



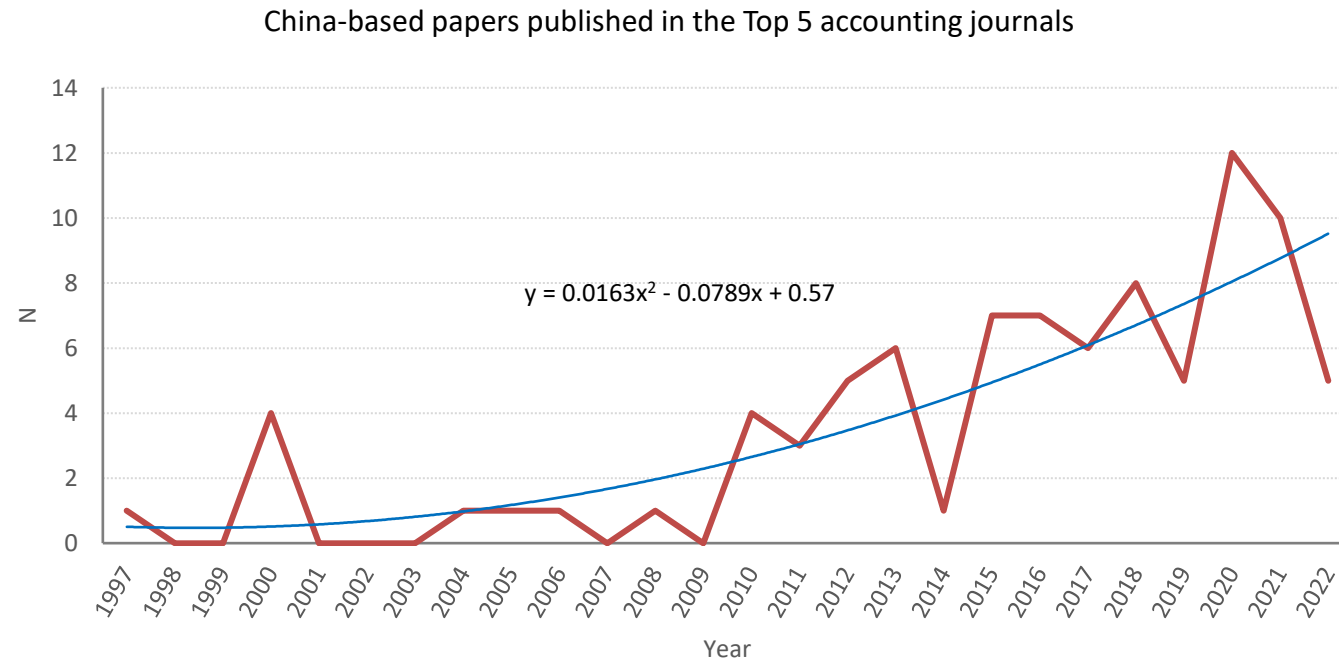
Embracing Research Opportunities in China

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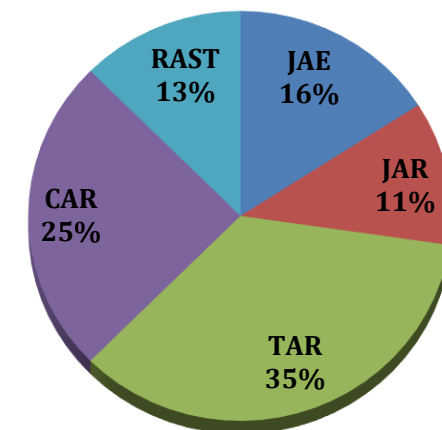
The agenda

- The rise of the China-based accounting research
- The puzzling bias
- Embracing the research opportunities in China
 - Why?
- Embracing the research opportunities in China
 - How?
- An illustration of a China-related research project
 - A Geopolitical Analysis of China's Public-Accounting Profession

The rise of the China-based accounting research



- In total, 88 China-based papers are published in the top-5 journals.
- There is an increasing trend for the number of China-based papers.



The rise of the China-based accounting research



Conference paper
 A review of China-related accounting research in the past 25 years^{*,*}

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ABSTRACT

The past 25 years have seen an exponential growth in the number of China studies in the leading accounting journals. The rise in China-related research mirrors the country's increased importance on the global stage and a growing appreciation of the economic importance of Chinese institutions. We organize our review of the China literature around three central themes: 1) political and regulatory institutions, 2) China's relationships with foreign investors, and 3) the availability of novel data and regulatory shocks. The former two themes address research questions that are more China-centric, while the third exploits the China setting to examine questions that are more universal. We highlight the contributions that China studies have made to the broader accounting literature, the limitations of the current literature, and we offer suggestions for future research directions.

1. Introduction

China has experienced extraordinary growth since launching its program of economic reforms in 1978. Its gross domestic product (GDP) has grown from \$294 billion in 1978 to \$11,785 billion in 2020 (both in constant 2010 U.S. dollars), producing an average growth rate of over 9% per year. China has grown faster than a variety of benchmark countries,

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The past, present, and future of China-related accounting research

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ABSTRACT

This discussion makes several observations regarding the past 25 years of China-related accounting research reviewed in Lennox and Wu (2022). First, we discuss factors of supply and demand that led to the rise of China-related studies and how this growth has contributed to the internationalization of accounting research. We note that the taxonomy of the literature by geographic region rather than topic or methodology is unusual and makes it difficult to formulate a common framework that would help organize the many contributions. Next, we distill distinct patterns in authorship, choice of topics, and asserted contributions of China-related studies. Studies are increasingly shaped by the availability of new data and regulatory reforms. These features should be interpreted carefully, as most reforms are interconnected and reflect the purposeful outcome of a tightly controlled economy. As a result, issues of generalizability arise. Alternatively, researchers could embrace the China setting and strive to identify the local institutional forces that make it special. We see such a more institutional, context-specific view of China-related—or better—international research as an opportunity for the field. We close by presenting five broad themes we view as promising areas for future China-related research.

