



How does governmental accounting and financial supervision affect the quality of analysts' forecasts?

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ABSTRACT

This study investigates whether Chinese governmental accounting and financial supervision activities affect the quality of analysts' earnings forecasts. The findings reveal that such supervision enhances analysts' earnings forecast quality for governed enterprises. Mechanism tests indicate that supervision improves forecast quality by increasing firms' information disclosure quality. Heterogeneity analysis shows that the effect of accounting and financial supervision on analysts' earnings forecast quality is more pronounced in samples with faster marketization processes and lower institutional ownership ratios.

1. Introduction

High-quality capital market development is critical for economic structural optimization, with analysts' earnings forecasts serving as a cornerstone of market efficiency by providing forward-looking financial information (Beyer et al., 2010; Chen et al., 2020). In China's context, where state-owned enterprises (SOEs) play a dominant role, governmental accounting and financial supervision measures represent a key policy tool to regulate corporate information disclosure. This study addresses a critical gap in the literature: how does governmental accounting and financial supervision affect the quality of analysts' earnings forecasts for SOEs?

The significance of this inquiry is threefold. First, accurate forecasts enable investors to assess firms' profit potential and improve capital allocation efficiency (Durnev et al., 2004; Wurgler, 2000), yet information asymmetry in SOEs—owing to state ownership and complex governance structures—exacerbates forecast errors (Healy and Palepu, 2001). Second, China's 2010 joint governance campaign against off-book accounts in SOEs provides a unique quasi-natural experiment to evaluate regulatory impacts on analysts' behavior. Such policy interventions aim to enhance financial transparency by mandating standardized reporting and curbing earnings management (Pan et al., 2023), but their causal effects on forecast quality remain underexplored. Third, existing research has predominantly focused on Western markets, with limited insights into how emerging-market regulatory frameworks—characterized by state-driven reforms—shape analysts' information processing (La Porta et al., 1997; Lu et al., 2023).

The study is grounded in two theoretical frameworks. Information asymmetry theory posits that regulatory supervision reduces managerial discretion in financial reporting, thereby improving the authenticity of data used by analysts (De Franco et al., 2011; Kothari et al., 2005). This improvement enables analysts to rely more on public information, reducing information acquisition costs

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and enhancing forecast accuracy (Verrecchia, 2001). Regulatory signaling theory further suggests that policy interventions like the off-book accounts campaign send strong signals about transparency expectations, aligning corporate disclosure practices and coordinating analysts' forecasting frameworks to reduce dispersion (Bikhchandani and Sharma, 2000; Hong et al., 2000).

Using a difference-in-differences (DID) model around the 2010 policy shock, we find that governmental accounting supervision significantly enhances analysts' earnings forecast accuracy and reduces forecast dispersion. Mechanism tests confirm that improved information disclosure quality mediates this effect (Baron and Kenny, 1986). Heterogeneity analysis shows stronger impacts in high-marketization regions and firms with lower institutional ownership, highlighting the moderating role of the institutional environment (Custódio et al., 2013; Grewal et al., 2018). These findings contribute to literature by: (1) providing causal evidence on regulatory effects in China's SOEs, (2) identifying information disclosure as a key transmission channel, and (3) offering policy implications for enhancing market efficiency in transitional economies.

Our study is organized as follows. The hypothesis is developed in Section 2. The methodology is described in Section 3. The regression results are reported in Section 4. The conclusions are presented in Section 5.

