Corporate disclosure and research opportunities in China*

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1. Introduction

‘Corporate disclosure’ in this article refers to a firm’s public presentation of information outside of the financial statements and includes a variety of information items provided by the company via many venues.\textsuperscript{1} Examples of the information items are supplementary disclosures of major accounts in the notes to the financial statements, management discussion and analysis (MD&A), environmental disclosures, management earnings forecasts, revenue forecasts, and strategic plans (e.g. plans for opening new stores). Examples of disclosure venues are regulatory filings, press releases, company websites, conference calls, investor or analyst conferences, and social media (e.g. Facebook, Twitter, and Weibo). We use ‘financial reporting’ to mean a firm’s presentation of financial statement information. Corporate disclosure may be mandatory or voluntary. The apparent difference between mandatory disclosure and voluntary disclosure is the role of government: the government intervenes in the production and release of mandatory disclosure and stays out of the way for voluntary disclosure. The real difference is the degree of discretion that managers have in providing the information – managers’ discretion is substantially less for mandatory disclosure than for voluntary disclosure. This article considers mandatory as well as voluntary corporate disclosure.

\textsuperscript{1}Some researchers use ‘corporate disclosure’ to mean all information provided by a company, including financial reporting. Some researchers use ‘corporate disclosure’ to mean only voluntary disclosure.
Corporate disclosure (hereinafter ‘disclosure’) is an important source of information for capital markets. Disclosure is typically more timely than financial reporting. Disclosure is flexible in the sense that firms can choose the information items and disclosure venues that suit the nature of their business and the stage of their life cycle. Disclosure promotes fairness in capital markets. Disclosure increases the efficiency of resource allocations in capital markets. Beyer, Cohen, Lys, and Walther (2010) find that a major form of disclosure – management earnings forecasts (MEF) – accounts for 55% of all the accounting information used by investors. Although people may question the magnitude of the importance of MEF as claimed by Beyer et al. (2010), numerous studies in the US setting have reported the impact of MEF and other disclosures on firms’ information environments and on capital markets as a whole. In this article we elaborate on the importance of disclosure in the US setting and the importance of disclosure research based on evidence obtained from the US.

There has been a dearth of research about disclosure in the Chinese setting. This presents opportunities for disclosure research that can benefit investors, managers, and regulators in China. One topic that may be worth examining is the role of the Chinese government in influencing disclosures. Another topic could be to examine the use of discretion by Chinese managers as well as their incentives. It would also be interesting to examine the impact of disclosure on market participants, especially institutional vs. retail investors, financial analysts, and corporate insiders. Research into these topics would not only provide guidance to Chinese investors, managers, and regulators but also contribute to accounting knowledge worldwide, especially knowledge that can be applied to emerging economies.

Given the existing evaluation systems in which Chinese researchers’ promotion and compensation are tied to the publication of their research in top-tier accounting and finance journals, a natural and reasonable question is, ‘How can I publish my research in these journals?’ We do not have exact answers to this question but will provide advice that we hope can make the research process more satisfying and the research product more publishable.

2. Importance of disclosure

Corporate disclosure is important to capital markets because disclosure is timely information – typically more timely than financial reporting. Required financial reporting is quarterly in the US and China. Firms’ operations, however, are ongoing and so are investors’ trading opportunities. If financial reporting were investors’ only information source, the information asymmetry between a firm and its investors would be gradually increasing during a fiscal quarter until the financial reporting date, and investors would be reluctant to trade before the report date. Illiquidity would decrease the firm’s stock value (Amihud & Mendelson, 1986). In addition, rumours could develop and spread quickly when public, validated information about a firm is lacking, leading to excess volatility in the firm’s stock price. A firm’s disclosure during the fiscal quarter would reduce information asymmetry, improve stock liquidity, lower price volatility, and therefore increase firm value.

