

# The Role of Corporate Governance in Enhancing Financial Reporting Quality: Evidence from Chinese Listed Companies

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**Abstract:** *This paper examines the role of corporate governance in enhancing the quality of financial reporting, especially for Chinese listed companies. In recent years, financial reporting quality has received extensive attention from regulators, investors and academics, as it directly affects market efficiency and corporate sustainability. Based on data from China's A-share market, we use regression analysis to investigate the impact of governance factors such as board independence, executive shareholding ratio and corporate governance index (G-index) on financial reporting quality. The findings indicate that a good corporate governance structure significantly improves financial reporting quality, especially in terms of increasing the transparency of information disclosure and reducing surplus management. The paper further verifies that corporate governance positively affects firm performance by improving financial reporting quality and thus firm performance. Based on these findings, this paper proposes policy recommendations for Chinese firms and regulators to further strengthen the relationship between corporate governance and financial reporting quality in order to promote the long-term healthy development of the market.*

**Keywords:** Corporate Governance, Financial Reporting Quality, Chinese Listed Companies

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## 1. Introduction

### 1.1 Research Background

With the acceleration of globalization, enterprises are faced with a more complex and volatile market environment. In this context, the quality of financial reporting becomes a key factor in measuring the level of corporate governance. The quality of financial reporting has a direct impact on investors' decisions, the efficiency of capital markets and the long-term sustainable development of enterprises (Gardi et al., 2021). In recent years, the frequent occurrence of financial fraud incidents and financial reporting distortions have further intensified the concern about the quality of financial reporting. China's A-share market, in the course of its rapid development, has faced many challenges to the quality of financial reporting due to its more specialized market environment and regulatory system. Despite sometimes rapid expansion, their development often lags behind market demand, is uneven over time, and is unbalanced across markets (Hu G. X. & Wang, 2022).

In this context, corporate governance, as an important factor affecting the quality of financial reporting, has gradually become a research hotspot in both academia and practice. Corporate governance directly affects the behavior of management, and thus the transparency and

reliability of financial reporting, through the development and implementation of effective governance structures, internal control mechanisms and incentive mechanisms. Corporate governance has a positive impact on corporate sustainability as it improves the effectiveness and efficiency of operations, ensures compliance with laws and regulations, improves the reliability of reporting and disclosure, and helps stakeholders to assess the sustainability of the company (Harasheh & Provasi, n.d.). In particular, factors such as the independence of the board of directors, the shareholding of executives, and the protection of shareholders' rights may improve the quality of financial reporting to a certain extent. At the same time, the impact of financial reporting quality on firm performance is increasingly being scrutinized. High-quality financial reporting can improve corporate transparency and reduce information asymmetry, thus reducing the cost of capital, enhancing investor trust, and ultimately contributing to the improvement of corporate performance (Assad et al., 2023).

However, despite a large body of literature exploring the relationship between corporate governance and financial reporting quality, there is still a lack of systematic empirical research on how specific corporate governance mechanisms (e.g., board of directors' independence, executive shareholding, etc.) affect financial reporting quality, especially in the context of Chinese listed companies. This study aims to fill this gap by exploring how corporate governance can improve the quality of financial reporting through. Specifically, focusing on Chinese A-share listed companies, this paper will investigate the impact of different governance factors (e.g., board independence, executive shareholding, etc.) on financial reporting quality through regression analysis. Through this study, this paper expects to provide policy recommendations for Chinese firms and regulators to promote the further improvement of corporate governance and financial reporting quality.

## **1.2 Research Questions**

Based on these research contexts, this study will address the following key questions:

Question 1: Do the dimensions of corporate governance mechanisms (e.g., board independence, shareholder structure, executive shareholding, etc.) significantly affect the quality of financial reporting?

Question 2: How can the quality of financial reporting be improved to further optimize the corporate governance structure of Chinese companies and enhance overall market performance?