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1. Introduction

Over the last 25 years, the rapid economic development of the People's Republic of China has attracted scholarly work in many fields. Economists and other researchers have often seen the swift and fundamental changes in GDP growth and structure, technology, society, or political and regulatory institutions as an ideal laboratory for their research and to conduct “quasi-natural” experiments. The sheer size and growing global stature of China's economy have further reinforced the trend. Accounting scholars have vividly contributed to this stream of literature. For the years from 2000 to 2021 alone, we counted 88 China-related studies that were published in top-tier accounting outlets (see Section 2.1 for details).¹ About a quarter of all international accounting studies (i.e., studies that do not have a solely U.S. focus) published in recent years use China as their setting and source of data. Thus, China-related research could establish itself as an attractive and independent field of study in accounting.

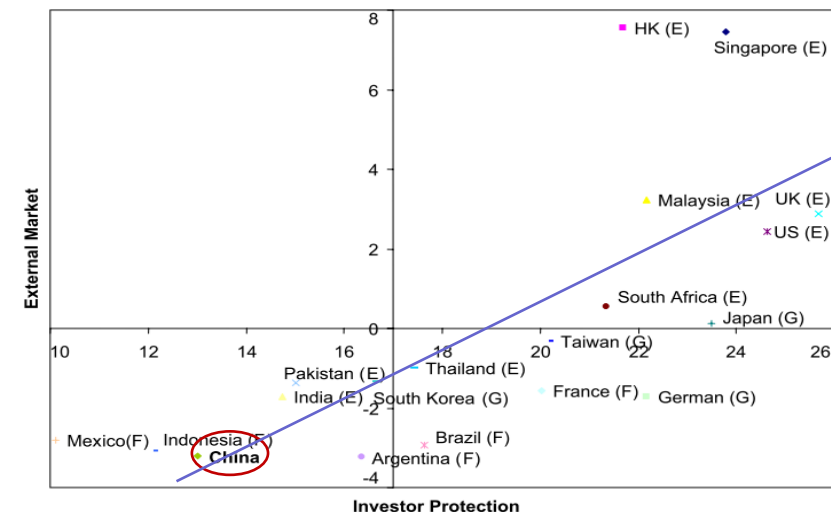
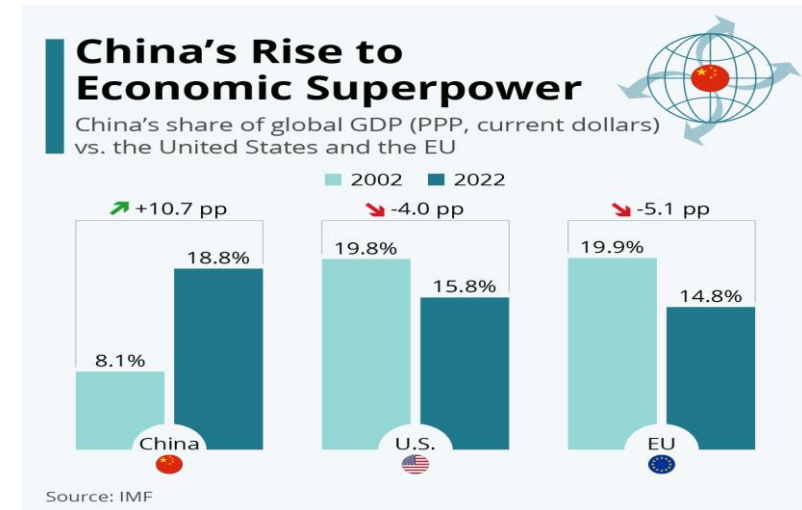
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¹ In line with Lennox and Wu (2022), we focus on publications in the Top 5 accounting journals in our discussion. However, we are quick to acknowledge

- A review article on China-related research (Lennox & Wu 2022) + A discussion paper (Cheng, Hail & Yu) on JAE.
- The first time for a review by geographic region (rather than by topics).
- China-related research has established itself as an independent area of study.

Reasons for the rise of the China-based accounting research

- China's **emerging** and **transitional** economy
 - Emerging: the growth and global importance of China
 - Transitional: the institutional arrangements in China are quite different from what we know from the extant literature (e.g., LLSV)
- It is important to understand how institutions work in China.
 - It should not be an **outlier** in the theories.



Reasons for the rise of the China-based accounting research

- China offers sources of new data to researchers (e.g., audit partners, brokerage commission fees, etc.).
- The Chinese government initiates (experimentations) many regulatory change in developing China's market economy (e.g., share-split reform, audit firm mergers, etc.).
- Striving to increase their international ranking and reputation, the Chinese universities encourage researchers to publish on top journals.
- The virtuous circle: the more researchers understand China, the more receptive they are to China research.

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The rise of the China-based accounting research

- The Chinese studies are also impactful
- Citation analysis
 - For each China-based paper, I use a non-China paper published in the same journal and same issue, and on the same topic as a match.
 - The “cohort match” controls for the effects of age, journal impacts, and research topics.
 - Using Google Scholar citation data (by November 2022), the difference is measured as:
 $C^{DIFF} = C^{CHN} - C^{Non-CHN}$, where C is number of citations.

The rise of the China-based accounting research

Citation analysis of China-based papers (Univariate)

Topics	N	# of cites	C^{DIFF} ($C^{CHN} - C^{Non-CHN}$)	(p-value)
Auditing	33	224.20	66.09	(0.01)
Financial Accounting	28	193.50	113.70	(0.01)
Managerial Accounting	6	63.00	-40.17	(0.12)
Tax	8	86.50	-13.63	(0.69)
Others	13	113.80	47.46	(0.19)
All	88	174.60	64.00	(0.00)

CHN: China-based papers. **Non-CHN:** Non-China papers matched by journal, time, and topic.

