is not a significant factor inferred from the U.S. survey results. On the contrary, 88.7% of U.S. CFOs state that a smooth earnings path is perceived to be less risky by investors, whereas only 34.5% of Chinese board secretaries agree with this statement. These results corroborate our earlier findings in Table 5 that Chinese firms prioritize the perception of their existing stakeholders related to its business operations than capital market-related consequences.

So far, our evidence suggests that Chinese board secretaries consider smoothness as a desirable earnings characteristic. Table 7 shows that Chinese board secretaries consider earnings as high quality if they “are less volatile than cash flows” (row 4). Considering volatility as a tendency to define earnings quality is ranked fourth based on the Chinese responses, whereas it is ranked only eleventh based on the U.S. responses. Following Graham et al. (2005), in order to gauge the extent of managerial intent for a smooth earnings paths, we explicitly ask board secretaries how much sacrifice they would make to achieve smooth earnings. The results are tabulated in Table 11. Surprisingly, most of the respondents (row 1, 63.77%) indicate that they will not make any sacrifice in exchange for smooth earnings paths, and only 28.50% of board secretaries would sacrifice a small amount of value to avoid bumpy earnings path. This is in stark

contrast to the results from 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 paths, only about 36% of Chinese board secretaries are willing to make any sacrifice at all. This finding can be reconciled with the emphasis on existing stakeholders by Chinese firms. Whereas signaling performance to outsiders may have important capital market consequences where financial and information intermediaries have a significant governance role as in the U.S, such motives seem less pronounced in the Chinese setting.

6. Voluntary Disclosure Practices

Given the heavily regulated institutional setting in China, we examine whether and how Chinese firms consider voluntary disclosures as important channels to communicate with outsiders. We examine the motives for, constraints on, and timing of voluntary disclosures using similar survey items as in Graham et al. (2005).

6.1. Motives for voluntary disclosure

Prior research has identified several factors that affect managers' voluntary disclosure decisions (Healy and Palepu, 2001; Graham et al., 2005). We follow Graham et al. (2005) and examine nine drivers of voluntary disclosure. The results are tabulated in Table 12 and figure 3. Overall, the survey results from Chinese firms are very comparable to those from U.S. firms. They confirm the following four motives for voluntary disclosure decisions: capital market implications, increased analyst coverage, signaling of management talent, and limitations of mandatory disclosure.

First, we consider the drivers of voluntary disclosure that relate to capital market implications. Healy and Palepu (1993, 1995) argue that investors' perception of the firm plays an important role in firms' capital market transactions. Myers and Majluf (1984) state that

information asymmetry between managers and outsiders would influence investors' view on the firm, resulting in lower cost of capital. Barry and Brown (1985) and Merton (1987) provide further evidence that investors demand a risk premium. Accordingly, managers would have incentives to provide voluntary disclosure to reduce information asymmetry, thereby reducing firms' cost for raising capital and increasing stock liquidity (e.g., Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994, Botosan, 1997). The specific items we consider to gauge the capital market implications as a driver for voluntary disclosure decisions are: "reputation for transparent and accurate reporting" (row 1), "reduce information risk" (row 2), "increase predictability" (row 4), "increase P/E ratio" (row 7), "increase stock liquidity" (row 8), and "reduce cost of capital" (row 9). The most notable difference relates to the belief about the relationship between voluntary disclosure and cost of capital. Chinese firms do not believe that providing voluntary disclosure can necessarily reduce cost of capital. Even though both, U.S. and Chinese firms, consider the cost of capital motive as one of the least important motives for voluntary disclosure, the fraction of Chinese firms that disagree with this statement is significantly larger than those that agree with it. In fact, 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).

Second, we consider the survey item "attracts more financial analysts to follow our stock" (row 5) to examine whether increased analyst coverage is a significant driver for voluntary disclosure motives. Bhushan (1989) and Lang and Lundholm (1996) argue that voluntary disclosure helps to lower information acquisition costs by analyst when managers did not fully reveal their private information through mandatory disclosures. Empirical studies (Lang and Lundholm, 1993; Healy et al., 1999) show supporting evidence that firms with more informative disclosure are more likely to be followed by analysts. Similar to the findings in the U.S, Chinese

firms also consider attracting more analysts to follow their stock as one motivation for voluntary disclosure (47.83% of the Chinese respondents agree).

Third, we consider the survey item “reveals to outsider the skill level of our managers” (row 6) to examine the motive related to signaling of management talent. Trueman (1986) argues that talented managers have incentives to voluntarily communicate with investors to signal their type. Similar to the findings in the U.S, we also find evidence for the talent signaling motive among Chinese firms. Even though considered as secondary motives, 42.03% of Chinese firms agree with the statement that they would use voluntary disclosure to reveal managers skills to outsiders.

Finally, we consider the inadequacy of mandatory disclosure as a driver for voluntary disclosure decisions in row 3. Such disclosures can include information about socially responsible practices, new product, and corporate strategy. Even though there is not much academic evidence on this motivation, we follow Graham et al. (2005) to examine whether inadequacy of mandatory disclosure motivates voluntary disclosure. Similar to the findings in the U.S, 74.40% respondents indicate that voluntary disclosure can provide important information not required in mandatory disclosures, and rank this motive as one of the most important drivers for voluntary disclosure decisions.

6.2. Constraints on voluntary disclosure

We follow Graham et al. (2005) and examine potential constraints for firms’ voluntary disclosure including proprietary costs, litigation risk, political costs, agency costs, and disclosure precedent. The results are tabulated in Table 13. We highlight some notable differences between U.S. and Chinese firms. Whereas proprietary cost is the biggest constraint on voluntary disclosure in China, litigation costs do not constitute a significant factor in limiting Chinese firms’ voluntary disclosure decisions.

First, the proprietary cost argument is such that managers would not fully disclose their private information due to the concern that some disclosures can negatively affect their competitive position in the product market (see Verrecchia, 2001; Dye, 2001). Consistent with this conjecture, Piotroski (1999) finds that U.S. firms with declining profitability and less variability in the profitability are more likely to increase its disclosure. Unlike U.S. firm responses, our results reveal that Chinese firms consider proprietary costs (Table 13, row 1) as the predominant reason for limiting their voluntary disclosure. Whereas 67.63% of them agree that voluntary disclosure would give away “company secrets” and harm firm’s competitive position, only 7.25% disagree with this statement. The emphasis on proprietary costs is potentially a result due to weak legal systems in China, which only provides limited protection for intellectual property rights.

Second, prior research argues that litigation costs can significantly affect managers’ disclosure decisions. Skinner (1994, 1997) and Francis et al. (1994) argue that firms with bad news have an incentive to pre-disclose information to avoid litigation cost. Accordingly, voluntary disclosure is viewed as a channel to complement inadequate disclosures, and thereby reduce potential litigation costs.¹⁴ As reported in row 4, litigation costs do not seem to constrain voluntary disclosure decisions at Chinese firms. Only 26.57% of the respondents agree that reducing voluntary disclosure can avoid possible lawsuits if future results do not match forward-looking disclosures, and the difference between those who disagree with this statement (25.12%) is not statistically different. This result is in contrast to that of U.S. firms. For 46.4% of U.S. counterparts litigation costs constitute a significant constraint that can limit their voluntary communication of financial information. The weak legal system in China relative to the U.S. may explain why

¹⁴ Yet, there is also some evidence suggesting that the disclosure of forward-looking information can rather increase litigation risks. (Johnson et. al., 2002)

Chinese firms are less concerned about litigation risks. We confirmed our interpretation of this evidence during site visits (See section 7 for details).