## **1.3 Research Significance**

### **1.3.1 Theoretical implications**

First, this study extends the theory of the relationship between corporate governance and financial reporting quality. Although the existing literature has extensively explored the impact of corporate governance on financial reporting quality, most studies have focused on mature markets (e.g., the U.S. and Europe), and there is a lack of systematic exploration of the governance environment unique to the Chinese market. China's A-share market has unique shareholder structure, information disclosure system and other factors, and these characteristics may make the impact of corporate governance mechanisms on financial reporting quality show different patterns. Therefore, this paper fills the research gap in this area by specifically analyzing the corporate governance structure and its relationship with financial reporting quality in the Chinese market.

Second, this paper's multidimensional analysis of corporate governance mechanisms further enriches corporate governance theory. Previous studies usually focus on a single governance variable (e.g., board independence or executive shareholding ratio), however, corporate

governance is a complex system with multiple levels and dimensions. By integrating multiple governance factors, this paper provides a more comprehensive and detailed perspective on corporate governance theory.

### **1.3.2 Practical implications**

At the practical level, this study has important guiding significance for the governance practices of Chinese listed companies. First, the research in this paper provides empirical evidence for corporate managers about how to improve the quality of financial reporting by optimizing the corporate governance structure. In China's capital market, the quality of corporate financial reporting directly affects investor trust and market transparency, so improving financial reporting quality is not only the key to enhancing corporate reputation, but also helps to reduce financing costs and improve market competitiveness.

Second, this study provides policy recommendations for the Chinese government and regulators on how to improve capital market regulation. With the rapid development of China's securities market, although regulators have taken a series of measures to standardize financial reporting, there is still inadequate information disclosure (Chen et al., 2024). By examining the role of corporate governance in enhancing the quality of financial reporting, this paper is able to provide targeted reform suggestions for regulators to promote a more transparent and efficient market environment.

## **2. Literature Review**

### **2.1 Theories of Corporate Governance**

Corporate governance, as a core topic of modern corporate management, determines the way of business decision-making, financial transparency and long-term performance of enterprises (Lund & Pollman, 2021). A high-quality corporate governance structure can not only optimize the allocation of corporate resources, but also effectively restrain the opportunistic behavior of management and improve the reliability and transparency of financial information. In the current globalized market environment, the quality of financial reporting has become one of the important indicators of the effectiveness of corporate governance. However, good corporate governance simplifies monitoring and control and thus improves financial reporting quality (Kaawaase et al., 2021). China's A-share market, due to its unique shareholding structure, the degree of government intervention and the market regulatory system, makes the traditional corporate governance theories have certain adjustment needs in terms of applicability. Therefore, a comprehensive review of existing corporate governance theories and an in-depth discussion with the realities of the Chinese market are of great significance in understanding how corporate governance can enhance the quality of financial reporting.

#### **2.1.1 Agency theory: the core logic of corporate governance**

Agency theory is considered one of the foundations of modern corporate governance research, which allows the relationship between principal and agent to act as a mediator to enable the organization to function. It brings about the separation of principals and managers (Gwala & Mashau, 2023). The theory suggests that due to the separation of ownership and control of a firm, management (agents) may act to the detriment of shareholders (principals) in order to maximize their own returns. Information asymmetry is one of the root causes of the agency problem; management possesses more information than shareholders in the course of business and may take advantage of this to manipulate financial reporting. For example, in the financial reporting process, management may improve short-term performance through surplus management in order to obtain higher compensation or maintain job security. Empirical studies

in recent years have shown that stronger corporate governance mechanisms can effectively reduce management's opportunistic behavior and improve the truthfulness and transparency of financial reporting by strengthening the independence of the board of directors, optimizing the structure of executive compensation, and improving the quality of auditing.

### **2.1.2 Stakeholder theory: corporate governance beyond the shareholder perspective**

Compared to agency theory, which mainly focuses on the conflict of interest between shareholders and management, stakeholder theory proposes that corporate governance should balance the needs of all stakeholders, including creditors, employees, suppliers, government and the public. Agency cost is an important linkage factor for institutional investors to influence the transparency of accounting information and gain a competitive advantage in information (J. Hu et al., 2024). Corporate governance should emphasize the need to balance the interests of shareholders and stakeholders to ensure sustainable corporate development (Raj, 2022). Modern businesses operate in an increasingly complex environment, where corporate financial decisions affect not only shareholder returns, but also the wider community. Therefore, the effectiveness of corporate governance is not only reflected in the protection of shareholders' interests, but also in the enhancement of corporate social responsibility and market transparency.