The puzzling bias

- The “home bias”
 - Investors tend to favor their home market over foreign ones.
 - Same in the academia: top finance journals publish significantly more U.S.-based papers, although non-U.S. papers are much more influential (Karolyi 2016)
- However, researchers in HK schools have the “foreign bias”.
 - CUHK accounting Ph.D. students’ default choice: the U.S. market
- The puzzling bias:
 - How do the students know how institutions like SEC, PCAOB, FASB, or some complicated laws work?
 - What are the benefits for understanding the U.S. market?

Embracing the research opportunities in China – Why?

- Approaching experienced practitioners (Rajgopal 2021)
 - Auditors, financial analysts, bankers, firm managers, regulators, etc.
- Local knowledge about the institutions
- The right motivation: understanding the institutions that will affect us
- Excellent coauthors to work with
 - Scholars from China are skillful and highly productive.
 - From Jan to Aug 2022, 22 papers accepted by top accounting/finance journals (2.75 per month).

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TAR-李哲、叶康涛、Cheng Zeng、张博的文章被会计学顶刊The Accounting Review接收

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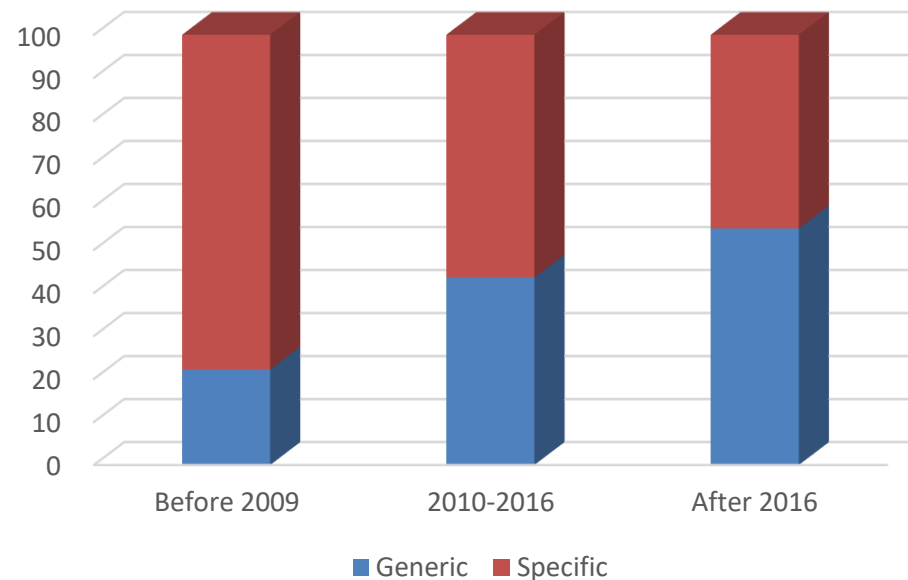
- CAR-北京大学汇丰商学院车丽梅的文章被会计顶刊Contemporary Accounting Research接收
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- MS-厦门大学陈坚、暨南大学会计系姚加权、山东大学张群姿、上海财经大学朱小能合作的文章被顶刊Management Science接收
- JFQA-香港大学林晨、东北财经大学会计学院刘行、复旦大学管理学院会计系倪晨凯、香港中文大学深圳张博辉合作的文章被顶刊JFQA接收
- MS-耗时仅7个月-上财会计王刚、上交安泰喻洋、复旦泛海John Rogers被顶刊Management Science接收
- TAR-廖林合作的文章被会计学顶刊The Accounting Review接收
- CAR-上海立信会计金融学院邵军合作的文章被会计学顶刊Contemporary Accounting Research接收
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Embracing the research opportunities in China – How?

- The different views about the direction of China studies
 - Lennox & Wu (2022): More general-interest studies
 - China is converging with the rest of the world
 - Cheng, Hail & Yu (2022): More institutional-specific studies
 - The institutional differences will persist
- To analyze this issue, I sort the 88 China studies into two groups
 - **Generic**: The paper analyzes issues that do not involve China's institutional factors.
 - **Specific**: The paper analyzes China-specific institutional factors.

Embracing the research opportunities in China – How?

The trend of two types of studies



The impacts of two types of studies

Citation analysis of China-based papers (Multivariate)

Variables	Coeff.	t-value	p-value
Intercept	18.18	0.18	0.855
<i>Auditing</i>	82.41	1.30	0.200
<i>Financial Accounting</i>	26.20	0.44	0.664
<i>Managerial Accounting</i>	-63.77	-0.74	0.460
<i>Tax</i>	-76.66	-0.92	0.362
<i>Generic Research</i>	-93.65	-2.26	0.027
Journal fixed effects		Included	
Year fixed effects		Included	
R ²		71.08%	

N = 88

y = Number of citations.

Embracing the research opportunities in China – How?

Top-15 papers with the highest citations

#	Paper	Year	Journal	Area	Type	# of citations/year
1	Chen, Hung & Wang	2018	JAE	Others	G	138
2	Wang, Wong & Xia	2008	JAE	AUD	S	83
3	Jian & Wong	2010	RAST	FA	S	68
4	Gul, Wu & Yang	2013	TAR	AUD	G	67
5	Piotroski, Wong & Zhang	2015	JAR	FA	S	60
6	Chen, Chen, Lobo & Wang	2011	CAR	AUD	S	57
7	Chen & Yuan	2004	TAR	FA	S	47
8	Chen, Sun & Wu	2010	TAR	AUD	S	45
9	Bradshaw, Liao & Ma	2019	JAE	TAX	S	42
10	Lennox, Wu & Zhang	2014	TAR	AUD	G	40
11	Aharony, Lee & Wong	2000	JAR	FA	S	39
12	DeFond, Wong & Li	2000	JAE	AUD	S	38
13	He, Pittman, Rui & Wu	2017	TAR	AUD	S	36
14	Guan, Su, Wu & Yang	2016	JAE	AUD	S	34
15	Cheng, Du, Wang & Wang	2016	RAST	FA	G	32

Studies that explore China's institutional arrangements have been more influential than those based on generic issues.

FA: Financial accounting; AUD: Auditing.
G: Generic issues; S: China-specific issues.