Finally, we note that for other factors we considered that may constrain firms' voluntary disclosure decisions, the survey findings from Chinese firms exhibit similarities as the results reported in Graham et al. (2005). Setting a disclosure precedent that may be difficult to continue was the most popular reason to limit voluntary disclosure among U.S. firms with a support of 69.9% by U.S. firms. Chinese firms also considered disclosure precedent as an important factor, but only ranked it second with a modest support of 40.10% from Chinese board secretaries of Chinese firms. The relatively weaker emphasis of the capital market as a source for external funding and credible governance mechanism may explain such discrepancies. Nagar et al. (2003) and Berger and Hann (2003) suggest that agency issues would affect the amount of information disclosed to public. For example, disclosing too much negative information may affect management's compensation and attract unwanted attention from other stakeholders. Both, the survey evidence from U.S. and Chinese firms, provide some support for the agency-related factors. Whereas the survey evidence for this constraint (row 3) is not statistically significant among surveyed Chinese firms that agree and disagree with this statement (29.95% agree, and 22.71% disagree), it is ranked as the third most popular reason by Chinese firms as a factor limiting voluntary disclosure decisions. In the U.S., the proportion of surveyed firms that agree is significantly higher than those that disagree with this statement, but the agency-related factor is ranked last among all other reasons considered. Watts and Zimmerman (1986) argue that firms' political costs from financial disclosure may affect their voluntary disclosure practice. The survey results do not provide evidence on the political cost argument, which is consistent with findings in U.S. surveys. Only 21.74% of the respondents agree with the statement that limiting voluntary disclosure would avoid attracting unwanted

scrutiny by regulators. As Graham et al. (2005) acknowledge, we also raise concern on the truthfulness of our responses as board secretaries may not want to attract regulators' attention if their real opinion is revealed.

6.3. Timing of voluntary disclosure

We report the results from the Chinese survey for the questions related to the timing of voluntary disclosures as used in Graham et al. (2005) in Table 14. It is well-documented that managers have differential incentives to release good news versus bad news to investors. On the one hand, incentive misalignment between managers and shareholders may provide 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 as it is unraveled to investors, managers may prefer to disclose bad news faster than good news (Skinner, 1994; Skinner 1997; Baginski et al. 2002; Aboody and Kasznik 2000). In general, the U.S. survey in Graham et al. (2005) does not find support for asymmetric disclosure incentives for good versus bad news. Yet, when asked detailed questions about their motives related to the timing of voluntary disclosures, the findings lend support for the latter – i.e. U.S. CFOs are more likely to reveal bad news faster due to fear of adverse capital market consequences. Consistent with our expectations, we find weak evidence in China for incentives to disclose bad news faster than good news.

Table 14 Panel A and figure 4 show that the tendency for managers to treat good news and bad news fairly is even more pronounced among Chinese firms. Whereas 52.9% of U.S. CFOs do not exhibit a preference in terms of timing to release good or bad news, 86.47% of the Chinese counterparts give no special treatment to disclosing good or bad news faster. Discussion with executives of several listed companies confirms our survey findings (See section 7 for details).

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 reveals that U.S. CFOs have a greater tendency to disclose bad news faster. Looking at the detailed reasons with regards to the speed of information release in Table 14 Panel B, the results provide stronger support that Chinese firms do not exhibit incentives to reveal bad news faster than good news. 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). Moreover, for the other statements provided, Chinese firms do not exhibit strong support. This is consistent with the responses by U.S. firms. U.S. CFOs show the highest level of agreement with reasons that support that bad news is disclosed faster relative to good news. These responses also receive support by more than 75% of respondents as opposed to a disagreement rate of less than 10%.

Our findings confirm that institutional differences at the country-level are associated with differential motives about the timing of voluntary disclosures. It also provides implications for empirical studies related to accounting treatments and disclosures. For example, the degree of conditional conservatism measured by the Basu (1997) model is based on the asymmetrical disclosure practice. Since the disclosure pattern related to bad and good news is different in China, we may expect different results from Basu’s regression.

7. Additional Qualitative Evidence

Our survey evidence so far reveals some similarities, but also major differences between financial reporting and disclosure practices in China and the U.S. Some key differences are summarized in Table 15. In the following sub-sections, we present additional evidence from follow-up questionnaires with the board of directors’ office of Chinese firms that are ranked in the

top 300 based on the Transparency Index.¹⁵ Unlike the survey items that force respondents to select answers based on several provided options, the follow-up questionnaire constitutes of open-ended questions that ask participants to provide their own opinions and explanations. We also provide qualitative evidence from on-site interviews. A four-member team made site visits (with two members from New Fortune) to interview 10 leading Chinese firms in different industries in summer 2018. These additional findings document insights into potential reasons for the observed discrepancies in the survey responses between U.S. and Chinese firms.

7.1. Follow-up Questionnaire

The set of questions we asked the participants are listed in Appendix 3. We receive a total of 98 responses from 98 firms. Based on the provided answers we construct categories for each different answer, and categorize subsequent answers that provide the same reasoning into the same bucket. This approach is in contrast to the survey approach that provides respondents with a list of items from which they are forced to choose their answer. Although providing answers to open-ended questions is relatively more time-consuming, our response rate is 32.67%. In addition, this approach is less subject to potential bias arising from forcing respondents to select answers from a prepared set of answers, and encourages respondents to provide their own perspectives.

The responses from the follow-up questionnaire provide additional insights into the perception of Chinese managers about the Chinese capital market. First, consistent with the evidence from our survey, relatively few firms seem to believe that earnings management is prevalent among Chinese firms, and that accounting standards only provide for relatively little

¹⁵ The Transparency Index in Chinese Capital Markets is developed and issued by the Guanghua School of Management at Peking University and the Rotman School of Management of the University of Toronto. The Transparency Index is a comprehensive index that captures the information quality of Chinese listed firms covering both subjective indicators (50%) and objective indicators (50%). The former contains assessments of analysts, institutional investors, and board secretaries of listed companies (each accounting for 1/3 of the weight). The latter contains the analysis of financial statements (20%), the records of enforcement actions (20%) and media assessments based on machine learning (10%) (Lu, 2019).

room to manipulate earnings. Only 8% of respondents mention intentions to “change the accounting estimates used within the scope of accounting standards” as a method to manipulate earnings. Second, the follow-up questionnaire is particularly fruitful in gauging the potential explanations for the differences in financial reporting and disclosure practices at Chinese firms. We ask respondents about their opinions on how to improve the transparency of the Chinese capital market. An overwhelming majority of answers point out the weak legal and regulatory system as a major impediment, which can potentially explain the weaker emphasis for disclosure incentives due to capital market consequences.

7.2. Interviews with Managers from Site Visits

We conduct our site visits in the summer of 2018 to gain more insights of disclosure practices from CEOs or other top managers of the firms. We visited 10 leading companies, which were willing to participate in our site visits, in different industries. We present information about the companies we visited and executives we interviewed in Appendix 4. From our site visit interviews, we learned that Chinese executives consider differences in investor preferences between Chinese and international investors when making financial reporting and disclosure decisions. For example, one Chinese manager at *Anhui Conch Cement* mentioned: “Unlike Hong Kong, European and American investors, who are looking at five to ten years, Chinese investors focus more on the short-term – only one to two years ahead.” Relatedly, another manager at *Hikvision Digital Technology Co., Ltd.* said that “in China, analysts and fund managers are evaluated based on short-term indicators. Foreign investors are calmer, and most of them are long-term investors. Of course, it does not mean that all foreign investors are long-term investors, but the majority constitutes of long-term investors than short-term investors.” A perception of foreign investors by Chinese firms is summarized in the following quote by a manager at *Baoshan Iron & Steel* “First, foreign

investors care less about short-term arbitrage opportunities and more about long-term investment. Therefore, they are more concerned about the long-term development of the listed companies, and any changes in the industry. Second, foreign investors are more concerned about the dividend policy, such as whether you can achieve cash dividends in a stable and long-term manner.” The relatively short-term focus of Chinese investors may render the suitability of earnings smoothness as a proxy to capture earnings management incentives at Chinese firms less credible. Taken together, our evidence suggests that financial reporting practices may exhibit significant differences depending on institutional norms in each country, and that considering differences in what the main investor base considers as most important in evaluating firm performance has significant implications for considering appropriate earnings management incentives.