2. Hypothesis development

The 2010 joint governance campaign against off-book accounts in Chinese SOEs represents a policy intervention designed to enhance financial transparency through a two-stage mechanism: enterprise self-inspection followed by targeted regulatory audits (Jiang et al., 2020; Sun et al., 2003). This campaign addresses information asymmetry by mandating standardized financial reporting, which theoretically influences analysts' earnings forecast quality through three interrelated channels:

2.1. Information disclosure quality channel

Regulatory supervision imposes stricter standards for timely and comprehensive financial disclosures, reducing managerial discretion in earnings management (Custódio et al., 2013; Larcker et al., 2004). By curbing off-book accounting practices, the campaign improves the authenticity, accuracy, and comparability of financial data—core inputs for analysts' predictive models (Baron and Kenny, 1986). Empirical evidence shows that higher-quality disclosures reduce information acquisition costs for analysts (Verrecchia, 2001), enabling them to rely more on public data and less on private information mining. This shift fosters convergent forecasting information sets and mitigates inter-analyst prediction divergence (Clement, 1999; Hong et al., 2000).

2.2. Analyst behavioral response channel

Enhanced financial transparency increases firms' attractiveness to analysts (Healy et al., 2001; Merton, 1987), leading to higher coverage and more intensive information processing. In a more transparent information environment, analysts face reduced uncertainty in estimating accounting items, which improves the predictability of earnings reports (Ball et al., 2000; Kothari et al., 2005). This predictability strengthens analysts' confidence in evaluating firm performance, enabling more precise projections of future profits (Francis et al., 1999). Herd behavior among analysts further reinforces this effect, as shared information processing frameworks narrow prediction gaps (Bikhchandani and Sharma, 2000).

2.3. Institutional environment moderation channel

The efficacy of regulatory interventions is contingent on the institutional context. In high-marketization regions, firms are subject to stronger market discipline, making regulatory signals more salient and prompting quicker adjustments in disclosure practices (Grewal et al., 2018). Conversely, in low-marketization environments, administrative barriers may weaken regulatory transmission. Similarly, firms with lower institutional ownership lack robust external oversight, so regulatory measures fill this monitoring gap more significantly (Custódio et al., 2013), whereas high-institutional-ownership firms may already have rigorous internal governance mechanisms, reducing the marginal impact of regulation.

Drawing on the theoretical analysis, we posit:

Hypothesis (H): Holding other factors constant, the joint governance campaign against off-book accounts significantly reduces analysts' earnings forecast errors and dispersion, thereby enhancing the quality of analysts' earnings forecasts.

3. Methodology

3.1. Empirical model

This study uses a standard difference-in-differences (DID) model to conduct regressions:

$$Error_{i,t}/Disp_{i,t} = \alpha_0 + \beta_1 treat_post + \beta_2 Control_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}, \quad (1)$$

where i and t denote the individual firm and year, respectively; $Error$ and $Disp$ are the core dependent variables measuring the quality of analysts' earnings forecasts; $treat_post$ represents the treatment-post dummy variable for the governance campaign against off-book accounts in SOEs. $Control$ denotes a set of control variables; μ_i and λ_t indicate firm-level and year-level fixed effects, respectively;

Table 1
Descriptive statistics.

Variables		Mean	S.D.	Minimum	Maximum
Dependent Variables	<i>Error</i>	2.228	5.731	0.006	41.500
	<i>Disp</i>	1.388	3.380	0.019	24.590
Dependent Variables	<i>Treat</i>	0.296	0.456	0	1
	<i>Post</i>	21.93	1.248	19.84	25.780
Control Variables	<i>Size</i>	0.437	0.212	0.037	0.860
	<i>Lev</i>	0.091	0.085	−0.277	0.336
	<i>ROE</i>	0.225	0.371	−0.455	2.227
	<i>Growth</i>	2.196	0.196	1.609	2.708
	<i>Board</i>	0.366	0.052	0.286	0.571
	<i>Indpt</i>	0.381	0.154	0.092	0.758
	<i>Turnover</i>	0.766	0.505	0.103	2.747
	<i>Big4</i>	0.075	0.264	0	1
	<i>Dual</i>	0.219	0.414	0	1
	<i>Loss</i>	0.051	0.220	0	1

Note: This table presents descriptive statistics of the key variables used in our analysis. The definitions of all variables are listed in the appendix.

and $\epsilon_{i,t}$ is the stochastic error term.