Financial reporting quality, as an important part of corporate disclosure, directly affects investor confidence, creditor risk assessment and government regulatory efficiency. In recent years, the application of stakeholder theory in corporate governance research has become increasingly widespread, especially under the ESG (Environmental, Social and Governance) framework, the relationship between corporate governance and financial reporting quality has received more attention. Studies have shown that firms that have a stronger sense of social responsibility and stakeholder governance mechanisms usually have more transparent financial disclosure, less surplus management behavior, and lower risk of information manipulation (Zadeh, 2020).

### **2.1.3 Resource dependence theory: board composition and financial transparency**

Resource dependence theory emphasizes that a firm's governance structure should facilitate access to key external resources to ensure sustainable development of the firm. In the study of financial reporting quality, resource dependence theory is mainly used to explain how the composition of the board of directors affects the quality of corporate disclosure. There is a need to integrate resource dependence theory and agency theory to enhance the effectiveness of directors in corporate decision making (Maswadi & Amran, 2023). The board of directors, as the core institution of corporate governance, not only assumes the responsibility of monitoring management's behavior, but also brings external resources to the firm through the professional background, social network and industry experience of its members, which in turn influences financial decisions and disclosure behavior.

Research in recent years has shown that independent directors play a key role in enhancing the quality of financial reporting. Independent directors with strong industry experience and expertise are able to provide more valuable advice on audit oversight, financial decision-making, and risk management, thereby reducing the likelihood of surplus management. In addition, the diverse composition of the board is also believed to have a positive impact on corporate financial transparency (Nel et al., 2022). For example, in more diverse boards, directors from different backgrounds may demand more stringent scrutiny of the truthfulness of financial data, thus reducing the possibility of information manipulation.

## **2.2 The relationship between corporate governance and the quality of financial reporting**

First, board independence and financial reporting quality. Board independence also plays an important role in improving the quality of disclosure and enhancing the role of family shareholding in disclosure, as well as limiting the negative effects of majority shareholding and management shareholding on ESG disclosure (Amosh & Khatib, 2021). The introduction of independent directors can effectively enhance the monitoring of management's behavior and reduce the information asymmetry problem. Several empirical studies have found a positive relationship between board independence and financial reporting quality. Specifically, independent directors can provide more objective and independent review opinions, thus reducing surplus management, avoiding conflicts of interest, and enhancing the transparency and accuracy of financial reporting.

For example, among listed firms in the United States, firms with higher board independence have significantly less surplus management behavior in their financial reporting and higher financial reporting quality (Alves, 2021). Similar results have been confirmed in studies of the Chinese market, where firms with higher board independence in China's A-share listed companies have relatively better financial reporting quality, especially in terms of financial transparency and completeness of disclosure (Ning et al., 2022).

Second, shareholder structure and financial reporting quality. Shareholder structure, especially the distribution of control, has an important impact on the relationship between corporate governance structure and financial reporting quality. Scholars usually focus on two types of shareholder structure: large shareholder-controlled firms and decentralized firms. Large shareholder-controlled firms usually have conflicts of interest between management and shareholders, which may lead to distortion or manipulation of financial reporting to satisfy the interests of large shareholders. However, this structure may also help to improve the quality of financial reporting and reduce management's surplus management behavior if the majority shareholders have strong monitoring capabilities and incentives.

Finally, management power and financial reporting quality. The impact of management's concentration of power on the quality of financial reporting is also an important research topic. It has been found that highly concentrated management may manipulate financial reporting to achieve personal or group interests and impair the quality of financial reporting. In the Chinese market, firms with over-concentrated management are more prone to financial reporting quality problems, especially in terms of corporate surplus management behavior. In addition, an increase in executive shareholding may also lead to management's use of its control to manipulate financial reporting, thus affecting the transparency and accuracy of reporting (Rostami & Rezaei, 2021).

## **2.3 Research hypotheses**

- Hypothesis 1 (H1): There is a positive relationship between senior management shareholding and the quality of financial reporting.
- Hypothesis 2 (H2): There is a positive relationship between the level of corporate governance and the quality of financial reporting.