Our site-visit interviews suggest that Chinese firms consider proprietary costs as an important reason for limiting their voluntary disclosure. A manager at *Baoshan Iron & Steel Co., Ltd* stated that “Some of our peers, especially some chemical firms, always discuss with us that disclosing detailed information allows your competitors gather information about your secret formula of the products, and this is not good for your own business. We communicate with regulators, and they sometimes give us guidance on how to categorize our products and avoid disclosing detailed information.” The founder of Leyard, a leading audio/video products manufacturer, explained in his interview “we have to balance how much we want to disclose, particularly new technologies and new products that we have developed. If we disclose details, some competitors may copy new products as well as business models within a few months.”

We also confirmed a strong incentive for symmetric treatment of good and bad news at many Chinese firms. One Chinese manager at *Hikvision Digital Technology Co., Ltd.* mentioned: “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.”

Finally, our interview evidence suggests that a potential reason for the lacking evidence to treat good and bad news differently at Chinese firms is due to pressures to abide by government regulations. A manager at *Baoshan Iron & Steel Co., Ltd* noted that “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.” When abiding to the governmental regulations, weak legal and regulatory systems in China result in lower litigation and reputation costs that do not result in significant capital market consequences as in developed capital markets such as in the U.S. For example, a manager at *IFLYTEK Co., Ltd.* said: "I believe good rules and regulations can change bad people to good ones, and bad rules and regulations change good people to bad ones. Some people argue that the problem of dishonesty in the Chinese capital market is due to culture or incomplete regulations. However, I think it's because we don't have a good legal system that can enforce the regulations. This makes the cost of being dishonest smaller than the benefit of being honest such that there will definitely be some entrepreneurs who take the risk and benefit from illegal behaviors.” Collectively, our evidence suggests that Chinese firms have pressures to abide to governmental disclosure regulations, but that the lack of a credible legal and regulatory enforcement mechanism provides them only with insufficient incentives to manipulate financial reporting and disclosure decisions to disclose bad news faster than good news as a tool to communicate with investors in the capital market. This may have implications for the

informativeness of mandatory disclosures in the Chinese setting, and could potentially suggest higher incidences of firms engaging in manipulation of real activities beyond the bounds of accounting standards.

8. *Summary and conclusions*

This paper documents financial executives' opinions and perceptions for financial reporting and disclosure practices in China. Our survey with Chinese board secretaries and interview evidence highlight several differences related to feature of reported earnings, motives to engage in earnings management, and incentives for voluntary disclosure that are rooted in the institutional details of the Chinese capital market and regulatory environment. Using financial executive opinions and motives at U.S. firms as a benchmark, our survey-based evidence shows that Chinese firms value analyst consensus forecasts less, exhibit fewer reasons to engage in earnings management, are less willing to make sacrifices for smooth earnings paths, and exhibit weaker voluntary disclosure incentives to alleviate capital market concerns by disclosing bad news faster than good news. Such differences are based on managers' perceptions that the Chinese capital market only provides a weak disciplining role due to less developed legal systems and the predominant role of the central government.

Our findings have important implications for empirical studies based on Chinese data, and international studies that aim to compare financial reporting practices across different countries. First, it provides direct evidence that questions whether the Chinese setting is the most appropriate in examining the role of disclosures where the underlying mechanism for the hypothesized effects hinges on the disciplining role of capital markets. Thereby, it forces researchers to take into account country-specific institutional differences in designing empirical tests to test theoretically-motivated research questions that may rely on important assumptions about the role of capital

markets. Second, it provides direct evidence that empirical proxies to capture theoretical constructs may be subject to varying levels of internal validity concerns based on country-specific institutional differences. Thereby, it highlights the need for advanced research methods that can directly compare financial reporting practices across different countries by alleviating such measurement concerns that are due to institutional differences. Ultimately, we hope that our evidence provides a first stepping stone in acknowledging the specific institutional setting to understand financial reporting and disclosure implications in China, and in provoking research that can better account for such country-level differences as significant factors to influence the corporate information environment.

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Appendix 1: Organization of the paper with corresponding survey questions in Graham et al. (2005) and Dichev et al. (2013)

	Tables in prior studies	Tables in this paper	Questions
Section 4: Features of Reported Earnings	4.1. Importance of reported earnings		
	Graham et al. (2005), Table 2	Table 2	Please rank the three most important performance measures reported to outsiders.
	4.2. Earnings benchmark		
	N/A	Table 3	Does your firm set earnings targets?
	Graham et al. (2005), Table 3	Table 4	How important are the following earnings benchmarks to your company when report a quarterly earnings number?
	Graham et al. (2005), Table 4	Table 5	Do these statements describe why your company tries to meet earnings benchmark?
	Graham et al. (2005), Table 5	Table 6	Why your company tries to avoid missing an earnings benchmark?
Section 5: Motives to Manage Earnings	4.3. Earnings quality		
	Dichev et al. (2013), Table 4	Table 7	To what extent do you agree that this statement captures important features of "high quality earnings?"
	5.1. Incentives and opportunity for earnings management		
	Dichev et al. (2013), Table 13	Table 8	Please rate the importance of the following motivations for companies use earnings to misrepresent economic performance.
	Dichev et al. (2013), Table 7	Table 9 Panel A	How much discretion in financial reporting does the current accounting standard-setting regime allow?
	Dichev et al. (2013), Table 10	Table 9 Panel B	What percentage of companies use discretion within Accounting Standards to report earnings, which misrepresent the economic performance of the business?
	5.2. Earnings smoothness		
Graham et al. (2005), Table 8	Table 10	Do the following factors contribute to your company preferring a smooth earnings path?	
Graham et al. (2005), Table 9	Table 11	How large a sacrifice in value would your firm make to avoid a bumpy earnings path?	
Section 6: Voluntary Disclosure Practices	6.1. Motives for voluntary disclosure		
	Graham et al. (2005), Table 11	Table 12	Do these statements describe your company's motives for voluntarily communicating financial information?
	6.2. Constraints on voluntary disclosure		
	Graham et al. (2005), Table 12	Table 13	Limiting voluntary communication of financial information helps...
	6.3. Timing of voluntary disclosure		
Graham et al. (2005), Table 13, Panel A	Table 14, Panel A	Based on your company's experience, is good news or bad news released to the public faster?	
Graham et al. (2005), Table 13, Panel B	Table 14, 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: Follow-up Questionnaire

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 public Chinese 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 manipulation?
9. What kind of pressure are firms subject to when they consider engaging in earnings manipulation?
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?

Appendix 4: Company visited during site visits

Companies visited	Stock ID	Market cap (RMB, in billion)	Positions of interviewees	Ownership structure	Industry
Anhui Conch Cement Co., Ltd.	600585	155.43	Assistant CEO/Board Secretary	SOE	Construction materials
Hangzhou 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	600028	742.17	Head of Board of Directors affairs	SOE	Light manufacturing
Leyard Optoelectronic Co.,Ltd.	300296	31.75	President/Co-founder	Non-SOE	Electronic engineering
NARI Technology Development Co., Ltd.	600406	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.	600019	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