Embracing the research opportunities in China – How?

- Why shall we do more institutional-specific studies?
 - The path dependence of the formal political-economic institutions, e.g., the role played by the NDRC (发改委) in China
 - The strength and long-lasting effects of informal institutions, e.g., the *guanxi* culture
 - No more new data or experimentation of policies/regulations
 - We can even contribute more to the general accounting research by instilling the institutional view into the literature (Cheng, Hail & Yu 2022).

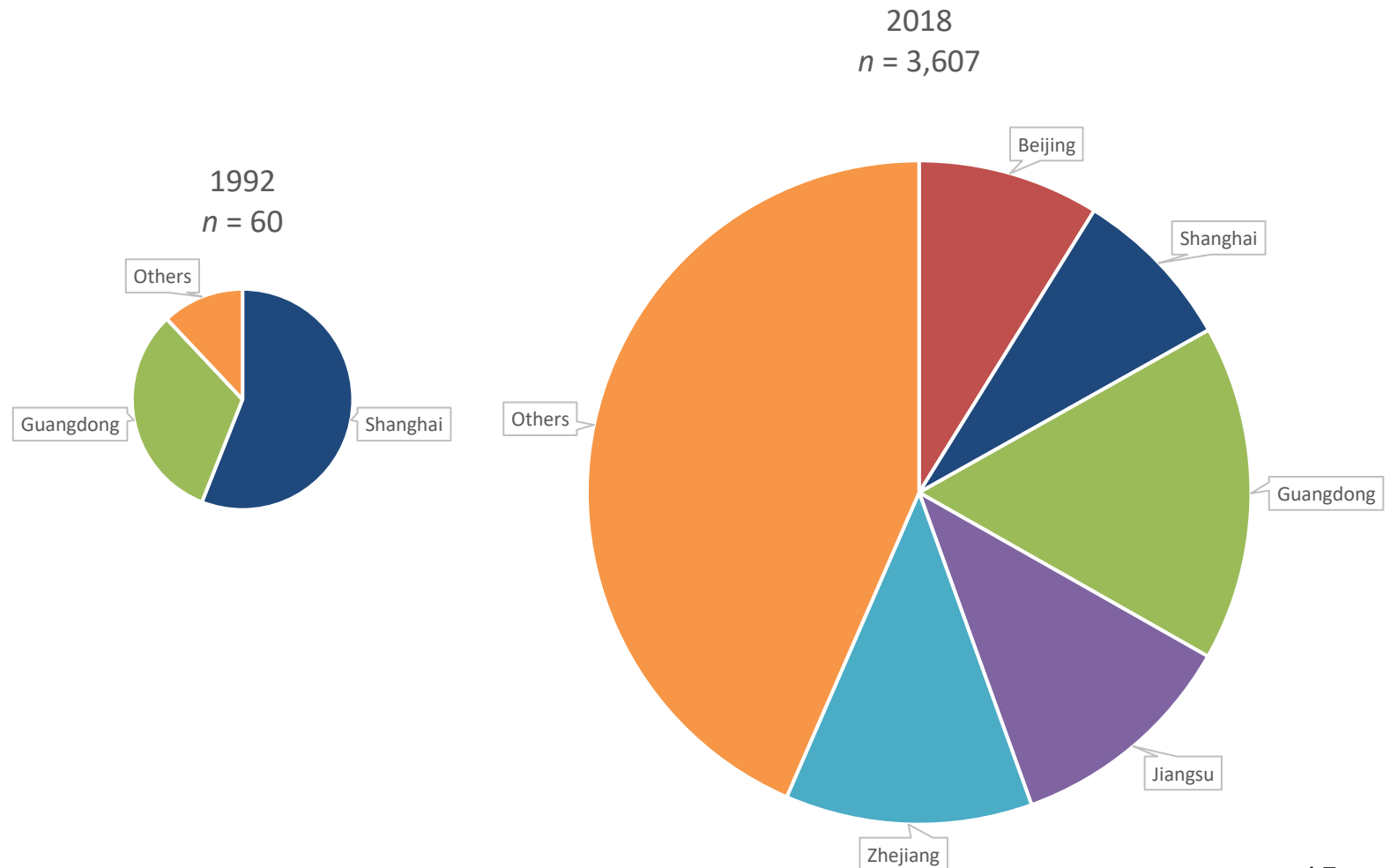


From Beijing with Clout

A Geopolitical Analysis of China's Public-Accounting Profession

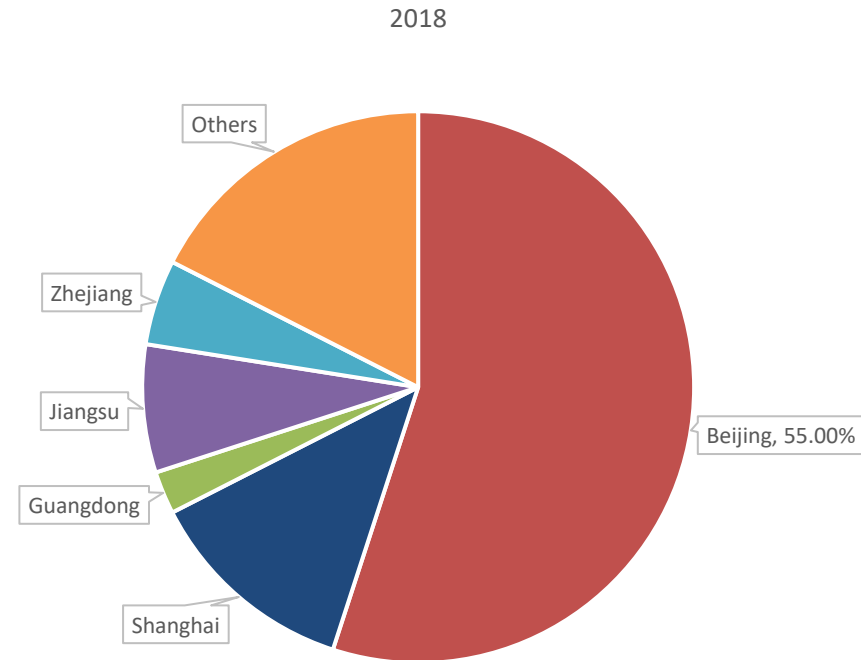
The geographic distribution of public firms in China

- Shanghai and Shenzhen stock exchanges were opened in the early 1990s.
- The number of firms listed in these two exchanges has grown to around 4,955 by Oct 2022.
- In early years, most of the listed firms were from Shanghai or Guangdong.