### **3. Research Methodology**

#### **3.1 Research Design and Methodology**

##### **3.1.1 Research design**

This study adopts a quantitative research design, aiming to reveal the impact of corporate governance on the quality of financial reporting through empirical analysis. The quantitative approach is able to provide clear quantitative evidence through systematic variable measurement and statistical analysis to ensure the scientific and objective nature of the research results. The core method of this study is regression analysis, which explores the relationship between corporate governance and financial reporting quality through regression modeling.

Data analysis methods include descriptive statistical analysis, correlation analysis and regression analysis. Descriptive statistical analysis is used to summarize the distribution of the sample companies on each variable and provide background information for regression analysis. Correlation analysis, on the other hand, helps to reveal the preliminary relationship between different variables and lays the foundation for subsequent regression analysis.

##### **3.1.2 Research hypotheses and models**

In order to systematically test the research hypotheses, this study will construct a regression analysis model. The design of the regression model is based on agency theory, information asymmetry theory, etc., and the model will include a number of variables related to corporate governance mechanisms and financial reporting quality.

The hypotheses are set considering different aspects of corporate governance (e.g., independence of the board of directors, proportion of executive shareholding, etc.), and the regression equation is constructed by taking the quality of financial reporting as the dependent variable and combining a number of control variables, such as the size of the company and its financial position. The regression model will serve as the basis for subsequent empirical tests to provide quantitative evidence of the relationship between corporate governance and financial reporting quality.

#### **3.2 Sample Selection and Data Sources**

This study focuses on listed companies data of Chinese A-share companies for the period from 2014 to 2023. China's A-share market is one of the largest securities markets in the world, and corporate governance and financial reporting quality are facing important challenges during China's economic transformation, so the selection of A-share companies as the research object is highly relevant.

Also, considering the special characteristics of companies in the financial industry (e.g., accounting standards, capital structure, etc. are different from other industries), this study excludes all companies in the financial industry (including banks, insurance companies, and securities companies). In addition, since the quality of financial reporting of ST-type companies (companies in financial distress) may be significantly affected by other factors, this study also excludes data from these companies.

The main data used in this study comes from the CSMAR database. CSMAR database is an important database for China's capital market, which is widely used in academia, and the authority and reliability of its data have been fully verified, and it can provide the necessary data on corporate governance and the quality of financial reporting for this study. Other data sources: To supplement specific indicators of corporate governance, such as board

independence and audit committee composition, this study also refers to publicly available company annual reports and other public information. These data are mainly derived from company annual reports, announcements issued by securities regulators and other publicly available reports.

### 3.3 Variable Definition and Measurement

In this study, variable definition and measurement are crucial, which provide a solid foundation for subsequent data analysis and hypothesis testing. The variables in the study are categorized into three groups: dependent variables (financial reporting quality), independent variables (corporate governance mechanisms) and control variables (e.g., firm size, leverage, etc.). The definition and measurement of each category of variables will be elaborated below.

#### a) Dependent variable: Financial Reporting Quality

The quality of financial reporting is the core dependent variable of this study, which aims to measure the quality of corporate financial reporting. In this study, Discretionary Accruals (DA) is used as the core indicator of financial reporting quality. Discretionary accruals is an important manifestation of surplus management, which is usually calculated by the "Kothari model" (Kothari et al., 2005). The model calculates abnormal accruals, i.e., those that are not due to actual operating activities, by estimating the normal level of accruals for a company. The specific calculations are as follows:

$$DA_{it} = \text{Total Accruals}_{(it)} - TA_{it}$$

Total Accruals<sub>it</sub> is firm i's total accruals in year t.

TA<sub>it</sub> is the normal accrual estimated by the regression model.

#### b) Dependent variable: Corporate Governance Mechanisms

Corporate governance mechanisms are the key independent variables of this study and involve different components of corporate governance structure, governance quality, and governance mechanisms. Corporate governance mechanisms include factors such as board structure and executive shareholding. Research has shown that good corporate governance can effectively improve the transparency and quality of financial reporting, so this study will focus on the G-index, and executive shareholding ratio in ESG data.