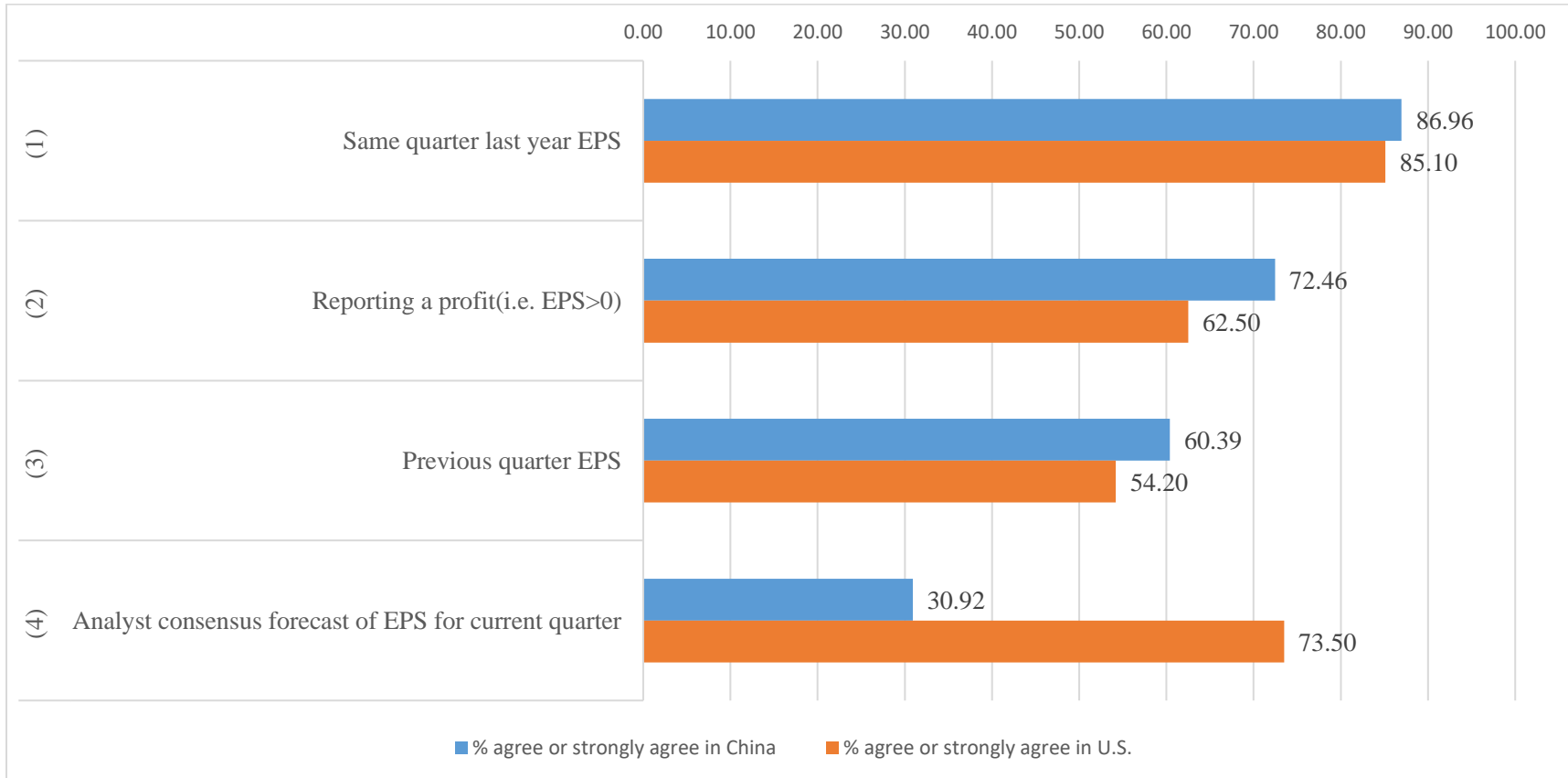


Figure 1: Survey responses to the question: How important are the following earnings benchmarks to your company when you report a quarterly earnings number?

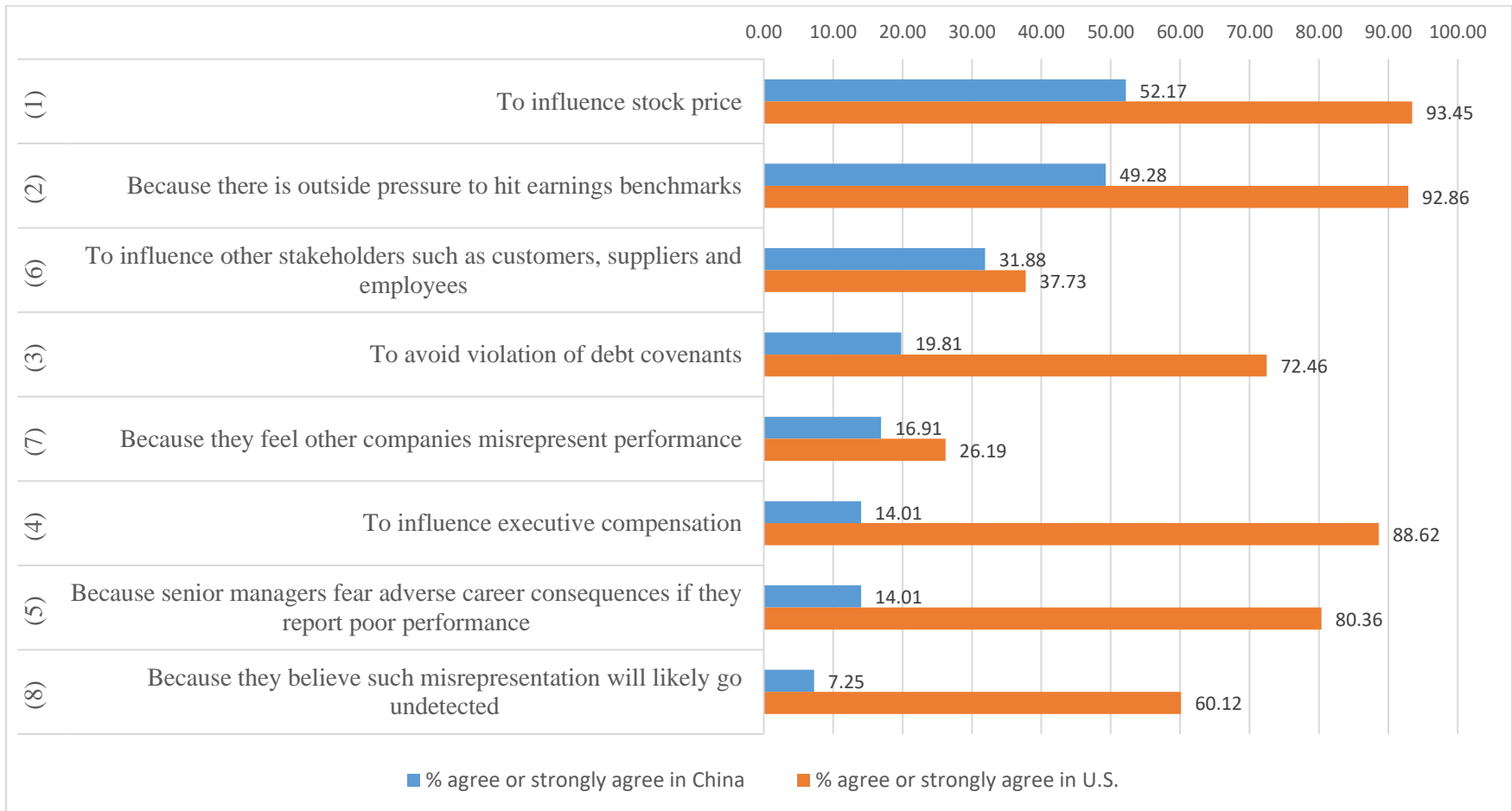


Figure 2: Survey responses to the question: Please rate the importance of the following motivations for companies that use earnings to misrepresent economic performance.