Disclosure is important to capital markets because disclosure is a flexible communication tool. Financial reporting is prepared under a set of accounting standards. While the uniform standards increase the comparability of financial statements across firms and over time, the doctrine of ‘one size fits all’ may lead to the information’s not reflecting a firm’s unique operations, especially when the firm is in a non-traditional industry, uses a novel business model, or experiences a substantial growth or a shakeout. For example, the net income
number prepared according to the US Generally Accepted Accounting Principles (GAAP) for the real estate investment trust industry has shortcomings. One of the shortcomings is that the required recording of depreciation under GAAP, which assume that real estate values diminish predictably over time, is unreasonable for this industry. Disclosure of modified GAAP earnings such as funds from operations (FFO), which adjust for depreciation, amortization, and gains/losses from debt restructuring, would help firms in this industry convey their accounting performance (Vincent, 1999). Another example is Alibaba, which uses several novel platforms in its business and plans an enormous expansion. The financial statements prepared under the existing accounting standards and released once every quarter are unlikely to be sufficient and timely information for Alibaba's investors and business partners.

Managers may select certain information items as well as the amount and format of information and the timing and venue of disclosure to complement their firm's financial reporting. In addition to the benefits of disclosure to individual firms, disclosure may benefit the capital markets as a whole. Disclosure can promote fairness. As information accumulates at a firm, the lack of disclosure would increase the likelihood of the firm's executives and other employees as well as individuals with connections to the firm's operations (e.g., the sales department of a major supplier) trading on private information. The public considers insider trading unfair and might be reluctant to participate in the capital markets. Moreover, disclosure increases the efficiency of resource allocations in the capital markets. Investors need information to assess the risks and returns of potential equity or debt investments. When such assessments are based on adequate information, funds will flow to firms that most need the capital and can best use it. Poor or insufficient information would lead to social waste due to poor investment assessments. Thus, disclosure is an issue not only relevant to individual firms but also to regulators and trade associations (which may be considered a mechanism of self-regulation).

3. Importance of disclosure research in the US

The era of US securities regulation started with the Securities Act of 1933 for new share issues and the Securities and Exchange Act of 1934 for shares in the secondary market. The Securities Act of 1934 created the Securities Exchange Commission (SEC). These two securities laws have been amended by subsequent laws such as the Private Securities Reform Act of 1995 and the Sarbanes-Oxley Act of 2002. The SEC oversees the activities in the capital markets and has the ultimate authority to issue rules and guidance. It has, however, delegated the accounting rule making to the private sector, which has been the Financial Accounting Standards Board since 1973.

US securities regulation has been disclosure based since the beginning. Alternative accounting treatments are often allowed as long as the choices are disclosed. For example, firms may choose from several accounting methods for inventory, depreciation, and (until recently) business combinations. Pages of notes accompany the financial statements and pages of other disclosure items accompany the financial reporting section of an annual or quarterly report (Item 8 of 10-K/Q reports). Outside of financial reports, firms are allowed to present alternative earnings measures (known as ‘pro forma earnings’) such as earnings before interest, depreciation, tax, and amortisation (known as EBITDA) and FFO as long as managers reconcile these measures with GAAP earnings in the same disclosure release.
As ordinary individuals’ fortunes became increasingly tied to the capital markets as a result of wider dissemination of information by the internet, reduced barriers of investing online, and pensions, the call for the government to protect the interest of ordinary investors has led to more regulations. Accounting scandals have only accelerated the speed of politicians’ intervention. The trend of increased securities regulation has stood out as an exception during a period of deregulation in energy, utilities, telecommunications, and (until the financial crisis) financial services industries. The following is an incomplete list of evolving reporting or disclosure requirements:

- The SEC required quarterly reporting in 1970.
- A 1964 amendment to the Securities and Exchange Act of 1934 gave the SEC power to impose reporting requirements on companies traded in the over-the-counter market.
- Segment reporting started in 1976 and was expanded in 1997.
- The SEC has required the MD&A (Item 7 of financial reports) since 1980.
- The cash flow statement has been required since 1988.
- The disclosure of market risks (Item 7A of financial reports) has been required since 1997.
- Regulation Fair Disclosure took effect in October 2000.
- The Sarbanes–Oxley Act was passed in July 2002, creating several new disclosure items including internal control reporting.
- The SEC issued Regulation G in March 2003, requiring firms to reconcile their pro forma earnings with GAAP earnings if the former is provided.
- The disclosure of risk factors (Item 1A of financial reports) has been required since 2005.