3.2. Variable descriptions

Dependent variable. Drawing on prior research, this study uses analysts' earnings forecast error (*Error*) and dispersion (*Disp*) to measure the quality of analysts' earnings forecasts.

Error is calculated as

$$Error_{i,t} = \frac{|Feps_{i,t} - Aeps_{i,t}|}{|Aeps_{i,t}|}, \quad (2)$$

where $Feps_{i,t}$ denotes the average earnings per share (EPS) forecast by all securities analysts for firm i in year t , and $Aeps_{i,t}$ represents the actual EPS of firm i in year t . A higher value of $Error_{i,t}$ indicates lower forecast accuracy.

Disp is calculated as

$$Disp_{i,t} = \frac{|Std(Feps_{i,t})|}{|Aeps_{i,t}|}, \quad (3)$$

where $Std(Feps_{i,t})$ represents the standard deviation of all securities analysts' EPS forecasts for firm i in year t and other specifications align with Eq. (1). A higher $Disp_{i,t}$ signifies greater divergence among analysts in their forecasts of the company's EPS.

Independent variable. The independent variable *treat.post* is defined as the interaction between *Treat* _{i,t} (a dummy variable where $Treat_{i,t} = 1$ for state-owned enterprises (SOEs) and 0 otherwise) and *Post* _{i,t} (a time dummy set to 0 for years prior to 2010 and 1 for 2010 and subsequent years), reflecting the exclusive implementation of the joint governance campaign against off-book accounts for SOEs. The classification of the sample into treatment (SOEs) and control (non-SOEs) groups is anchored in the 2010 *Notice on Special Governance of Off-Book Accounts in State-Owned Enterprises*, with definitions validated by the *Catalogue for Classification of State-Owned Economic Entities* (2005). This approach, employed by Jiang et al. (2020) and Sun et al. (2003), adheres to the DID framework's requirement for an exogenous shock (Hanck, 2011), while the treatment group's composition, comprising 29.6 % of sample firms, aligns with the proportion of SOEs in China's A-share market during 2007–2012, ensuring external validity as documented by Lu et al. (2023) and Pan et al. (2023).

Mechanism variables. We use the results of listed companies' annual information disclosure evaluations as the criterion for measuring information disclosure quality. Specifically, if a listed company's evaluation result is classified as "excellent" or "good," it is assigned to the high information disclosure quality group; if the result is classified as "qualified" or "unqualified," it is included in the low information disclosure quality group.

Control variables. Drawing on prior research (Beyer et al., 2010; Francis et al., 1999), the study includes a set of control variables to mitigate omitted variable bias, where firm size (*Size*) is measured as the natural logarithm of annual total assets; debt solvency (*Lev*) is evaluated by the ratio of total liabilities to total assets at the end of the period; profitability (*ROE*) is measured by the ratio of net income to the sum of owners' equity; independent director ratio (*Indpt*) is the proportion of independent directors to the total number of board members; company growth (*Growth*) is measured by the revenue growth rate; board size (*Board*) is the natural logarithm of the number of board members; total asset turnover (*Turnover*) is the ratio of operating revenue to the average total assets; auditor firm (*Big4*) is measured by whether the auditor is from domestic Big Four accounting firms; duality (*Dual*) is measured by whether the chairman of the board and the general manager are the same person; and loss occurrence (*Loss*) is measured by whether the company's net profit in the current year is <0. The standard errors of regression model coefficients are clustered at the firm level.

Table 2
Baseline regression results.