## 4. Empirical Analysis and Results

### 4.1 Descriptive Statistics

#### 4.1.1 Descriptive statistics of board independence

Board independence is one of the key indicators of corporate governance. Board independence is usually measured by the percentage of independent directors, and the existence of independent directors aims to enhance the monitoring function of the board of directors and prevent the moral hazard of the management, thus helping to safeguard the interests of the company's shareholders. This study uses data from China's A-share listed companies from 2014 to 2023 and conducts a regression analysis of the percentage of independent directors to explore the characteristics of this key corporate governance variable.

**Table 1: Analysis of the Percentage of Independent Directors in China's A-Share Listed Companies, 2014-2023**

Source	SS	df	MS	Number of obs	=	36,187
Model	0	0	.	F(1, 34401)	=	0
Residual	1132483.46	36,186	31.296177	Prob > F	=	.
Total	1132483.46	36,186	31.296177	R-squared	=	0
				Adj R-squared	=	0
				Root MSE	=	5.5943
RAT	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
_cons	37.81975	0.0294083	1286.02	0	37.7621	37.87739

According to the results of regression analysis in Table 1, the mean value of the percentage of independent directors is 37.82%. This ratio is close to the CSRC's minimum requirement for the percentage of independent directors in listed companies, i.e., at least one-third of the board members are independent directors. This indicates that the companies in the sample generally comply with this regulatory requirement and have maintained a more consistent proportion of independent directors over the past decade.

It is worth noting that the standard error of the regression analysis is 0.0294, indicating that the percentage of independent directors is less volatile in the sample. This implies that the percentage of independent directors in most companies is close to the mean, showing a high degree of concentration. This stability may reflect the effectiveness of regulatory policies and the importance that listed companies place on the role of independent directors in their governance structure.

#### 4.1.2 Descriptive Statistics of Network Centrality of Independent Directors

In this study, independent director network centrality is used as a key indicator of corporate governance quality. The level of network centrality reflects the position and influence of independent directors in a company's board network. Independent directors with higher centrality are usually able to exert greater influence in the decision-making process, thus contributing to the improvement of corporate governance and the enhancement of board oversight functions. Therefore, analyzing the impact of independent directors' network centrality on corporate governance is an important part of this study.

**Table 2: Regression Analysis of Network Centrality of Independent Directors in China's A-Share Listed Companies, 2014-2023**

Source	SS	df	MS	Number of obs	=	35,107
Model	0	0	.	F(1, 34401)	=	0
Residual	4319.59337	35,106	0.123044305	Prob > F	=	.
Total	4319.59337	35,106	0.123044305	R-squared	=	0
				Adj R-squared	=	0
				Root MSE	=	0.35078
RAT	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
_cons	0.4324645	0.0018721	231	0	0.428795	0.4361339

According to the results of the regression analysis in Table 2, the R-squared and adjusted R-squared of the model are both 0.0000, indicating that the regression model of the centrality of the network of independent directors does not significantly explain the variation in the corporate governance variables. Specifically, the coefficient estimate of independent directors' network centrality is 0.4324 with a standard error of 0.0019, corresponding to a t-value of 231.00 and a p-value of 0.000, indicating that the coefficient is statistically significant.

Despite the overall failure of the regression model to explain the variation in governance variables, the significance of the coefficient on independent directors' network centrality suggests that the mean value of independent directors' network centrality in the sample is 0.4325, a value that reflects the relatively stable position of importance of independent directors in the network. However, the R-squared value suggests that the model does not capture a significant linear relationship between network centrality and the quality of corporate governance, which may imply that more control variables or other models are needed to more fully understand the impact of network centrality on corporate governance.

Although the centrality of the network of independent directors is statistically significant, this indicator has limited explanatory power for corporate governance quality under the current model. This suggests that further in-depth research may be needed to consider other factors that may affect the quality of corporate governance in order to construct a more complete analytical framework.

#### 4.1.3 Descriptive statistics of management's shareholdings

This study examines the statistical characteristics of management shareholding, a corporate governance variable, through regression analysis of data from Chinese A-share listed companies over the period from 2014 to 2023.