The geographic distribution of audit firms in China

- Consistent with the geographic distribution of listed firms, audit firms were clustered in Shanghai and Guangdong in early years.
- However, the percentage of audit firms that headquarter in Beijing has increased steadily.
 - By 2015, 55% of audit firms are headquartered in Beijing.
- Why?

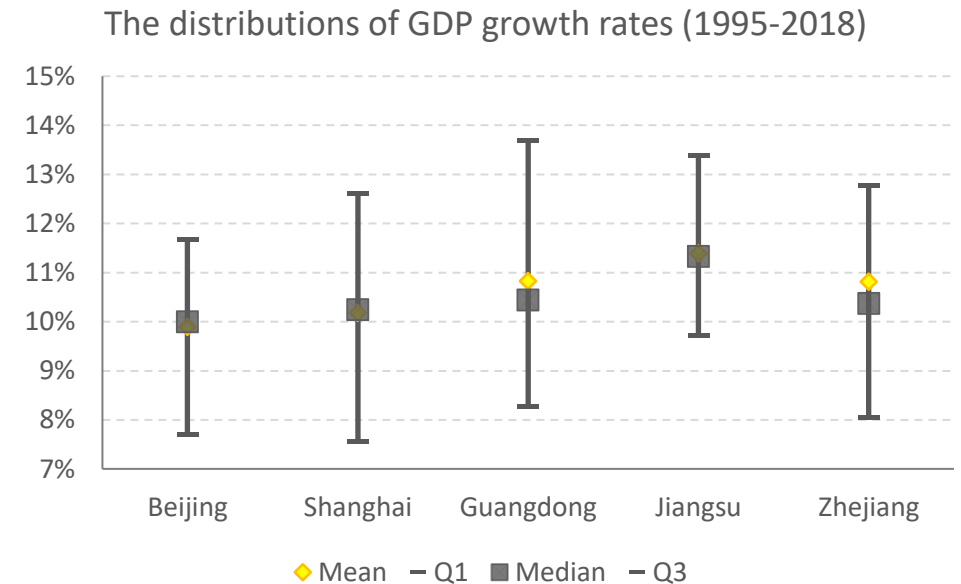
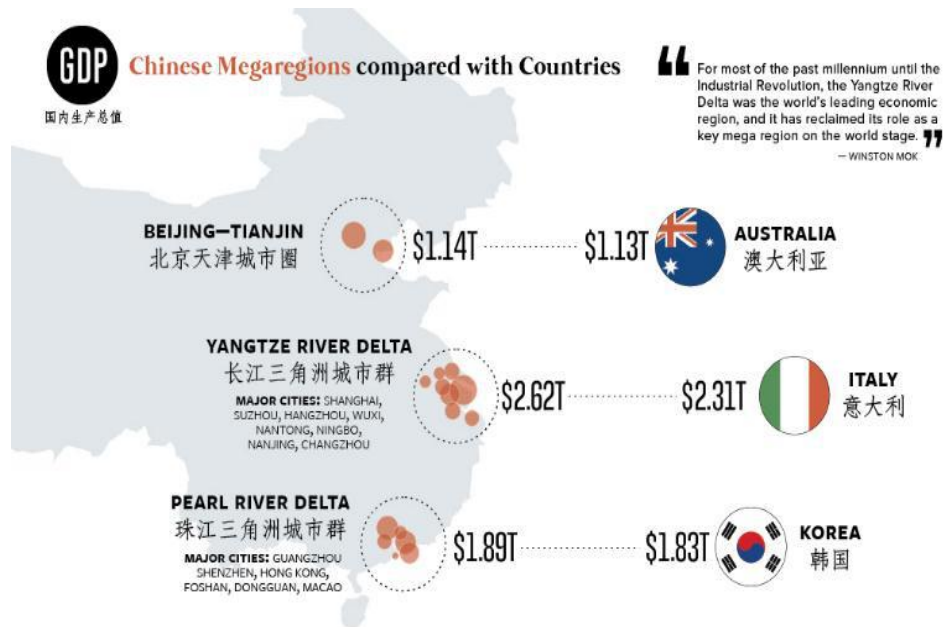


The geographic distribution of audit firms in China

- An intuitive interpretation: Geographic agglomeration
 - Positive externality by locational clustering of industries (Alfred Marshall 1890)
 - Knowledge spillovers, scale economies, and natural advantage (Arrow 1962; Romer 1986; Krugman 1991; Jaffe et al. 1993; Ellison & Glaeser 1997)
 - Examples: Silicon Valley, U.S.; Yiwu, China
- Do these theories explain the clustering of Chinese auditors in Beijing?