Accounting research has played a significant role in shaping the US landscape of mandatory and voluntary disclosure in four ways. First, research has influenced regulation. Starting with Amazon in 1997, some firms provided pro forma earnings when announcing GAAP earnings. The practice quickly became popular, triggering a debate in 2001 about the usefulness and effects of pro forma earnings disclosure (Bhattacharya, Black, Christensen, & Larson, 2003). Researchers find that while some firms use pro forma earnings to supplement GAAP earnings when investors do not consider the latter very useful, other firms use pro forma earnings to present a rosy picture when GAAP earnings are underwhelming (Bhattacharya et al., 2003; Lougee & Marquardt, 2004). Subsequently, the SEC issued Regulation G, allowing firms to continue to provide pro forma earnings but requiring that they reconcile pro forma earnings with GAAP earnings so that what makes up the difference between the two numbers is fully disclosed to investors.2

Another example of research’s contributing to the regulation process is conference calls. In 1995, about 35% of relatively large firms used conference calls to accompany earnings announcements and most of the calls were limited to a selected group, such as privileged financial analysts and institutional investors. Frankel, Johnson, and Skinner (1999) find that material information was released during conference calls and that large investors traded on such information in real time. This evidence was cited by the SEC in its development of Regulation Fair Disclosure (FD) to restrict selective disclosure.

In the second way of shaping the disclosure landscape, research has examined the effects of regulations. For example, Johnson, Kasznik, and Nelson (2001) examine the Private

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2In the US, it typically takes a working paper two to four years to be published in top-tier journals. Thus, a study that addresses a timely debate is likely to contribute to the debate in its working paper format.
Securities Reform Act of 1995. The act was a response to concerns that firms subject themselves to litigation risk by providing forward-looking statements that do not materialise and that class-action lawsuits were readily filed upon a significant stock price decline (‘strike lawsuits’) and often settled even when the lawsuits were meritless. Johnson et al. (2001) find that after the Act the number of strike lawsuits dropped by 30% and that firms increased the likelihood and frequency of issuing earnings forecasts, suggesting that the Act was effective. In another example, several studies have examined the effects of Regulation FD. Heflin, Subramnayam, and Zhang (2003) find that the regulation has improved firms’ information environment by encouraging more public and timely disclosure of forward-looking information. Wang (2007) finds that half of the firms providing private earnings guidance before the regulation now publicly provide guidance, but the other half choose to be silent. Gintschel and Markov (2004) find that after the regulation financial analysts invest more time searching for information on their own and that analyst reports have less price impact in the absence of privileged access to management.

In the third way of shaping the disclosure landscape, research has provided evidence that has influenced regulators to stay out of the way. Whether MEF should be mandated, allowed on a voluntary basis, or banned was hotly debated in the 1970s. On the one hand, such information could be useful to investors. On the other hand, the information might be misrepresented by managers for opportunistic reasons. Because of the latter concern, the SEC initially prohibited forward-looking disclosures in SEC filings. Several studies collected data in the 1960s and examined the information content and ex post accuracy of MEF (Daily, 1971; Foster, 1973; McDonald, 1973; Patell, 1976). Despite raising doubt about the reliability of forecasts, the studies find that investors respond to earnings forecasts as if they are useful. In the mid-1970s, the SEC decided not to mandate MEF and instead changed its position from prohibiting to encouraging forward-looking disclosures. In 1979, the SEC granted a safe harbour to protect companies from legal liability resulting from inaccurate forecasts included in SEC filings as long as the forecasts were made in good faith.

In the last way of shaping the disclosure landscape, research has affected practices of corporate disclosure by (1) informing managers of the pros and cons of disclosure choices based on a large sample (rather than managers’ own observations of one firm); (2) increasing the visibility of certain practices; and (3) providing input to trade associations. There is no scientific evidence that managers actually read academic studies; our statement about research’s affecting practices of corporate disclosure is based on anecdotal observations.