	(1)		(2)	
	<i>Error</i>		<i>Disp</i>	
<i>treat_post</i>	−0.818*** (−2.766)	−0.782*** (−2.765)	−0.494*** (−2.764)	−0.466*** (−2.716)
<i>Size</i>		−1.181*** (−3.378)		−0.809*** (−3.802)
<i>Lev</i>		3.216*** (2.924)		2.373*** (3.781)
<i>roe</i>		−20.840*** (−9.434)		−11.823*** (−9.189)
<i>Growth</i>		−0.985*** (−4.344)		−0.401*** (−3.098)
<i>Board</i>		−0.951 (−1.198)		−0.563 (−1.194)
<i>Indpt</i>		1.675 (0.656)		0.372 (0.244)
<i>Top1</i>		−2.980 (−1.275)		−1.478 (−1.201)
<i>Turnover</i>		−1.249** (−2.356)		−1.126*** (−3.251)
<i>Big4</i>		−0.523 (−0.751)		−0.020 (−0.058)
<i>Dual</i>		−0.549 (−1.409)		−0.402* (−1.848)
<i>Loss</i>		−4.254*** (−4.667)		−3.707*** (−7.028)
_cons	2.470*** (28.247)	33.015*** (4.197)	1.534*** (29.017)	22.203*** (4.721)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	7913	7913	7913	7913
Adjusted R ²	0.140	0.149	0.194	0.206

Notes: *, **, and *** represent significance at the 10 %, 5 %, and 1 % levels, respectively; *t*-values are given in parentheses and clustered at the firm level.

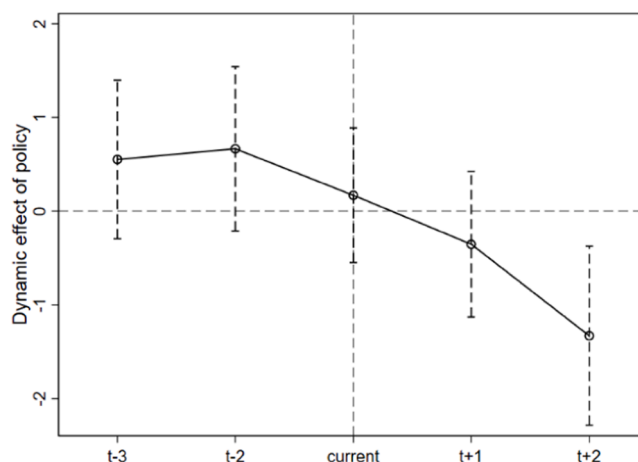


Fig. 1. Parallel trend test for *error*.

3.3. Data and sample

As new accounting standards were first implemented in China in 2007 and the joint governance campaign against off-book accounts in Chinese SOEs was fully launched in 2010, we designate the period from 2007 to 2012 as the research interval. The sample includes all listed companies during this timeframe. The following key steps were executed during data processing: first, listed companies in the financial and insurance sectors were excluded; second, stocks marked as “special treatment” (ST) or *ST during the sample period were removed. After screening, 7913 firm-year observations were retained. Data for this study were sourced from the China Stock Market & Accounting Research Database. To mitigate the influence of extreme values, continuous variables involved in

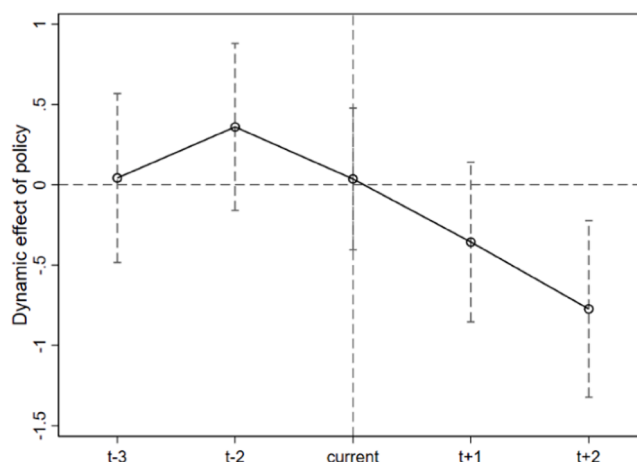
Fig. 2. Parallel trend test for *disp*.