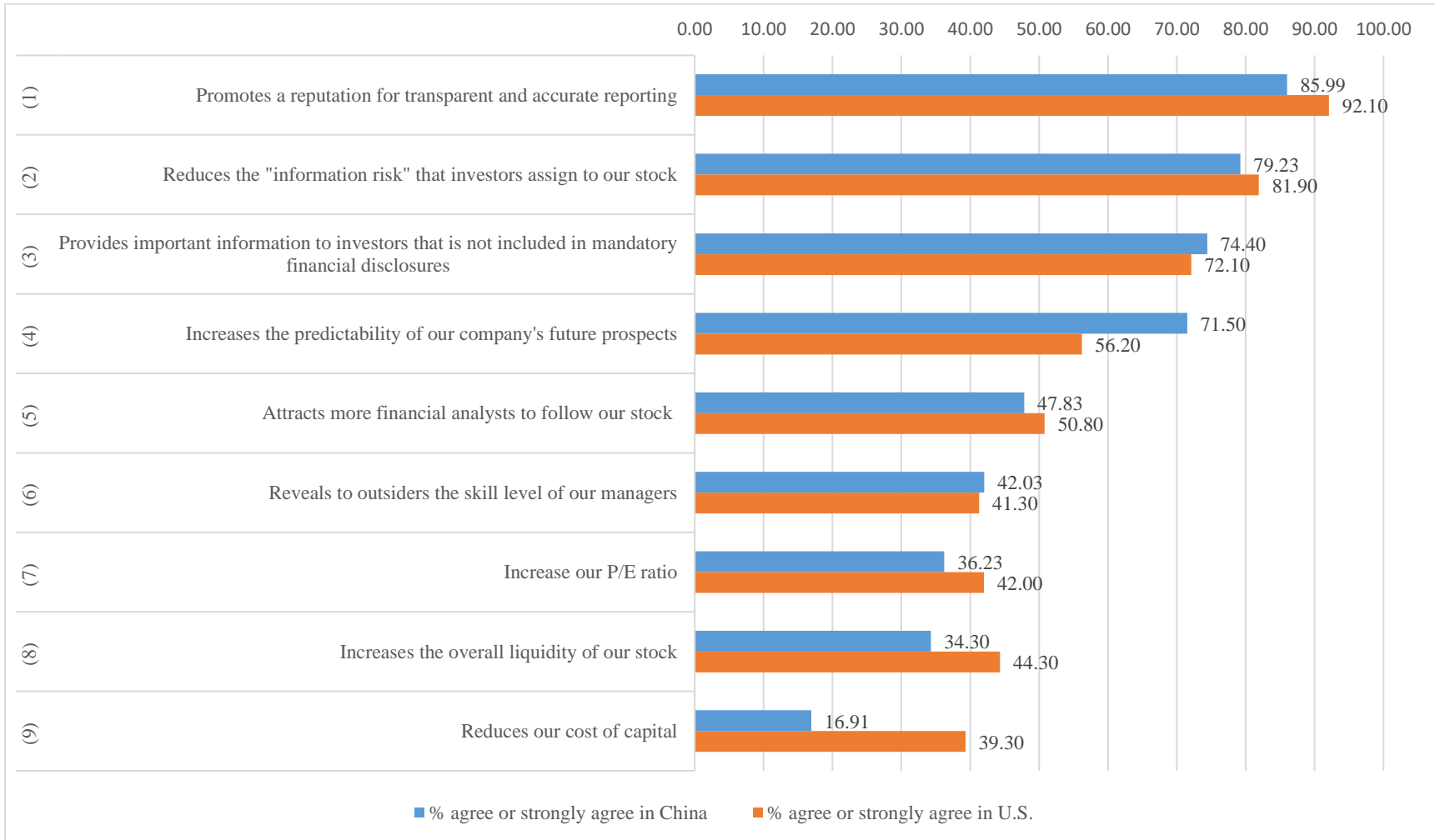


Figure 3: Survey responses to the question: Do these statements describe your company's motives for voluntarily communicating financial information?

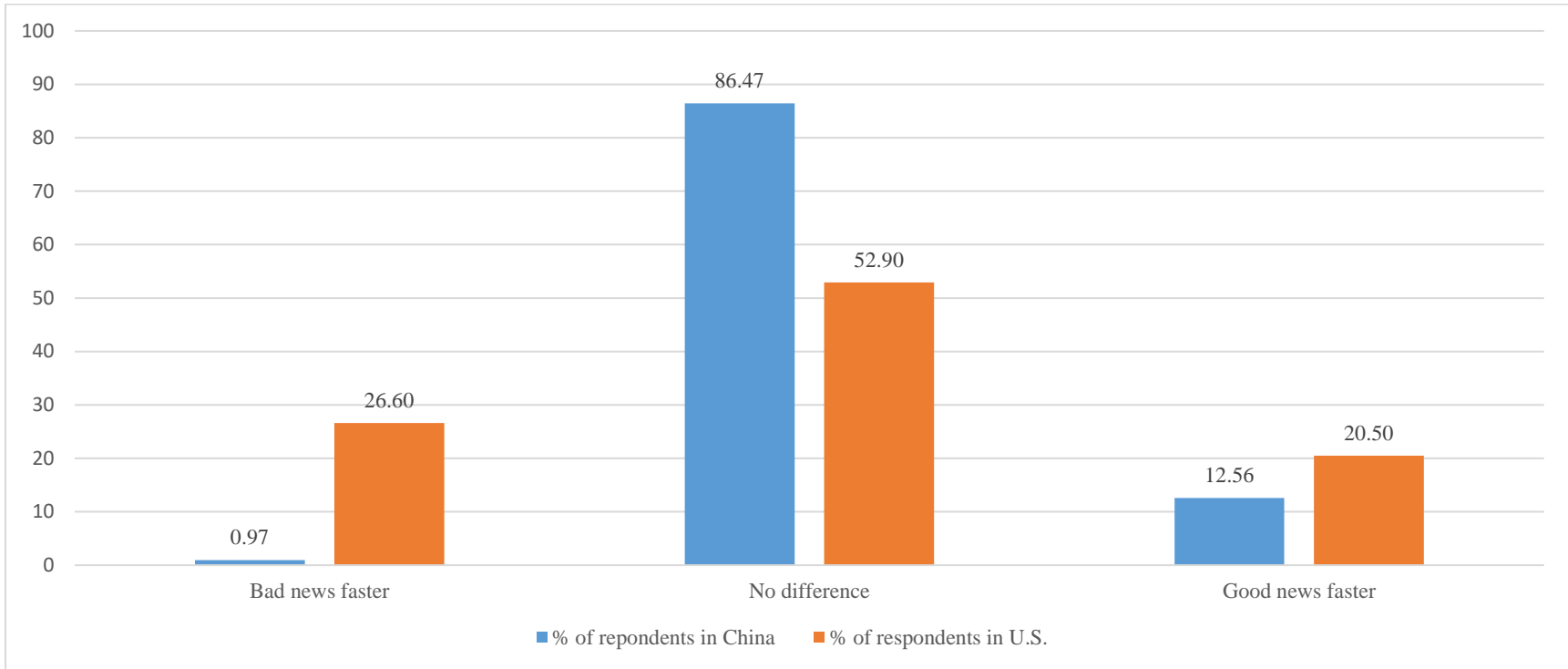


Figure 4: Survey responses to the question: Based on your company’s experience, is good news or bad news released to the public faster?

Table 1: Descriptive Statistics of Survey Sample

Panel A: Gender

Gender	Percentage
Male	72.5%
Female	27.5%

Panel B: Age

Age	Percentage
59-68	2.4%
49-58	27.1%
39-48	46.4%
29-38	24.2%

Panel C: Firm Characteristics

(in Billion RMB)	Survey sample	All public companies
Average total assets	61.92	63.46
Average total debt	51.20	53.57
Average revenue	15.24	10.16
Average net income	1.10	0.94

This table reports descriptive characteristics of our survey sample. Panel A (Panel B) provides information related to gender (age). Panel C column 1 provides summary statistics of different firm characteristics in our sample, and column 2 provides the same summary statistics for the entire set of Chinese public firms.

Table 2: Survey responses to the question: Rank the three most important performance measures reported to outsiders.

Panel A: Unconditional analysis

Chinese ranking	US ranking	Measure	#1 rankings	# 2 rankings	# 3 rankings	Total points	Average points
1	1	(1)Earnings	110	48	32	458	2.21***
2	2	(2)Revenues	58	81	43	379	1.83***
3	3	(3)Cash flows from operations	30	43	68	244	1.18***
4	4	(4)Free cash flows	7	18	29	86	0.42***
5	-	(5)Assets	2	17	35	75	0.36***

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey were asked to indicate their ranking on each measure. Column 1(2) indicates the ranking of responses in our survey (Graham et al. 2005). Column 3 shows the survey items. Column 4 (5) [6] presents the number of respondents that rank the respective item first (second) [third]. Column 7 reports the total points, and column 8 reports the average points, where higher values corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of 3 points (#1 ranking), 2 points (#2 ranking), and 1 points (#3 ranking). Column 8 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 3: Survey responses to the question: Does your firm set earnings benchmarks?