One example of academic research’s informing managers of the pros and cons of disclosure choices is quarterly earnings guidance. In December 2002, Coca-Cola created a ripple effect by publicly announcing that it would stop providing quarterly earnings guidance. Those cheering the move blamed quarterly earnings guidance for managers’ short-termism; those disconcerted by the move cited reduced transparency. The debate on the merits of quarterly earnings guidance became one of the three hot issues on Wall Street in 2006. During this debate some firms stopped providing annual earnings guidance in addition to stopping quarterly guidance. Three academic studies directly contributed to this national debate. Cheng, Subramanyam, and Zhang (2006) find that regular guiders invest less in research and development than do occasional guiders and non-guiders, implying that guidance contributes to managerial short-termism. In contrast, Houston, Lev, and Tucker (2010) examine firms that have stopped providing routine quarterly earnings guidance with or without a public announcement and find that a main unstated reason for their cessation...
is poor performance. Houston et al. (2010) find a deterioration of these firms’ information environment after guidance cessation. Chen, Matsumoto, and Rajgopal (2011) examine firms that have announced guidance cessation and find results consistent with Houston et al. (2010). The findings of these studies were cited prominently in The Wall Street Journal, The Economist, Barron’s, Reuters News, CNBC, etc. According to surveys by the National Investor Relations Institute (NIRI) – the world’s largest association for corporate officers and investor relations consultants, the percentage of firms that provided earnings guidance dropped from 78% in February 2003 to 51% in spring 2007, but bounced back to 64% in March 2008. The bounce may be due to a public outcry for lack of transparency or to accounting research concluding that poorly performing firms cease guidance under the cloak of repositioning for the long term and that neither firms nor investors benefit from guidance cessation.

An example of academic studies increasing the visibility of new disclosure practices is earnings conference calls. Tasker (1998) is the first study that examines conference calls as a new venue for voluntary disclosure and finds that managers use conference calls to supplement traditional reporting when the latter lacks informativeness. Frankel et al. (1999) find that conference calls are more likely to be hosted by larger firms, firms in high-tech industries, and firms with higher analyst following and higher growth prospects. These studies document the benefits of conference calls to firms and investors, contrary to notions at that time that these calls provided no material information beyond the earnings announcement press releases. Now, almost all firms of reasonable size provide conference calls a few hours after the earnings announcement press release. The increased popularity of conference calls might be attributed to decreased costs of technology and the increased visibility of the new disclosure venue, thanks to disclosure research.

Disclosure research provides input to trade associations, which sometimes recommend ‘best practices’. Trade associations such as NIRI, the Chartered Financial Analysts’ Institute, and the US Chamber of Commerce are active in addressing trending disclosure issues and vocal in promoting ‘best practices’. Although the associations might be inclined to certain positions, they reach out to academics and examine research evidence before formalising recommendations in their white-paper reports and periodic publications for their members or member firms.

Overall, the evidence suggests that academic disclosure research has shaped the landscape of disclosure in the US. Even though not every academic study can make a meaningful impact, if honestly conducted a study may contribute to the overall accounting knowledge and academic environment that foster influential studies.

4. Opportunities for disclosure research in the Chinese setting

Good accounting research builds on existing theories of economics, finance, psychology, sociology, etc, or documents emerging phenomena that can stimulate the development of new theories. The Chinese setting is a good avenue in which to test existing theories because of varied conditions that might not exist in other economies (e.g. variation in economic development and regulatory enforcement across regions within the same culture, language, and central government control) and because of unique datasets that might be unavailable elsewhere (e.g. voting records of the board of directors of a publicly listed firm). Amid fast growth and drastic transformations of businesses, China is also a good place in which to observe phenomena that would require new theories to explain. For example, a Chinese
listed company must designate an executive to be in charge of the communications between management and the board of directors and between the firm and its outside investors. New theories are needed to explain the selection of such executives and the functioning of this unique job position.