Table 3

Test based on the degree of marketization.

	<i>Error</i>		<i>Disp</i>	
	(1) High marketization	(2) Low marketization	(3) High marketization	(4) Low marketization
<i>treat_post</i>	0.886*** (−2.980)	0.071 (−0.081)	0.468** (−2.511)	−0.259 (−0.515)
<i>Control</i>	Yes	Yes	Yes	Yes
<i>_cons</i>	33.349*** (3.816)	25.399 (1.488)	20.266*** (3.800)	27.516*** (2.608)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	6414	1499	6414	1499
Adjusted R ²	0.198	0.181	0.204	0.207

Notes: *, **, and *** represent significance at the 10 %, 5 %, and 1 % levels, respectively; *t*-values are given in parentheses and clustered at the firm level.

regressions were winsorized at the 1st and 99th percentiles.

3.4. Descriptive statistics

Table 1 presents the descriptive statistics for key variables. *Error* has a mean value of 2.228 (S.D. = 5.731) and a range of 0.006–41.5, while *Disp* has a mean value of 1.388 (S.D. = 3.38) and a range of 0.019–24.59; these statistics indicate substantial cross-firm variations in forecast accuracy and consistency. The mean value of *treat_post*, 0.296, indicates that 29.6 % of sample firms were subject to the 2010 off-book accounts governance policy.

4. Regression results

4.1. Main results

Table 2 presents regression results analyzing the effect of the joint governance campaign against off-book accounts on analysts' earnings forecast quality, demonstrating both statistical and economic significance. Across all specifications, the campaign is negatively associated with forecast errors and dispersion, indicating improved quality. Specifically, a one-unit increase in *treat_post* reduces *Error* by 0.818 units (36.7 % relative to the mean of 2.228) and *Disp* by 0.494 units (29.6 % relative to the mean of 1.388), highlighting the regulatory intervention's role in narrowing prediction gaps by approximately one-third.

In the parallel trends test, the first year before the policy shock is set as the baseline group to circumvent multicollinearity from annual dummy variables. Fig. 1 and Fig. 2 report the results: all pre-campaign coefficients for *Error* and *Disp* are statistically nonsignificant, confirming a lack of pre-treatment differences between the groups and thus satisfying the parallel trends requirement. After the campaign, however, the coefficients become increasingly significant over time.

Table 4

Test based on proportion of institutional ownership.

	<i>Ferror</i>		<i>Disp</i>	
	(1) High institutional ownership	(2) Low institutional ownership	(3) High institutional ownership	(4) Low institutional ownership
<i>treat_post</i>	−0.076 (−0.228)	−1.300** (−2.510)	0.033 (0.160)	−0.862*** (−2.730)
<i>Control</i>	Yes	Yes	Yes	Yes
<i>_cons</i>	30.233** (2.474)	24.021 (1.270)	18.169*** (3.101)	18.870* (1.657)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Observations	3824	3833	3824	3833
Adjusted R ²	0.167	0.214	0.181	0.230

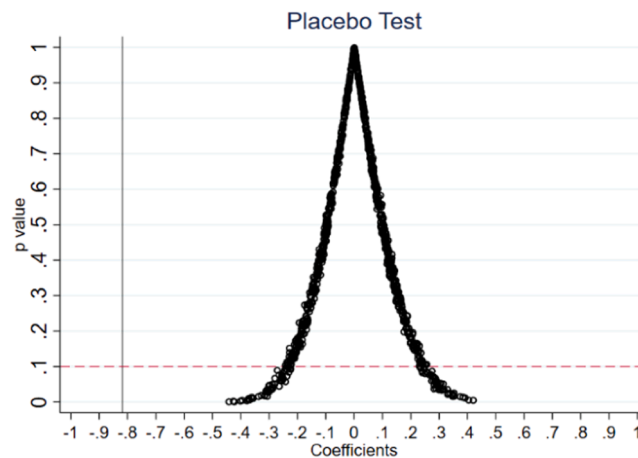
Notes: *, **, and *** represent significance at the 10 %, 5 %, and 1 % levels, respectively; *t*-values are given in parentheses and clustered at the firm level.