The geographic distribution of audit firms in China

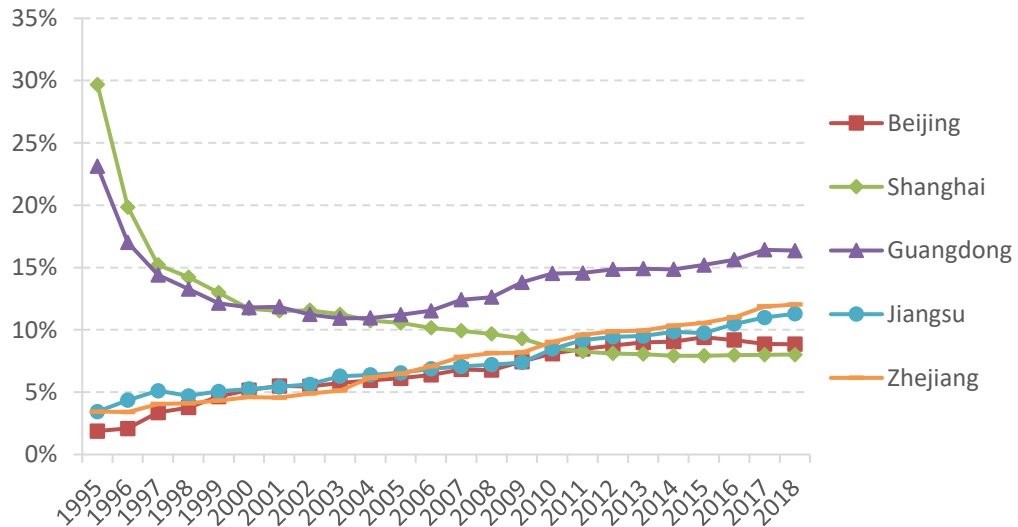
- The size and growth rates of the regional economy do not help to explain.



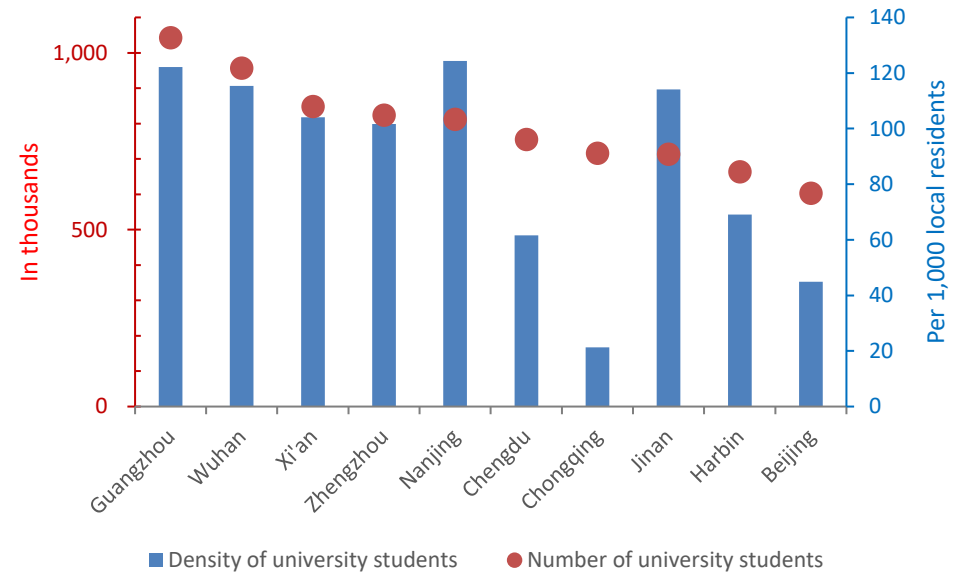
The geographic distribution of audit firms in China

- Nor does the capital market or labor market help to explain.

Headquarter locations of Chinese public firms



The size of enrolled university students



The geographic distribution of audit firms in China

- Beijing does not offer auditors locational advantage in accessing economic resources.
- However, Beijing is China's political center.
- We look at politics – the allocation of economic resources by state power rather than by market mechanisms.
- Our findings:
 - Headquarter-level access to political resources can increase auditors' reach nationally and grow their businesses.

Contributions

- The auditing literature
 - Auditing analysis from firm/office down to individual-auditor level (Lennox and Wu 2018)
 - However, audit contracting and productions are coordinated at the firm level (Coase 1937)
- The literature on political favoritism
 - The politician's hometown and economic activities (Holder and Raschky 2014)
 - Firms' activities in accessing policymakers, e.g., visiting the Whitehouse (Brown and Huang 2020) or the New York Fed (Bradley et al. 2020).

Key institutional features in China

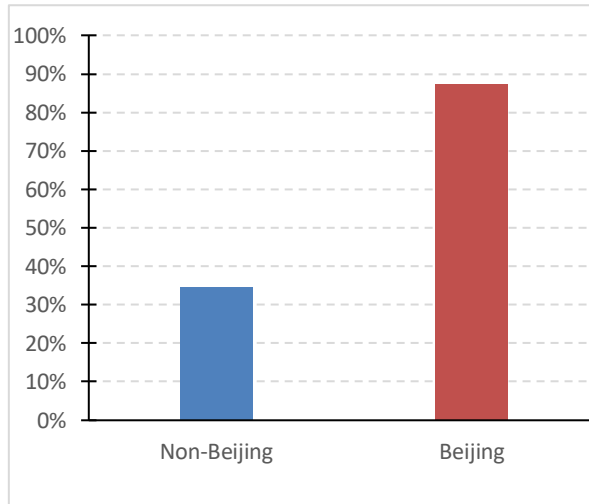
- China's reliance on an administrative governance approach to regulate its economic activities.
 - The regulatory bodies for China's auditing industry: the MOF, CICPA, and CSRC
- The dominance of favor-exchange culture, *guanxi*, in Chinese society.
 - The dependence on networks to govern individual behaviors.
- Formal regulations + Informal *guanxi* culture ⇒ Political favoritism.
 - Successful entrepreneurs must possess excellent political skills to tackle excessive regulations and entry restrictions (Li et al. 2006).

The importance of geographic proximity in the political world

- Geographic location is a powerful basis for people to develop social and political networks.
 - In-person lobbying and meetings: influence policy-setting and the allocation of government-related audit engagements
 - The arrangement of social wining and dining: develop *guanxi* with officials, be better informed about the regulatory process, and gain more insight into government policies and actions.

