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Research Article

Tunnelling, Fraudulent Financial Statements and Regulation Effects: Chinese Evidence

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returns f lso find that
informal institutions, such as social trust play an important role in mitigating tunneling.

Overall, our results suggest the means by which Chinese regulatory mechanisms have been effective in protecting minority shareholders from expropriation by controlling shareholders.

KEYWORDS: Tunneling | fraudulent financial statements | Chinese listed firms

JEL: G30 | G32 | G38 | K22

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Supplemental Material

Supplemental data for this article can be accessed on the publisher's website.

Notes

1. In 200 h excess borrowin onal fund occupan

2. The 2 he results remain r

3. Du for a long period o), using the nationwi n 2000 to estimate dquartered.

4. Untab ms and matchin

5. The VIF for each variable is no greater than 4; hence, multicollinearity is not a problem.

6. In our un-tabulated OLS regression results with industry and year dummies, the coefficients on FRAUD are 0.038 in the low social trust subsample and 0.080 in the high social trust subsample. Both are significant at the 1% level. The difference is also significant at the conventional level, which supports our argument that greater tunneling balances differences between fraudulent firms and matching firms occur in the high social trust provinces.

7. Similar (un-tabulated) results are also found when we industry-adjust ROA, return on equity and return on sales by subtracting the industry median to allow for potential macro-economic impacts (Tu and Yu 2014).