Question	# of respondents	% of respondents
Yes	85	41.06
No	122	58.94

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Column 1 reports the number of respondents that agreed, and column 2 reports the corresponding percentage.

Table 4: Survey responses to the question: How important are the following earnings benchmarks to your company when you report a quarterly earnings number?

Chinese ranking	US ranking		% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating
1	1	(1)Same quarter last year EPS	86.96	1.45	11.59	1.25***
2	3	(2)Reporting a profit(i.e. EPS>0)	72.46	5.80	21.74	0.97***
3	4	(3)Previous quarter EPS	60.39	9.66	29.95	0.65***
4	2	(4)Analyst consensus forecast of EPS for current quarter	30.92	19.32	49.76	0.11*

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values corresponds to higher agreement among respondents. Average rating is calculated based on respondents answer with a scale of -(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 5: Survey responses to the question: Do these statements describe why your company tries to meet earnings benchmark?

Chinese ranking	US ranking	Meeting earnings benchmarks helps...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating
1	6	(1)assure investors, customers and suppliers that our business is stable	84.71	2.35	12.94	1.25***
2	1	(2)build credibility with the capital market	76.47	2.35	21.18	1.20***
3	3	(3)the external reputation of our management team	43.53	12.94	43.53	0.41***
4	2	(4)maintain or increase our stock price	38.82	15.29	45.88	0.33
5	7	(5)our employees achieve bonuses	28.24	15.29	56.47	0.22**
6	9	(6)avoid violating debt-covenants	16.47	30.59	52.94	-0.22*

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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: Survey responses to the question: Do these statements describe why your company tries to avoid missing an earnings benchmark?

Chinese ranking	US ranking	Missing an earnings benchmark...	% agree or strongly agree	% disagree or strongly disagree	Neutral	Average rating
1	1	(1)It creates uncertainty about our future prospects	67.15	5.80	27.05	0.74***
2	2	(2)Outsiders might think there are previously unknown problems at our firm	57.97	4.83	37.20	0.62***
3	3	(3)We have to spend a lot of time explaining why we missed rather than focus on future prospects	50.24	8.21	41.55	0.52***
4	4	(4)It leads to increased scrutiny of all aspects of our earnings	29.95	19.32	50.72	0.11*
5	6	(5)It increases the possibility of lawsuits	9.66	47.83	42.51	-0.54***

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 7: Survey responses to the question: 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
1	3	(1)Are sustainable	69.08	4.35	26.57	0.90***
2	5	(2)Are useful predictors of future cash flows	62.32	3.86	33.82	0.72***
3	4	(3)Are useful predictors of future earnings	57.00	4.35	38.65	0.66***
4	11	(4)Are less volatile than cash flows	56.04	6.28	37.68	0.62***
5	7	(5)Do not include one-time or special items	51.69	4.35	43.96	0.64***
6	8	(6)Require fewer explanations in company communications	37.68	7.73	54.59	0.34***
7	2	(7)Avoid long term estimates as much as possible	36.23	5.80	57.97	0.34***
8	12	(8)Have fewer accruals	40.10	5.80	54.11	0.40***
9	9	(9)Result from conservative recognition of assets and liabilities	26.09	9.66	64.25	0.20***

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 8: Survey responses to the question: Please rate the importance of the following 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
1	1	(1)To influence stock price	52.17	17.87	29.95	0.34***
2	2	(2)Because there is outside pressure to hit earnings benchmarks	49.28	15.46	35.27	0.29***
3	11	(3)To influence other stakeholders such as customers, suppliers and employees	31.88	21.26	46.86	0.01
4	6	(4)To avoid violation of debt covenants	19.81	25.60	54.59	-0.17***
5	12	(5)Because they feel other companies misrepresent performance	16.91	35.75	47.34	-0.38***
6	4	(6)To influence executive compensation	14.01	32.37	53.62	-0.34***
7	5	(7)Because senior managers fear adverse career consequences if they report poor performance	14.01	34.78	51.21	-0.38***
8	8	(8)Because they believe such misrepresentation will likely go undetected	7.25	57.49	35.27	-0.81***

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 9: Survey responses related to perceptions on accounting standards in China

Panel A: Survey responses to the question: The flexibility to manage earnings under current Accounting Standards in China.

	Firms have...	% of respondents (China)
1	Moderate discretion	43.00
2	Too Little discretion	40.10
3	I don't know	15.46
4	Much discretion	1.45

Panel B: Percentage of companies use discretion within Accounting Standards to report earnings which misrepresent the economic performance of the business

Mean	Median	Std. dev.	Min	Max	% Greater than 0	% Greater than median
19.55	10.00	24.51	0.00	90.00	69.08	35.75

Panel A reports the results to the stated survey question. Column 1 states the items, and column 2 reports the corresponding percentage of respondents that agreed to the respective item. Panel B reports the results to the stated survey question where respondents were asked on a scale of 0 to 100. Column 1-5 present the mean, median, standard deviation, minimum, and maximum of the answers. Columns 6 and 7 present the percent of respondents who answered greater than 0 and greater than 10 (the median), respectively

Table 10: Survey responses to the question: 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
1	3	(1)Assures customers/suppliers that business is stable	78.79	2.53	18.69	1.00***
2	5	(2)Promotes a reputation for transparent and accurate reporting	64.65	3.54	31.82	0.81***
3	6	(3)Conveys higher future growth prospects	63.64	4.04	32.32	0.71***
4	8	(4)Clarifies true economic performance	58.08	4.55	37.37	0.68***
5	1	(5)Is perceived as less risky by investors	34.85	16.16	48.99	0.21***
6	9	(6)Increases bonus payments	6.57	32.83	60.61	-0.35***

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 11: Survey responses to the question: How large a sacrifice in value would your firm make to avoid a bumpy earnings path?

	Firms make...	% of respondents (China)	% of respondents (US)
1	None	63.77	22.00
2	Small sacrifice	28.50	52.00
3	Moderate sacrifice	7.73	24.00
4	Large sacrifice	0.00	2.00

This table reports the results to the stated survey question. 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.

Table 12: Survey responses to the question: 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
1	1	(1) Promotes a reputation for transparent and accurate reporting	85.99	3.38	10.63	1.23***
2	2	(2) Reduces the "information risk" that investors assign to our stock	79.23	3.86	16.91	1.09***
3	3	(3) Provides important information to investors that is not included in mandatory financial disclosures	74.40	6.76	18.84	0.93***
4	4	(4) Increases the predictability of our company's future prospects	71.50	4.83	23.67	0.87***
5	5	(5) Attracts more financial analysts to follow our stock	47.83	9.18	43.00	0.49***
6	9	(6) Reveals to outsiders the skill level of our managers	42.03	15.46	42.51	0.34***
7	8	(7) Increase our P/E ratio	36.23	14.98	48.79	0.25***
8	7	(8) Increases the overall liquidity of our stock	34.30	13.53	52.17	0.24***
9	10	(9) Reduces our cost of capital	16.91	30.43	52.66	-0.24***

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 13: Survey responses to the question: 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
1	2	(1)Avoid giving away "company secrets" or otherwise harming our competitive position	67.63	7.25	25.12	0.77***
2	1	(2)Avoid setting a disclosure precedent that may be difficult to continue	40.10	14.01	45.89	0.27***
3	6	(3)Avoid attracting unwanted scrutiny by stockholders and bondholders	29.95	22.71	47.34	0.04
4	3	(4)Avoid possible lawsuits if future results don't match forward-looking disclosures	26.57	25.12	48.31	-0.02
5	5	(5)Avoid attracting unwanted scrutiny by regulators	21.74	30.92	47.34	-0.17**

This table reports unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 14: Survey responses related to timing of voluntary disclosure

Panel A: Survey responses to the question: 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
China	0.97	86.47	12.56	0.12***
US	26.60	52.90	20.50	-0.12