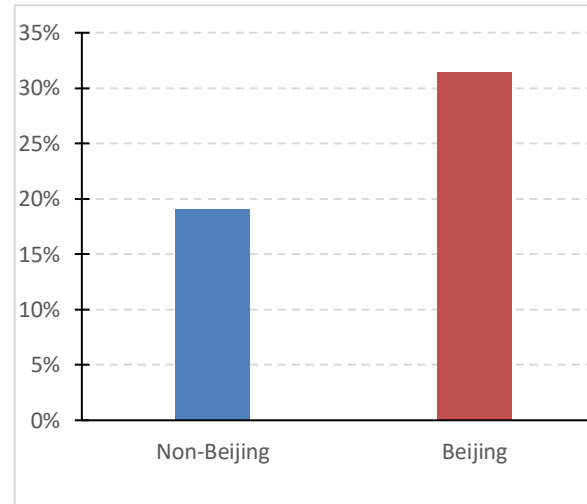
The advantages of being in Beijing

Central SOE audit qualification (2006-2014)



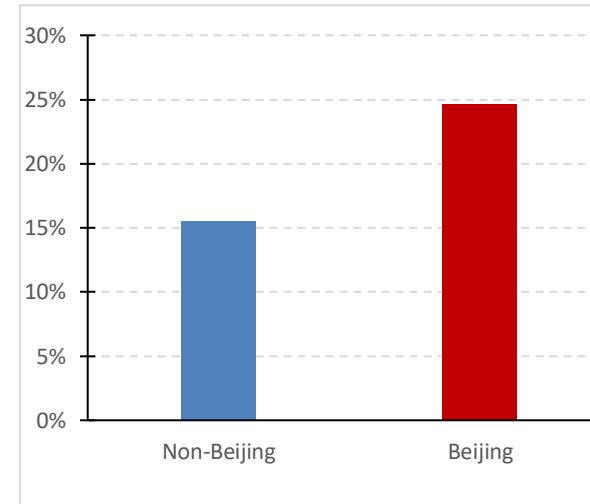
$\chi^2 = 29.00, p < 0.001$

H-share audit qualification (2009-2018)



$\chi^2 = 71.16, p < 0.001$

The CSRC SIC memberships (2003-2018)



$\chi^2 = 128.18, p < 0.001$

- Beijing auditors are more likely to have the qualification to audit central SOEs or H-share firms (those listed in Hong Kong)
- They are more likely to be appointed as screening-committee (SIC) members in the CSRC.

近水楼台先得月

Predictions

- H1:** After relocating their headquarters to Beijing, audit firms are more likely to act as auditors for CSOEs and H-share firms, and their partners are more likely to be appointed as the SIC members.
- H2:** After relocating their headquarters to Beijing, audit firms will increase their market shares.

Empirical analysis

- Data
 - A total of 32 relocation cases between 1998 and 2015
 - 25 moving to Beijing (Treatment group)
 - 7 to other cities (e.g., Tianjin) (Placebo test)
 - Audit firms matched with the treatment obs. in clientele size are used as control group.

Empirical analysis: Qualifications and memberships

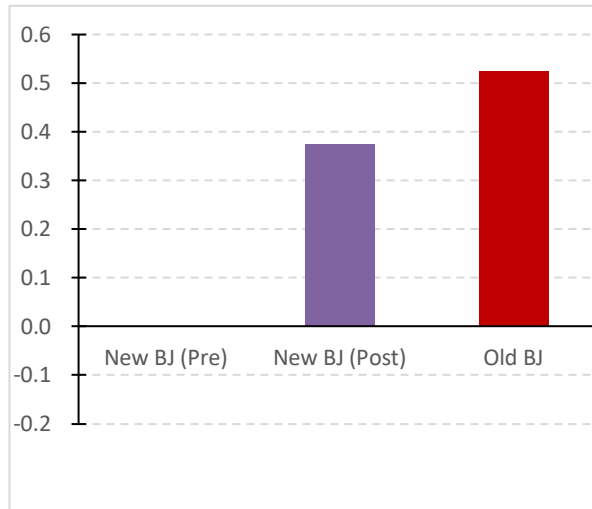
- The CSOE and H-share audit qualification and SIC memberships
- The analysis
 - Each year, the regulators grant the licenses to the auditors or select the SIC members
 - $y = 1$ if selected;
 - $y = 0$ otherwise.
 - Logit regression
 - x variables
 - $New BJ^{Pre}$: Obs. for firms that will move to Beijing
 - $New BJ^{Post}$: Obs. for firms that moved to Beijing
 - $Old BJ$: Obs. for firms that are in Beijing from the very beginning.

Variables	(1) CSOE Auditor	(2) H-share Auditor	(3) SIC membership
$New BJ^{Pre}$	0.005 (0.01)	-13.563*** (-7.67)	-2.182* (-1.94)
$New BJ^{Post}$	2.447*** (6.20)	2.800** (2.10)	0.088 (0.50)
$Old BJ$	3.433*** (9.89)	4.771** (2.11)	0.555* (1.72)
$Auditor Size$ (# of clients)	0.895** (2.22)	-35.835 (-0.87)	2.215*** (4.85)
$Auditor Size$ (Assets audited)	-0.231 (-0.66)	42.518 (1.04)	-1.082*** (-2.83)
$Sanctioned$	-0.505* (-1.72)	-0.682 (-0.43)	-1.015** (-2.15)
LLP	0.514 (0.87)	6.771*** (2.95)	-0.104 (-0.24)
$Big 4$	0.159 (0.20)	24.758*** (4.10)	1.023*** (2.73)
$New BJ^{Post} - New BJ^{Pre}$ (χ^2)	2.442***	16.363***	2.270**
Z-value for difference	9.32	19.71	1.94
N	Yes	Yes	Yes
Pseudo R ²	478	442	862