Disclosure research in the Chinese setting, however, is still limited. There is no disclosure study of which we are aware that was conducted in the Chinese setting and published in a top-tier western journal. The number of disclosure studies in Chinese journals (either in Chinese or English) is very small. Disclosure studies published in Chinese include Jiang, Tong, and Yang (2003), who test the market reaction to warnings; Qin (2004), who discusses forecasts by IPO firms; Guo and Qi (2010), who examine the accruals management of forecasting firms; and Song (2009) and Song, Li, and Ji (2011), who examine penalties after forecast violations. Disclosure studies published in English in reputable Chinese journals include Sun and Liu (2009), who examine the credibility of MEF in IPOs, and Song, Ji, and Lee (2013), who examine the role of independent directors in the precision and accuracy of MEF. The shortages mean opportunities for future disclosure research in the Chinese setting. Below, we point out a few areas of such research opportunities.

4.1. Regulatory intervention

One disclosure topic could be the role of the Chinese government in influencing disclosure in the capital markets. The issue of mandatory vs. voluntary disclosure is relevant to each major information item and in each economy. Two economic theories justify a disclosure mandate. The public-good argument posits that corporate disclosure is a public good – its use by some people does not prevent its use by others (Hirshleifer, 1971). Disclosure tends to be under-produced even when it is socially desirable because the disclosing firm (i.e. its existing shareholders) bears all the disclosure costs but does not reap commensurate benefits. The social-waste argument posits that when information is not provided, interested parties would incur duplicative efforts to search for information (Hirshleifer, 1971). Such pursuit results merely in trading gains and does not create social wealth, but consumes real sources. Under both arguments, social welfare would be increased if the government steps in and mandates that the information item be disclosed.

Three economic theories – information unravelling, agency problems, and signalling – argue that the capital market itself can solve the information problem; therefore, disclosure decisions should be left to managers, who will evaluate the costs and benefits of disclosure and voluntarily provide the information only if the benefits outweigh the costs. The unravelling argument posits that under certain conditions every player has an incentive to disclose his/her private information except for the player with the worst information; as a result, private information unravels (Grossman, 1981). The conditions for information unravelling are (1) there is a sufficiently large penalty for lying; (2) disclosure is costless; (3) the receiving party knows that the other party has private information; and (4) both parties hold rational expectations. When these conditions are met, there is no need for government intervention. Accounting theorists have extended the unravelling argument to explain the paradox that in reality voluntary disclosure is not ubiquitous. Verrecchia (1983) relaxes the condition of costless disclosure and demonstrates an equilibrium of partial disclosure that firms possessing favourable information above a threshold will publicly disclose it. Dye (1985) relaxes the condition of information endowment and assumes...
that the information-disadvantaged party does not know for sure that the other party has private information. He demonstrates a similar equilibrium of partial disclosure as in Verrecchia (1983).

In the world of Jensen and Meckling (1976), the owner-manager would suffer a loss from the agency conflict between him/her and outside investors. To reduce the agency costs, he/she has an incentive to provide information for external monitoring, for example, by institutional investors and financial analysts. Based on the signalling theory of Spence (1973), one can argue that good firms have an incentive to distinguish themselves from bad firms by sending a costly signal. The cost of this signal is higher for bad firms than for good firms (i.e., the single-crossing property) so that it would not be rational for bad firms to imitate good firms, resulting in a separating equilibrium.

Under the information unravelling, agency problem, and signalling arguments, market forces can sort out the information problem, some firms will voluntarily provide information, and there is no need for government intervention. When capital markets have frictions, however, the market forces alone would be unable to address the information problems.

The institutions for a well-functioning capital market are not yet fully developed in China. These institutions include (1) investors who are bounded rational; (2) financial analysts who are independent and fairly compensated for their information services; (3) institutional investors who strongly monitor management; (4) a market for corporate takeover; and (5) a labour market for managers with compensation tied to firm performance. In addition, the Chinese government itself may contribute to new information problems. For example, the listed Chinese companies include the main board (i.e., large companies), small- and medium-sized enterprises (SME) board, and the growth enterprise market (GEM) board. The China Securities Regulatory Commission (CSRC) and stock exchanges have imposed different disclosure rules to different types of firms. Investors might be confused about what disclosure rules apply to the firms whose stocks they own.