Table 5

Mechanism test.

	(1) <i>Ferror</i>	(2) <i>Disp</i>
<i>treat_post_c</i>	−0.924*** (−3.044)	−0.550*** (−2.989)
<i>Control</i>	Yes	Yes
<i>_cons</i>	32.900*** (4.164)	21.978*** (4.661)
Year FE	Yes	Yes
Firm FE	Yes	Yes
Observations	7860	7860
Adjusted R ²	0.193	0.206

Notes: *, **, and *** represent significance at the 10 %, 5 %, and 1 % levels, respectively; *t*-values are given in parentheses and clustered at the firm level.

**Fig. 3.** P-value distribution of *ferror*.

4.2. Cross-sectional and mechanism analysis

4.2.1. Marketization level

Table 3 divides the sample into high and low marketization groups based on the median comprehensive marketization index value and reports regression results for these subsamples. The findings indicate that the negative associations of *treat_post* with *Ferror* and *Disp* are more pronounced in the high (vs. low) marketization group, suggesting that SOEs in more marketized environments exhibit a stronger regulatory response that leads to more significant improvements in analysts' forecast quality following the governance campaign.

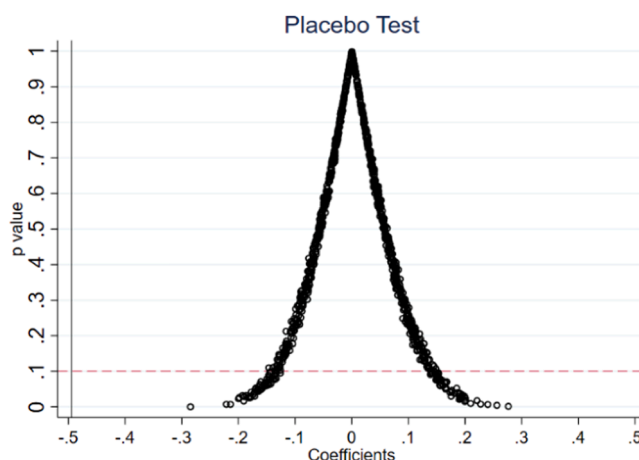


Fig. 4. P-value distribution of disp.

4.2.2. Institutional ownership ratio

Table 4 classifies companies into high institutional ownership ($Ins = 1$) and low institutional ownership ($Ins = 0$) groups based on the mean institutional ownership ratio of their respective industries and conducts regressions separately for each group. The regression results show that the coefficients for the correlations of *treat_post* with *Error* and *Disp* are negative and statistically significant in the low institutional ownership group, indicating that the governance campaign plays a more pronounced role in reducing analysts' forecast errors and dispersion for companies with a lower level of institutional ownership.

4.2.3. Mechanism analysis

Table 5 constructs an interaction term between the annual information disclosure evaluation result and *treat_post* and regresses this interaction term on *Error* and *Disp*. The coefficient of the interaction term is negative and significant for both dependent variables, indicating that regulatory interventions targeting accounting transparency can generate spillover benefits for capital market participants by improving the both informativeness of financial data and analysts' predictive efficiency.

4.3. Robustness check

4.3.1. Placebo test

We perform a placebo test by randomly assigning pseudo-treatment group dummy variables across the full sample to mimic the random distribution of firms affected by the off-book accounts governance campaign. Randomization and regression are repeated 1000 times for reliability. Fig. 3 and Fig. 4 show the p-value distributions of the coefficients for *treat_post* on *Error* and *Disp* after randomization. Notably, the coefficients for *treat_post* cluster near 0 and are distinct from the baseline regression coefficients (marked by black vertical lines). The horizontal dashed line denotes the 10 % significance level; most p-values exceed this threshold, indicating a lack of statistical significance. This test confirms that our core results are not random and thus validates the robustness of our conclusion.