Panel B: Survey responses to the question: 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
1	3	(1)Good news is released faster because bad news takes longer to analyze and interpret	53.57	21.43	25.00	0.5**
2	2	(2)Disclosing bad news faster reduces our risk of potential lawsuits	46.43	25.00	28.57	0.21
3	4	(3)Good news is released faster because we try to package bad news with other disclosures which can result in a coordination delay	35.71	32.14	32.14	0.11
4	1	(4)Disclosing bad news faster enhances our reputation for transparent and accurate reporting	28.57	28.57	42.86	0.04

Panel A and Panel B report unconditional analysis of the survey responses to the stated question from all firms surveyed. Respondents of the survey 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 in our survey (Graham et al. 2005). Column 3 shows survey items. Column 4 presents the percent of respondents indicating they agree or strongly agree with each statement; likewise, column 5 presents the percent of respondents indicating they disagree or strongly disagree with each statement. Column 6 reports the percentage of respondents that responded as being neutral. Column 7 reports the average rating, where higher values 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 15: Some Major Differences between U.S. and China

	U.S. Firms	Chinese Firms
Section 4: Features of Reported Earnings	Analyst consensus forecasts are considered as important earnings benchmark	Firm EPS or profit are considered as important earnings benchmark
Section 5: Motives to Manage Earnings	Consider accounting standards allowing for some flexibility in financial reporting Would make some sacrifices for smooth earnings paths	Believe that accounting standards provide little room for discretion in financial reporting Would not make sacrifices for smooth earnings paths
Section 6: Voluntary Disclosure Practices	Believe that voluntary disclosure can reduce cost of capital Some prefer to disclose bad news faster than good news	Believe voluntary disclosure not necessarily reduces firms' cost of capital No evidence for incentives to disclose bad news faster than good news

Online Appendix

Table A1: Conditional Analysis for Table 2

Question	average rating	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	2.21	207	1.67	2.22	2.18	2.24	2.24	2.19	2.11	2.32
(2)	1.83	207	2.00	1.83	1.87	1.79	1.86	1.80	2.02	1.64***
(3)	1.18	207	0.00	1.20**	1.13	1.23	1.08	1.28	1.25	1.11
(4)	0.42	207	1.00	0.41	0.43	0.40	0.44	0.39	0.36	0.48
(5)	0.36	207	1.33	0.35**	0.39	0.34	0.38	0.35	0.27	0.46**

Question	average rating	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	2.21	207	2.15	2.39	2.22	2.20	2.20	2.38	2.24	2.19
(2)	1.83	207	1.88	1.69	1.79	1.88	1.86	1.44*	1.66	1.97**
(3)	1.18	207	1.21	1.09	1.12	1.26	1.17	1.25	1.24	1.13
(4)	0.42	207	0.41	0.44	0.45	0.37	0.39	0.69	0.49	0.35
(5)	0.36	207	0.35	0.39	0.42	0.29	0.37	0.25	0.38	0.35

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. These characteristics are Profitability, an indicator for whether or not a firm reported a profit last year; Size, where large (small) indicates firms with revenue higher(lower) than sample median; Sales growth, where high indicates average sales growth over last 3 years higher than sample median; D/A, where high indicates a debt-to-total assets ratio exceeding sample median; SOE, an indicator for whether the firm is a state-owned company; Number of analysts, where few refers to those firms with analysts fewer than sample median; Shares, where A-share indicates firms issued A-share only, others indicate firms issue B-share or H-share as well; Exchange, indicator whether the firm is listed in the main board. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A2: Conditional Analysis for Table 4

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	86.96	207	0.00	88.24***	86.41	87.50	85.85	88.12	86.54	87.38
(2)	72.46	207	66.67	72.55	73.79	71.15	74.53	70.30	68.27	76.70
(3)	60.39	207	33.33	60.78	61.17	59.62	60.38	60.40	58.65	62.14
(4)	30.92	207	33.33	30.88	22.33	39.42	32.08	29.70	26.92	34.95

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	86.96	207	87.58	85.19	84.96	89.36**	86.91	87.50	86.02	87.72
(2)	72.46	207	73.20	70.37	74.34	70.21	73.82	56.25	77.42	68.42
(3)	60.39	207	64.05	50.00*	55.75	65.96	61.78	43.75	55.91	64.04
(4)	30.92	207	33.99	22.22**	26.55	36.17	31.94	18.75	30.11	31.58

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A3: Conditional Analysis for Table 5

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	84.71	85	100.00	84.52	86.84	82.98	87.50	82.22	86.67	82.50
(2)	76.47	85	0.00	77.38	76.32	76.60	82.50	71.11	75.56	77.50
(3)	43.53	85	0.00	44.05	57.89	31.91*	42.50	44.44	51.11	35.00**
(4)	38.82	85	0.00	39.29	39.47	38.30	45.00	33.33	37.78	40.00
(5)	28.24	85	0.00	28.57	28.95	27.66	22.50	33.33	28.89	27.50
(6)	16.47	85	0.00	16.67	15.79	17.02	17.50	15.56	13.33	20.00

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	84.71	85	85.92	78.57	85.11	84.21	85.00	80.00	81.48	86.21
(2)	76.47	85	77.46	71.43	76.60	76.32	76.25	80.00	81.48	74.14
(3)	43.53	85	45.07	35.71	42.55	44.74	43.75	40.00	33.33	48.28
(4)	38.82	85	39.44	35.71	42.55	34.21	41.25	0.00**	40.74	37.93
(5)	28.24	85	29.58	21.43	25.53	31.58	27.50	40.00	25.93	29.31
(6)	16.47	85	16.90	14.29	12.77	21.05	17.50	0.00	18.52	15.52

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A4: Conditional Analysis for Table 6

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	67.15	207	66.67	67.16	69.90	64.42	64.15	70.30**	62.50	71.84
(2)	57.97	207	0.00	58.82	62.14	53.85	52.83	63.37*	57.69	58.25
(3)	50.24	207	66.67	50.00	52.43	48.08	47.17	53.47**	50.96	49.51
(4)	29.95	207	33.33	29.90	29.13	30.77	29.25	30.69	27.88	32.04
(5)	9.66	207	0.00	9.80	9.71	9.62	9.43	9.90	7.69	11.65

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	67.15	207	65.36	72.22	66.37	68.09	67.02	68.75	72.04	63.16
(2)	57.97	207	59.48	53.70	58.41	57.45	58.64	50.00	58.06	57.89
(3)	50.24	207	52.29	44.44	45.13	56.38*	49.21	62.50	54.84	46.49
(4)	29.95	207	31.37	25.93	32.74	26.60*	29.32	37.50	31.18	28.95
(5)	9.66	207	7.19	16.67	10.62	8.51	9.42	12.50	11.83	7.89

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A5: Conditional Analysis for Table 7

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	69.08	207	66.67	69.12	73.79	64.42	66.04	72.28	71.15	66.99
(2)	62.32	207	66.67	62.25	67.96	56.73	63.21	61.39	62.50	62.14
(3)	57.00	207	33.33	57.35	60.19	53.85	55.66	58.42	52.88	61.17
(4)	56.04	207	33.33	56.37	54.37	57.69	54.72	57.43	54.81	57.28
(5)	51.69	207	66.67	51.47	53.40	50.00	48.11	55.45	46.15	57.28
(6)	37.68	207	33.33	37.75	37.86	37.50	36.68	36.63	37.50	37.86
(7)	36.23	207	33.33	36.27	31.07	41.35	38.68	33.66	35.58	36.89
(8)	40.10	207	33.33	40.20	41.75	38.46	42.45	37.62	42.31	37.86
(9)	26.09	207	33.33	25.98	22.33	29.81	26.42	25.74	22.12	30.10