Empirical analysis: Qualifications and memberships

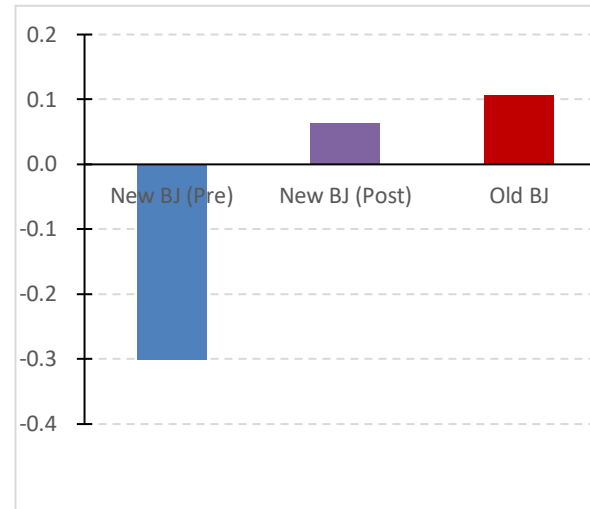
The marginal effects on the qualifications and memberships

Central SOE audit qualification (2006-2014)



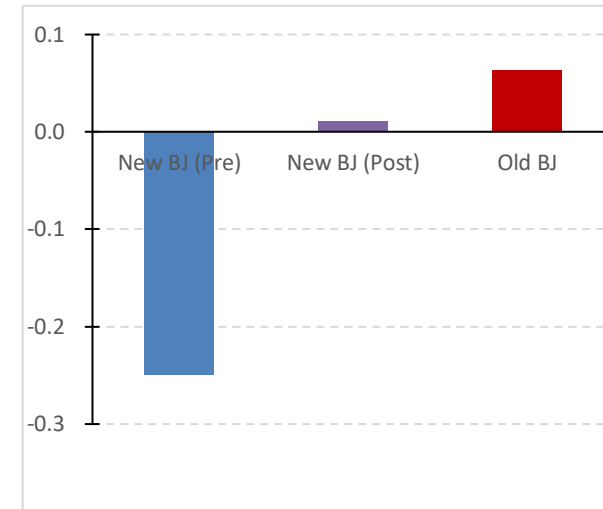
Z for New BJ (Pre - Post) = 9.32, $p < 0.01$

H-share audit qualification (2009-2018)



Z for New BJ (Pre - Post) = 19.71, $p < 0.01$

The CSRC SIC memberships (2003-2018)



Z for New BJ (Pre - Post) = 1.94, $p < 0.10$

Empirical analysis: Market shares

Placebo test

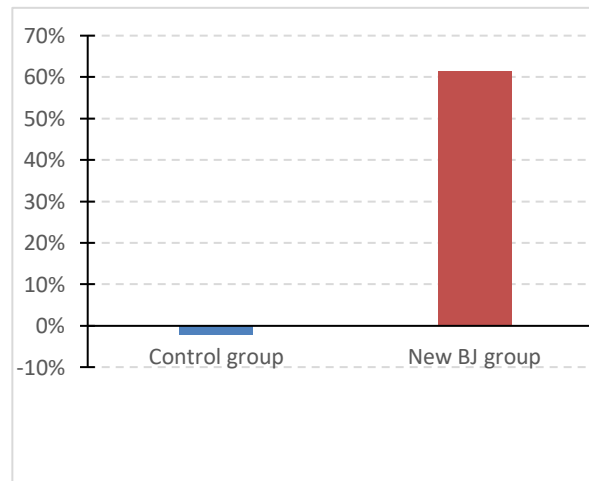
- The positive effect on auditor selection should translate into a larger market share (S).
- We use an event-study approach: [Changes in S for the treated – Changes for the control]
- We measure market share by the CICPA ranking data
 - Total revenues
 - Number of CPAs

Variables	Sample moving to Beijing		Sample moving to others	
	Ln(S_REV)	Ln(S_CPA)	Ln(S_REV)	Ln(S_CPA)
<i>Post</i>	-0.021 (-0.13)	-0.070 (-0.58)	-0.413 (-0.88)	-0.145 (-0.77)
<i>Post</i> × <i>Treat</i>	0.499** (2.16)	0.348* (1.75)	1.249 (1.03)	0.214 (0.35)
<i>GDP</i>	-0.369 (-0.90)	-0.326 (-1.00)	1.335 (0.58)	0.058 (0.05)
<i>Investments</i>	0.788*** (3.44)	0.449*** (2.95)	0.707 (1.03)	0.349 (0.87)
<i>Graduates</i>	-0.956*** (-4.50)	-0.542*** (-2.79)	-1.333** (-2.32)	-0.810* (-2.01)
Constant	3.218 (1.40)	0.639 (0.32)	-6.452 (-0.55)	0.871 (0.12)
Audit Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
N	508	508	190	190
Adjusted R ²	0.846	0.802	0.947	0.915

Empirical analysis: Market shares

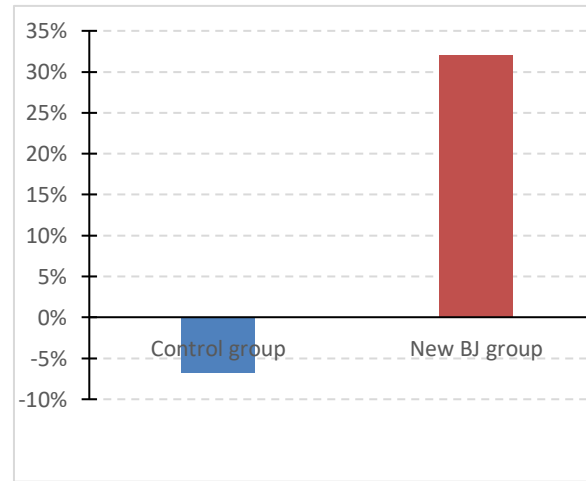
The changes in market shares after moving to Beijing

Total revenues (2002-2018)



Z for the difference = 2.16, $p < 0.05$

Total # of CPAs (2002-2018)



Z for the difference = 1.75, $p < 0.10$

Conclusion & discussion

- We document the clustering of Chinese audit firms in Beijing.
 - The role of geopolitical factors in doing business
- Why this study is interesting?
 - A salient phenomenon
 - Understand China's auditing industry from an institutional perspective
 - It also contributes to the political favoritism literature.





Thank you!