4.3.2. Additional robustness tests

We conduct additional robustness tests, including changing the dependent variables, performing propensity score matching–DID tests, altering the timing of the policy shock, and excluding the policy implementation year. Across all these tests, the results consistently confirm the robustness of our findings, indicating that our core conclusions remain unchanged under different model specifications and sample adjustments. This reinforces the reliability of our empirical evidence and the validity of the causal inferences drawn from our DID framework.

5. Conclusion

The results of this study show that governmental accounting and financial supervision in China via the joint governance campaign against off-book accounts significantly improves analysts' earnings forecast accuracy, reduces dispersion, and enhances forecast quality. Mechanism analysis identifies information disclosure quality as a key pathway of this effect. Further evidence reveals stronger effects in subsamples with higher marketization or lower institutional ownership. These findings highlight the efficacy of the campaign in mitigating information asymmetry and underscore the moderating roles of the institutional and ownership structures.

Our study has a few limitations. For example, we only focus on the effect of governmental accounting and financial supervision activities on analysts' earnings forecast quality. Future research could further explore the subsequent effects of improved forecast quality on corporate investment and financing decisions, market valuation, and other aspects.

CRediT authorship contribution statement

Guangqiang Liu: Writing – review & editing, Writing – original draft, Methodology, Conceptualization. **Yifan Zhang:** Writing – original draft. **Chun Liu:** Writing – review & editing, Data curation.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that might influence the work reported in this paper.

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Supplementary materials

Supplementary material associated with this article can be found, in the online version, at [doi:10.1016/j.frl.2025.107926](https://doi.org/10.1016/j.frl.2025.107926).

Appendix. Variables and definitions

Type	Name	Definition
Dependent Variables	<i>Error</i>	The absolute value of the difference between the mean of all securities analysts' EPS forecasts for the company and the company's actual EPS, divided by the absolute value of the company's actual EPS.
	<i>Disp</i>	The absolute value of the standard deviation of all securities analysts' EPS forecasts for the company, divided by the absolute value of the company's actual EPS.
Dependent Variables	<i>Treat</i>	A dummy variable where <i>Treat</i> = 1 for state-owned enterprises and 0 otherwise.
Control Variables	<i>Post</i>	A time dummy set to 0 for years prior to 2010 and 1 for 2010 and subsequent years.
	<i>Size</i>	The natural logarithm of annual total assets.
	<i>Lev</i>	The ratio of total liabilities to total assets at the end of the period
	<i>ROE</i>	The ratio of net income to the sum of owners' equity.
	<i>Growth</i>	The revenue growth rate.
	<i>Board</i>	The natural logarithm of the number of board members.
	<i>Indpt</i>	The proportion of independent directors to the total number of board members.
	<i>Turnover</i>	The ratio of operating revenue to the average total assets.
	<i>Big4</i>	A dummy variable where <i>Big4</i> = 1 for the auditor is from domestic Big Four accounting firms and 0 otherwise.
	<i>Dual</i>	A dummy variable where <i>Dual</i> = 1 for the chairman of the board and the general manager are the same person and 0 otherwise.
	<i>Loss</i>	A dummy variable where <i>Loss</i> = 1 for the company's net profit in the current year is <0 and 0 otherwise.

Data availability

The data availability statement: The data supporting the findings of this study are available within the article and its supplementary materials. Additionally, raw data and analysis scripts can be accessed upon reasonable request to the corresponding author. To ensure transparency and reproducibility, we have provided detailed documentation of the data collection and analysis processes. Data access is governed by the institutional guidelines and any additional restrictions will be outlined during the request process. We are committed to fostering open science practices and welcome inquiries for collaborative purposes.

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