Corporate Governance Structure and Accounting Information Disclosure Quality: Evidence from Shenzhen Stock Exchange in China*

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This study investigates the effect of corporate governance structure on the quality of accounting information disclosure using Shenzhen stock exchange data. Existing literatures reported that corporate governance can help to improve accounting quality. However, China's corporate governance structure may have different consequences from prior studies because it has less maturity than developed countries in Europe and the United States. China government, in particular, has a very strong influence on the companies in China and we needs to be verified if the corporate governance structure works properly.

From the empirical tests, we find that the proportion of state-owned shares, the proportion of tradable shares, ownership concentration, the size of the board of directors, the proportion of ownership of the board of directors, and size of the board of supervisors are positively associated with the quality of accounting information disclosure. This study will contribute to academics and practitioners by documenting the factors of corporate governance structure on accounting disclosure quality in China.

Keywords: Corporate Governance, Accounting Information Disclosure, Ownership Structure, Board of Directors, Board of Supervisors, Chinese Capital Market.

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I. INTRODUCTION

Since the last century, many accounting fraud scandals have occurred in different countries (e.g., Enron and WorldCom scandals in the U.S., the Bank of Credit and Commerce International, and the Maxwell Communication in the U.K., and the Daewoo in Korea). The accounting fraud scandals are mostly committed by managers, and they manipulate firms’ earnings to seek their own interests rather than shareholders’ under the weak corporate governance structure. To prevent the accounting scandals, the U.S. government passed the Sarbanes-Oxley Act in 2002 and strictly regulates the capital market (Romano 2004; Zhang 2007). In particular, the need for a stronger corporate governance structure was emphasized as a way to improve the quality of accounting information disclosure.

Existing literatures generally reported that corporate governance can help to improve accounting quality. However, China's corporate governance structure may have different consequences from prior studies because it has less maturity than developed countries in Europe and the United States. In particular, unlike the United States and Europe, the Chinese government has a very strong influence on its companies, and it is an interesting research question whether corporate governance works properly under strong influence of government.

To verify this, we perform empirical tests to examine the association between the corporate governance structure of Chinese firms and the quality of accounting information disclosure. Specifically, we classify the corporate governance structure largely into three types: ownership structure, characteristics of board of directors, and characteristics of board of supervisors, and then conduct a logistic regression analysis using Chinese listed firm data. From the empirical results, we find that the proportion of state-owned shares, the proportion of tradable shares, ownership concentration, the size of the board of directors, the proportion of ownership of the board of directors and size of the board of supervisors are positively associated with the quality of accounting information disclosure. We expect that this paper contributes to academics and practitioners by reporting various corporate governance which affects accounting disclosure quality in China.

The rest of this paper is organized as follow; Section 2 discusses the prior researches and develops our reasoning, and Section 3 provides the research methodology. Section 4 reports the empirical results, and Section 5 concludes the paper.