Given the transitional nature of the Chinese economy, the role of the government (or regulators) in addressing information problems is a more important research question than in other economies. The Chinese setting abounds in research opportunities in this area. For example, Huang, Li, Tse, and Tucker (2014) examine the effects of the Chinese forecast mandate on voluntary disclosure of earnings forecasts. Since 2002, regulators have required publicly-listed Chinese firms to provide an earnings forecast if managers anticipate a loss, a return to profit from the previous year’s loss (since 2004), or an earnings increase or decrease from the previous year by at least 50%. Regulators provide standard forms for mandatory disclosure releases and are supposed to punish firms for violations. The authors find that if a firm issued a mandatory forecast in the previous year, it is more likely to provide a voluntary forecast in the current year, suggesting that the forced forecast experience might have increased managers’ familiarity with the processes of generating projections and releasing them. This finding suggests that regulation might be a temporary solution to information problems in transitional economies.

Many interesting questions are yet to be explored. What information items are good candidates for regulatory intervention? What can regulators do to expedite managers’ learning experience but not stifle innovations in managers’ choices of disclosure items, format, and venues? When would it be appropriate for regulations to fade and for the market forces to fully take over?
4.2. Managerial discretion and incentives

Managerial discretion and incentives are key to understanding firms’ disclosure decisions. Managers have discretion to disclose, even in the presence of a disclosure mandate. For example, managers often have discretion in deciding what to disclose, when to disclose, the precision of information disclosure, whether to provide qualitative or quantitative disclosure, whether to accompany the disclosure with extensive explanations, etc. Many of these decisions may be strategic; that is, managers disclose to create an image that deviates from the reality that they know. Understanding why managers make certain disclosure decisions would be important for investors to analyse and use the disclosed information. Because disclosure issues are relatively new in the Chinese capital markets and research evidence obtained from other economies may not directly apply to China, examining managers’ use of discretion may inform and influence disclosure practices in China.

Another research opportunity is to examine the role of managerial incentives in disclosure. In western economies, managers benefit from their job positions through compensation, promotion, options in the labour market, severance and retirement package, and gains from insider trading. The majority of Chinese publicly-listed firms are state owned and these managers’ compensation and promotion may be tied more to the political needs of the government and less to the firm’s performance. How this unique incentive structure of Chinese managers influences their disclosure decisions is an interesting research question.

4.3. Consequences of disclosure

Frankly speaking, the consequences of disclosure cannot be analysed independently from the determinants of disclosure because disclosure decisions are made with expected consequences in mind and the consequences of existing disclosures may affect subsequent disclosure decisions. We discuss disclosure consequences separately here to emphasise research opportunities regarding the ‘audience’ of disclosure. The audience is mainly three parties: (1) investors who provide equity or credit capital; (2) business partners who serve as major customers, suppliers, or distributors; and (3) the tax authority. Very little research has been conducted in these areas in China.

Raising capital is a serious concern for many Chinese firms. External capital comes from either the public or private channel. The public channel includes corporate bonds and share issues. The private channel includes borrowing from banks and investments by private equity and venture capitalists. Moreover, an implicit private source of capital is trade credits, such as accounts payables. State-owned enterprises (SOEs) have relatively easy access to capital at large banks, which are mostly state owned, and might not have a strong need for public capital. Given non-SOE’s difficulty in accessing bank capital, disclosure could be a particularly important issue for these firms. What types of information do potential investors want? Where do they look for such information? How do they process information and how can disclosure be prepared in a way that facilitates investors’ information processing and understanding? Disclosure research could shed light on these questions.

Disclosure is relevant to a firm’s business partners, which desire to work with companies that are credible and stable and have growth prospects. Researchers may examine the effects

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3For example, if a regulation is based on bright-line thresholds, managers may choose to manipulate numbers to avoid the thresholds.
of a firm’s disclosure decisions (including the decision not to disclose) on its business partners, for example, by conducting return reactions, comparing changes in sales and trade credits, and examining business partners’ subsequent disclosure practices. Unique features of the Chinese market include the pyramid structure of corporations and transactions with parties that are related by ownership or management. There is nothing wrong with the pyramid structure and related-party transactions, but whether and how corporate disclosure adjusts to these features are interesting research questions.