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	69.08	207	71.90	61.11	67.26	71.28	69.11	68.75	73.12	65.79
(2)	62.32	207	64.05	57.41	63.72	60.64	61.78	68.75	62.37	62.28
(3)	57.00	207	56.86	57.41	60.18	53.19	57.07	56.25	58.06	56.14
(4)	56.04	207	57.52	51.85	56.64	55.32	55.50	62.50	59.14	53.51
(5)	51.69	207	51.63	51.85	51.33	52.13	49.74	75.00	55.91	48.25
(6)	37.68	207	38.56	35.19	39.82	35.11	36.65	50.00	44.09	32.46
(7)	36.23	207	37.25	33.33	37.17	35.11	36.65	31.25	44.09	29.82
(8)	40.10	207	41.18	37.04	39.82	40.43	39.27	50.00	43.01	37.72
(9)	26.09	207	27.45	22.22	26.55	25.53	25.65	31.25	30.11	22.81

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A6: Conditional Analysis for Table 8

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	52.17	207	100.00	51.47	56.31	48.08	53.77	50.50	52.88	51.46
(2)	49.28	207	66.67	49.02	51.46	47.12*	50.94	47.52	48.08	50.49
(3)	31.88	207	33.33	31.86	31.07	32.69	32.08	31.68	26.92	36.89
(4)	19.81	207	0.00	20.10	19.42	20.19	20.75	18.81	17.31	22.33
(5)	16.91	207	0.00	17.16	16.50	17.31	15.09	18.81	15.38	18.45
(6)	14.01	207	0.00	14.22	12.62	15.38	16.04	11.88	13.46	14.56
(7)	14.01	207	0.00	14.22	13.59	14.42	14.15	13.86	13.46	14.56
(8)	7.25	207	0.00	7.35	3.88	10.58*	9.43	4.95*	6.73	7.77

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	52.17	207	56.21	40.74**	53.98	50.00	50.79	68.75	50.54	53.51
(2)	49.28	207	48.37	51.85	50.44	47.87	48.69	56.25	52.69	46.49
(3)	31.88	207	30.72	35.19	34.51	28.72	30.37	50.00**	32.26	31.58
(4)	19.81	207	19.61	20.37	19.47	20.21	18.85	31.25	20.43	19.30
(5)	16.91	207	18.95	11.11	15.93	18.09	16.23	25.00	13.98	19.30
(6)	14.01	207	13.73	14.81	14.16	13.83	13.09	25.00*	17.20	11.40
(7)	14.01	207	14.38	12.96	10.62	18.09	13.61	18.75	12.90	14.91
(8)	7.25	207	5.23	12.96	7.96	6.38	7.33	6.25	9.68	5.26

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A7: Conditional Analysis for Table 10

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	78.79	198	0.00	78.79	82.65	75.00	77.67	80.00	82.65	75.00*
(2)	64.65	198	0.00	64.65	73.47	56.00*	60.19	69.47	70.41	59.00***
(3)	63.64	198	0.00	63.64	67.35	60.00	62.14	65.26	69.39	58.00
(4)	58.08	198	0.00	58.08	60.20	56.00	54.37	62.11	60.20	56.00
(5)	34.85	198	0.00	34.85	32.65	37.00	36.89	32.63	37.76	32.00
(6)	6.57	198	0.00	6.57	7.14	6.00	4.85	8.42	5.10	8.00

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	78.79	198	79.59	76.47*	78.70	78.89	80.33	60.00**	76.14	80.91*
(2)	64.65	198	68.03	54.90**	60.19	70.00	65.03	60.00	61.36	67.27*
(3)	63.64	198	64.63	60.78	62.04	65.56	63.93	60.00	60.23	66.36*
(4)	58.08	198	60.54	50.98	56.48	60.00	57.92	60.00	59.09	57.27
(5)	34.85	198	36.05	31.37	32.41	37.78	34.43	40.00	38.64	31.82
(6)	6.57	198	8.16	1.96*	6.48	6.67	6.56	6.67	4.55	8.18

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A8: Conditional Analysis for Table 12

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	85.99	207	100.00	85.78	89.32	82.69	89.62	82.18	92.31	79.61*
(2)	79.23	207	66.67	79.41	81.55	76.92	78.30	80.20	84.62	73.79**
(3)	74.40	207	66.67	74.51	76.70	72.12*	77.36	71.29	76.92	71.84*
(4)	71.50	207	100.00	71.08	74.76	68.27	66.98	76.24	77.88	65.05*
(5)	47.83	207	33.33	48.04	48.54	47.12	46.23	49.50	49.04	46.60
(6)	42.03	207	66.67	41.67	42.72	41.35	42.45	41.58	43.27	40.78
(7)	36.23	207	66.67	35.78	38.83	33.65	35.85	36.63	39.42	33.01
(8)	34.30	207	66.67	33.82	39.81	28.85***	31.13	37.62	38.46	30.10***
(9)	16.91	207	33.33	16.67	14.56	19.23	15.09	18.81	17.31	16.50

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	85.99	207	86.93	83.33	84.07	88.30	86.39	81.25	84.95	86.84
(2)	79.23	207	81.70	72.22	79.65	78.72	79.06	81.25	77.42	80.70**
(3)	74.40	207	74.51	74.07	76.11	72.34	73.82	81.25	81.72	68.42
(4)	71.50	207	73.20	66.67	72.57	70.21	70.68	81.25	70.97	71.93
(5)	47.83	207	48.37	46.30	46.02	50.00	46.60	62.50	46.24	49.12
(6)	42.03	207	42.48	40.74	45.13	38.30	40.84	56.25	40.86	42.98
(7)	36.23	207	38.56	29.63	34.51	38.30	34.55	56.25	34.41	37.72
(8)	34.30	207	34.64	33.33	36.28	31.91	31.94	62.50	31.18	36.84
(9)	16.91	207	17.65	14.81**	15.04	19.15	16.23	25.00	17.20	16.67

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A9: Conditional Analysis for Table 13

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	67.63	207	66.67	67.65	68.93	66.35	67.92	67.33	65.38	69.90
(2)	40.10	207	66.67	39.71	39.81	40.38	38.68	41.58	39.42	40.78
(3)	29.95	207	0.00	30.39	30.10	29.81	30.19	29.70	30.77	29.13
(4)	26.57	207	0.00	26.96	26.21	26.92	23.58	29.70	26.92	26.21
(5)	21.74	207	0.00	22.06	19.42	24.04	18.87	24.75	18.27	25.24

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	67.63	207	67.32	68.52	67.26	68.09	67.02	75.00	69.89	65.79
(2)	40.10	207	37.25	48.15	38.05	42.55	39.27	50.00	47.31	34.21
(3)	29.95	207	28.10	35.19	30.09	29.79	29.32	37.50	34.41	26.32
(4)	26.57	207	26.80	25.93	23.01	30.85	26.18	31.25	30.11	23.68
(5)	21.74	207	20.92	24.07	20.35	23.40	21.47	25.00	26.88	17.54

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.

Table A10: Conditional Analysis for Table 14 Panel B

Question	% agree or strongly agree	obs.	Profitability		Size		Sales growth		D/A	
			No	Yes	Small	Large	Low	High	Low	High
(1)	53.57	28	0.00	53.57	36.36	64.71*	61.54	46.67	58.33	50.00
(2)	46.43	28	0.00	46.43	54.55	41.18	61.54	33.33	33.33	56.25
(3)	35.71	28	0.00	35.71	18.18	47.06	38.46	33.33	41.67	31.25
(4)	28.57	28	0.00	28.57	45.45	17.65	30.77	26.67	33.33	25.00

Question	% agree or strongly agree	obs.	SOE		Number of analysts		Shares		Exchange	
			No	Yes	Few	Many	A-share	others	Main board	others
(1)	53.57	28	47.06	63.64	44.44	70.00	60.87	20.00**	60.00	46.15
(2)	46.43	28	41.18	54.55	44.44	50.00	43.48	60.00	53.33	38.46
(3)	35.71	28	23.53	54.55	22.22	60.00**	34.78	40.00	40.00	30.77
(4)	28.57	28	35.29	18.18	38.89	10.00	30.43	20.00	20.00	38.46

This table presents a comparison of the percent of respondents indicating they agree or strongly agree with each statement when the sample is split on various firm characteristics. See Table A1 legend for variable descriptions pertaining to the different firm characteristics. ***, **, and * denote a statistically significant difference across groups at the 1%, 5%, and 10% levels, respectively.