**Table 3: Analysis of Management Shareholding Ratio of A-Share Listed Companies in China, 2014-2023**

Source	SS	df	MS	Number of obs	=	35,187
Model	0	0	.	F(1, 34401)	=	0
Residual	14889431.9	35,186	423.163528	Prob > F	=	.
Total	14889431.9	35,186	423.163528	R-squared	=	0
				Adj R-squared	=	0
				Root MSE	=	20.571
RAT	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
_cons	15.63204	0.1096637	142.55	0	15.41709	15.84698

The regression results in Table 3 show that the mean value of management shareholding is 15.63%, and this percentage indicates that management holds about 15.63% of the company's shares on average in China's A-share listed firms during the period from 2014 to 2023. This value shows that management has a certain importance in a company's shareholder structure and may have an impact on company decisions. The existence of management shareholding is often closely related to management's risk appetite and incentives. Specifically, when management holds a higher percentage of shares, they may be more focused on the long-term development and stability of the company, as their personal interests are highly tied to the interests of the company's shareholders, which in turn affects the company's strategic decisions, risk-taking and financial performance. The standard error is 0.1097, indicating that the

estimates of management shareholding in the sample are relatively accurate and the volatility of management shareholding across firms is low. This low volatility implies that management shareholding is relatively stable in China's A-share market, with most firms showing a more consistent pattern of management shareholding. This may reflect a governance structure in which the interests of management and other shareholders are more aligned, and the interests of management and the majority or minority shareholders tend to be aligned, thus reducing potential agency costs.

From the regression coefficients, the management shareholding ratio is statistically significant and its mean value is 15.63%, this result demonstrates the certain influence of management in corporate governance. Management shareholding reflects the degree of interest binding between management and shareholders, and to a certain extent, it can reflect the degree of management's participation in corporate governance. Although the current regression model fails to fully explain its direct impact on corporate governance quality, the existence of this variable suggests that management shareholding may indirectly affect the effectiveness of corporate governance by influencing management's decision-making behaviors, the company's strategic direction, and the consistency of shareholders' interests.

## 4.2 Correlation Analysis

### 4.2.1 Executive shareholding and financial reporting quality

In this study, we use abnormal accruals (DA) as a core measure of financial reporting quality to explore the impact of executive shareholding on the quality of corporate financial reporting. Dysfunctional accruals (DA) reflects the possible surplus management behavior of a company in financial reporting, and therefore, by analyzing the relationship between it and corporate governance variables, it can provide strong evidence of the impact of corporate governance on financial reporting quality.

**Table 4: Analysis of Executives' Shareholding Ratio and Unusual Accruals (DA) of A-Share Listed Companies in China, 2014-2023**

Source	SS	df	MS	Number of obs	=	33,262
Model	1.65607622	1	1.65607622	F(1, 34401)	=	119.65
Residual	460.353547	33,260	0.013841057	Prob > F	=	0
Total	462.009623	33,261	0.013890431	R-squared	=	0.0036
				Adj R-squared	=	0.0036
				Root MSE	=	0.11765
DA	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
RAT	0.0003627	0.0000332	10.94	0	0.0002977	0.0004276
_cons	-0.0044901	0.0007942	-5.65	0	-	-0.0029334

According to the results of the regression analysis (Table 4), the regression model of this study considers the relationship between executive shareholding (as the dependent variable) and abnormal accruals (DA). The total number of samples is 33,262 observations.

From the regression results, the coefficient of executive shareholding ratio is 0.0003627, the standard error is 0.0000332, the t-value is 10.94, and the p-value is less than 0.0001, which indicates that there exists a significant positive correlation between the executive shareholding ratio and abnormal accruals. Specifically, as the percentage of executive ownership increases, the value of abnormal accruals (DA) increases, indicating that firms with higher percentage of executive ownership may tend to adjust the quality of their financial reporting by means of

surplus management. This result suggests that executive shareholding may, to some extent, affect a company's financial transparency and ability to truly reflect its financial position.

#### 4.2.2 Financial Reporting Quality and the G-Index in the ESG of Corporate Governance

This study adopts abnormal accruals (DA) as the main indicator of financial reporting quality, and uses regression analysis to explore the relationship between corporate governance index G (the "G" data in ESG) and corporate financial reporting quality. Corporate governance index G is a comprehensive indicator for assessing the quality of corporate governance, as it measures corporate governance structure, shareholders' rights protection, board of directors' independence, and management incentives.