Tax authorities are the unintended users of corporate disclosure. Taxes are a constraint to managers’ disclosure decisions. Given that the Chinese tax system differs greatly from the systems in the west, interesting research questions may ask about the relation between corporate disclosure and taxes.

5. Advice

If an individual’s compensation and promotion are tied to his or her research publications, it is understandable that he or she tends to focus on research publications, especially publications in the so-called A list of his or her academic institution. The narrow focus on research publications, however, ignores two important elements of an academic life. We are first and foremost educators and have a duty to continually improve ourselves as professionals and bring out the best in our students and colleagues through our teaching and research activities. We have selected the academic career because we are curious about creating and disseminating accounting knowledge. We should not let the pressure of publication overshadow our original dreams and purposes. It is not surprising to find that most of our ‘successful’ colleagues and doctoral students are those who are passionate about what they do, regardless of the rewards. Based on our academic experiences, we offer some specific tips for pursuing an enjoyable and fruitful academic career.

5.1. Asking good questions and starting a dialogue

Asking good research questions is the first step of any research project, but it attributes to more than half of the success of the project. Good questions are those that are conceptually interesting; that can be based on, challenge, or extend economic theories; or that discover and examine new phenomena that may spur new theories. For example, the paper ‘The information content of Weibo disclosure’ by Jiuqin Lv, Hong Zhou, and Jingcheng Fan presented at the Second Research Conference in November 2014 sponsored by the Accounting Society of China and the China Journal of Accounting Studies asks such a good research question. The study examines Chinese firms’ use of Weibo to provide voluntary information and finds that most of the disclosures are product related instead of financial. There are many more interesting disclosure topics in the Chinese setting to be explored. For example, how does the CSRC regulate the disclosure of related-party transactions of Chinese listed firms? How do financial analysts and investors use the information in such disclosures?

Good research questions often start a dialogue or join an existing dialogue at an early stage. For example, Professor Yunling Song of Zhejiang University was the first to examine MEF in China and her studies provide useful background for subsequent research (Song, 2009; Song, Li, & Ji, 2011). Fan, Wong, and Zhang (2007) propose that ‘political connection’ is an important characteristic of Chinese firms and find that politically connected managers are
associated with underperformance of the company. Their study initiated dialogue regarding the role of political connections in the Chinese capital markets. Research would have a larger impact if the researcher starts a dialogue rather than if he/she follows one.

5.2. Using new research methods

Based on self-reported data, 25% of the new faculty at AACSB-accredited universities in the US use the experimental method to conduct research. According to recent reports of the senior editor of *The Accounting Review*, psychology-based experimental papers (also called ‘behavioural studies’) have an acceptance rate relative to the submission rate, higher than the average acceptance rate of all submissions. Decades ago, the experimental method was mainly used to examine auditing issues to overcome the problem of lacking auditing data. Since the mid-1990s, accounting researchers in the US have increasingly used the method to examine financial reporting and disclosure issues. The increased production and acceptances of behavioural financial studies have coincided with the weakening of the market efficiency hypothesis and with the increased acceptance of the assumption of bounded rationality instead of perfect rationality of investors. The experimental method is not common at all among Chinese accounting researchers. So far, most of the behavioural evidence has been obtained in western economies. Applying psychology and sociology theories to disclosure issues in China may be excellent research opportunities because capital market participants may behave differently in the eastern culture than in the western culture.

Textual analysis in the Chinese setting could be a promising research area. A few years ago, accounting and finance researchers in the US started to use linguistic tools to analyse qualitative corporate disclosures (Li, 2008; Tetlock, 2007). The new measures of disclosure include document length, readability, and tone. Brown and Tucker (2011) introduce a measure of document modification by comparing consecutive years’ filings based on techniques in the information retrieval literature. These studies are often referred to as ‘textual analysis’. The new measures have expanded the tool box of researchers and enable researchers to ask questions that previously could not be addressed. Chinese managers may have incentives to craft qualitative disclosure, but use different techniques because of the language and cultural differences. These differences present opportunities for textual analysis in the Chinese setting.

