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Research Article

Tunnelling, Fraudulent Financial Statements and Regulation Effects: Chinese Evidence

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Pages 614-624 | Published online: 08 Sep 2020

Cite this article

<https://doi.org/10.1080/1540496X.2020.1816462>

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

Q KEYWORDS: Tunneling fraudulent financial statements Chinese listed firms

Q JEL: G30 G32 G38 K22

Acknowledgments

We would like to thank Paresh Kumar Narayan (the editor) and two anonymous reviewers for their helpful comments and suggestions.

Supplemental Material

Supplemental data for this article can be accessed on the [publisher's website](#).

Notes

1. In 2009, the average size of the largest non-executive director's shareholding was 1.5% (with an excess of 1% being held in a personal fund), compared with 1.1% in 2008. The average size of the largest non-executive director's shareholding in 2009 was 1.5% (with an excess of 1% being held in a personal fund), compared with 1.1% in 2008.
2. The 2009 results remain relatively stable compared with the 2008 results.
3. Data for the period of 2000–2009, using the nationwide data, is estimated and quartered.
4. Untabulated results show that the matching process is effective.

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](#)).

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