**Table 5: Analysis of Governance Index G and Abnormal Accruals (DA) of China's A-Share Listed Companies, 2014-2023**

Source	SS	df	MS	Number of obs	=	27,414
Model	2.57658564	1	2.57658564	F(1, 27412)	=	187.8
Residual	376.086679	27,412	0.013719783	Prob > F	=	0
Total	378.663264	27,413	0.013813273	R-squared	=	0.0068
				Adj R-squared	=	0.0068
				Root MSE	=	0.11713
DA	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
G-index	0.0012611	0.000092	13.7	0	0.0010807	0.0014415
_cons	-0.0976366	0.0072383	-13.49	0	-0.111824	-0.0834491

The regression analysis of this study is based on the data of Chinese A-share listed companies from 2014 to 2023, which contains a total of 27,414 observation samples. The results of the regression analysis (see Table 4.5) show that there is a significant positive relationship between corporate governance index G and abnormal accruals (DA). Specifically, the regression coefficient of the corporate governance index G is 0.0012611 with a standard error of 0.000092, a t-value of 13.70, and a p-value of 0.000, indicating that the effect of this variable is statistically significant. In other words, controlling for other factors, there is an increase of 0.0012611 in abnormal accruals (DA) for each unit increase in the corporate governance index G. This suggests that firms with higher levels of governance are more likely to engage in surplus management and adjust the content of their financial reporting.

#### 4.3 Regression Analysis

This study constructs a model of "The Impact of Corporate Governance on Financial Reporting Quality" to explore the extent to which different elements of corporate governance affect the quality of financial reporting. Specifically, abnormal accruals (DA) is selected as the dependent variable to measure the quality of financial reporting, and three key variables of corporate governance - G-index (G), management shareholding ratio (MHS), and independent director network centrality (IDNC) in the company's ESG data - are used as independent variables, using the data of Chinese A-share listed companies from 2014 to 2023 data of Chinese A-share listed companies for empirical analysis. Ordinary Least Squares (OLS) regression analysis is used in this paper to reveal the relationship between corporate governance variables and financial reporting quality.

The regression model constructed in this study is as follows:

$$DA_{it} = \beta_0 + \beta_1 G_{it} + \beta_2 MHS_{it} + \beta_3 IDNC_{it} + \epsilon_{it}$$

Among them:

- $DA_{it}$  denotes abnormal accruals (a measure of the quality of financial reporting) of firm  $i$  in year  $t$ .
- $G_{it}$  is the G-index in the firm's ESG data, which measures the firm's overall level of corporate governance.
- $MHS_{it}$  represents the percentage of executive shareholding, reflecting management's equity incentives in the firm.
- $IDNC_{it}$  stands for Independent Director Network Centrality and measures the influence of independent directors in the director network.
- $\beta_0$  is the constant term,  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are the regression coefficients of the respective variables, and  $\epsilon_{it}$  is the error term.

**Table 6: Regression Analysis of Corporate Governance on Financial Reporting Quality of China's A-share Listed Companies, 2014-2023**

Source	SS	df	MS	Number of obs	=	27,414
Model	3.56145404	3	1.18715135	F(3, 27410)	=	86.75
Residual	375.10181	27,410	0.013684853	Prob > F	=	0
Total	378.663264	27,413	0.013684853	R-squared	=	0.0094
				Adj R-squared	=	0.0093
				Root MSE	=	0.11698
Residual DA	Coefficient	Std. err.	t	P> t	[95% conf. interval]	
G-index	0.0011925	0.0000923	12.92	0	0.0010117	0.0013734
Executive Shareholding Ratio	0.0003104	0.0000367	8.46	0	0.0002385	0.0003823
Independent Director~ Cardio	0.0007682	0.0019833	0.39	0.699	-0.0031191	0.0046554
_cons	-0.0968539	0.0072574	-13.35	0	-0.1110788	-0.0826291

According to the results of the regression analysis in Table 6, the model has an F-value of 86.75 and a p-value of 0.0000, indicating that the overall regression model is statistically significant. However, the R-squared value of the model is 0.0094 and the adjusted R-squared value is 0.0093, which indicates that the model has low explanatory power for the variation in abnormal accruals (DA), explaining only 0.94% of the variance. This suggests that although corporate governance variables are statistically influential, the quality of financial reporting is still strongly influenced by other factors not included in the model (e.g., audit quality, industry regulation, market competition, etc.).