5.3. Using unique Chinese data

Good research addresses real problems. In the emerging market of China, many real issues arise due to the expansion of the economy, conflicts between old and new ways of doing business, and market participants’ unfamiliarity with new disclosure tools and venues. There is a gold mine of data in the Chinese setting. For example, Cheng, Du, Wang, and Wang (2015) notice that since 2009 the Shenzhen Stock Exchange has required its listed firms to disclose information related to investors’ site visits in their annual reports. Such data allow researchers to examine issues of private information acquisition, but are unavailable in other economies. The authors find that analysts’ corporate site visits are associated with increased forecast accuracy, suggesting that site visits facilitate analysts’ information acquisition through observing firms’ operations.
Chinese researchers can shed light on ‘growing pain’ issues in the transitional economy of China and influence regulations and practices. A common mistake, however, that some Chinese researchers make is taking popular ideas from the western literature (e.g. accounting conservatism and earnings management) and running tests using Chinese data. Such research rarely adds new insight to the existing western literature and provides little help in addressing issues in China because it ignores the institutions that give rise to the accounting issues in the first place.

5.4. Working with western researchers

Chinese researchers may greatly benefit from co-authoring with researchers who have been trained in western institutions (‘western researchers’), especially those trained in the US. Almost all the top-tier accounting journals are published in the west. Working with western researchers has three benefits. First, the cooperation would increase the likelihood that the research is published in top western journals. The review process for these journals is quite different from that in China and ranges from two to four years for two to four rounds of reviews in total. The probability of late-round rejections varies from journal to journal. Western researchers could help select which journals to submit to and how to navigate the review process. Second, the cooperation would be a good learning experience for Chinese researchers about various aspects of conducting quality research, such as choosing a research question, designing empirical tests, addressing alternative explanations, and writing up the research product. Lastly, the cooperation would increase the visibility of Chinese researchers because the research will be presented at institutions typically out of reach of the Chinese co-authors. The cooperation would also improve the reputation of Chinese researchers because much information asymmetry exists between the western and eastern research communities. Cooperation with reputable western researchers would reduce this information asymmetry because trust is transitive.

Chinese researchers could use the following strategies to find reputable western researchers as co-authors. First, they could encourage their university to invite the targeted researcher to visit the university and interact with him/her before or after seminars and at social events. Second, they could attend the research sessions of international conferences at which the targeted researcher serves as a presenter, discussant, or moderator and approach the researcher after his/her duties are over. Third, they could ask a researcher who knows both the Chinese researchers and the targeted western researcher to make an introduction. Lastly, they could present their research at premier national or international conferences, hoping that the presentation can generate interest from western researchers in attendance and pave the way for interaction and cooperation.

In finding a western co-author, Chinese researchers should avoid selecting one who is too busy to be responsive, has expertise in areas different from the Chinese researchers’ interest, and who is poor at explaining, or unwilling to explain, why he/she makes certain research queries and choices. For good cooperation, Chinese researchers are advised to provide independent input (instead of acting as research assistants), ask questions when the understanding is unclear, and express concerns in a respectful tone without fearing displeasing western co-authors.
6. Conclusion

As the Chinese economy transitions from government-controlled to market-based, corporate disclosure has become an increasingly important element in the capital markets. Research in the Chinese setting has focused on issues of financial reporting, auditing, and ownership structure; disclosure research has been under-produced. Given the variety of disclosure items (past vs. forward-looking information, earnings vs. non-earnings information, qualitative vs. quantitative information, and so on) and disclosure venues (financial reports, other exchange-required filings, information releases, websites, and social media), disclosure research in the Chinese setting is a fertile and promising area and can enhance the understanding of information problems in China, help find remedies for these problems and influence regulation and practices.

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