In terms of specific regression coefficients:

First, the corporate governance index  $G$  ( $G$  data). The regression coefficient is 0.0011925, the standard error is 0.0000923, the t-value is 12.92 and the p-value is less than 0.001, indicating that this variable is statistically significant. This indicates that the higher the corporate governance index  $G$ , the greater the likelihood that the company will use abnormal accruals (DA) for surplus management in financial reporting. That is, firms with higher levels of corporate governance are likely to adjust their financial information through accounting techniques to optimize the external performance of their statements.

Secondly, the percentage of executive shareholding ( $MHS$ ). The regression coefficient is 0.0003104, standard error is 0.0000367, t-value is 8.46, and p-value is less than 0.001, indicating that this variable is statistically significant. This result suggests that higher executive

shareholding is associated with higher abnormal accruals (DA), implying that executive shareholding may be associated with higher levels of surplus management. Management may be more inclined to utilize surplus management to maintain firm performance in order to increase shareholder returns or personal gains when they hold a higher percentage of firm shares.

## **5. Conclusion and Policy Implications**

### **5.1 Summary of Key Findings**

First, regression analysis shows that there is a significant positive relationship between corporate governance index G and abnormal accruals (DA). Higher levels of corporate governance may prompt management to be more inclined to optimize financial reporting through surplus management tools to meet the expectations of the market and shareholders. This suggests that while enhanced corporate governance generally improves the transparency of financial reporting, high levels of governance may also make management more adept at using accounting discretion to adjust financial data, thereby affecting the quality of reporting.

Secondly, this study finds that there is also a significant positive correlation between executive ownership and abnormal accruals. This suggests that firms with higher executive shareholdings are more likely to engage in surplus management. This may be due to the fact that executives enhance the tie between their personal interests and the firm's performance through their shareholdings, which creates an incentive to enhance the firm's short-term performance by means of surplus management.

### **5.2 Policy Implications and Practical Recommendations**

First, although the percentage of independent directors plays a role in corporate governance, their actual influence may be constrained by management control and information asymmetry. In order to enhance the effectiveness of independent directors, it is recommended that their selection criteria be improved to ensure that they have a professional background and sufficient independence. In addition, independent directors should be given more substantive decision-making powers and oversight responsibilities so that they can play a greater role in financial reporting and corporate governance and become a real monitoring force.

Second, the study found that companies with higher executive shareholdings may be more inclined to engage in surplus management. For this reason, it is recommended that the proportion of executive shareholding be adjusted moderately to avoid excessive concentration of shareholding, so as to reduce the management's motivation to optimize financial reporting by means of surplus management. At the same time, a reasonable shareholder incentive mechanism should be established to align the interests of executives with those of shareholders in the long term and to avoid financial manipulation in the short term to enhance performance.

### **5.3 Limitations and Future Research Directions**

First, the sample of this study is limited to Chinese A-share listed companies, a market with its special economic environment and regulatory framework that may not be fully representative of corporate governance in other countries or regions. Therefore, future research could be extended to listed companies in other countries or regions, especially in developed and emerging markets, for cross-country comparisons to explore the differences in the impact of different governance structures on the quality of financial reporting.

Second, this study mainly uses discrepant accruals (DA) as a measure of financial reporting quality, and although this indicator is widely used in the study of surplus management, it is only able to capture surplus management at the level of accounting policies and fails to take into account the impact of real surplus management (REM). Future research could combine accrued surplus management (AEM) and real surplus management (REM) to provide a more comprehensive assessment of the quality of financial reporting and explore the interactions between the two.

Finally, the role of industry differences and firm life cycle stages in corporate governance and financial reporting quality deserves further study. Different industries and firms face different market environments and regulatory requirements, which may have important implications for financial reporting quality and surplus management behavior. Future research could consider incorporating industry characteristics and firm life cycle into the analytical framework to explore how these factors moderate the relationship between corporate governance and financial reporting quality.

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