

Research on the Influence of Board Informal Hierarchy on Corporate Financial Restatement Behavior

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Abstract

This paper examines the influence of board informal hierarchy on corporate financial restatement behavior. Taking enterprises listed in Shenzhen and Shanghai A-share markets as the research sample, the paper examines the influence of board informal hierarchy on corporate financial restatement behavior and also explores the regulating effects of three situational factors: board size, number of board meetings, board performance pressure. The results show that: The clearer the board informal hierarchy, the more it will inhibit the financial restatement behavior of firms. Meanwhile, board size negatively moderates the relationship between board informal hierarchy and financial restatement behavior; while the number of board meetings positively moderates the relationship between board informal hierarchy and financial restatement behavior; and board performance pressure negatively moderates the relationship between board informal hierarchy and corporate finance.

Keywords: board informal hierarchy, financial restatement, board of directors, performance pressure

1. Introduction

With the globalization of the economy, companies that want to win in global competition must prioritize high-quality development. High-quality financial reporting is significant to better realize the financial market to serve the growth of the real economy (He & Fang, 2023). However, the information regulation and disclosure system of China's capital market is still not perfect, and the low quality of accounting information is still a common problem of listed companies in China (Wang & Long, 2023). Among them, financial restatement behavior is a process in which listed companies amend their prior financial reports to reflect the correction of financial data errors, and in recent years, China's capital market has shown characteristics such as a high and growing restatement ratio, a wide range of restatements and often involving financial data, which significantly increases the company's financing costs and litigation risks, damages the value of the company and is not conducive to the development and growth of the enterprise (IH& SA, 2017). Therefore, the study of the influencing factors of financial restatements and their governance is an important research topic in the field of corporate governance and financial management (Garg et al., 2018).

Existing studies have found that financial restatement generate negative market reactions, leading to a decrease in the value of a company's equity, indicating higher audit risk, increasing audit workload and leading to auditor replacement, so financial restatements make the development of the company impaired. In addition, financial statements have a signaling effect that can easily attract the attention and suspicion of regulators, leading to a decline in the quality of corporate reputation (Chen & Fang, 2023). Regarding the influencing factors of corporate financial restatement behavior, domestic and foreign scholars have conducted a relatively adequate study, mainly finding that both internal and external corporate governance mechanisms have an important impact on financial restatement behavior (Westphal et al., 2018). The literature on corporate governance and corporate financial restatement behavior has mainly examined the effects of shareholding structure, director tenure, board size, and director background characteristics, while some studies have examined the effects of board characteristics on corporate misconduct (Liang & Xu, 2023). In addition to these explicit formal corporate governance factors, other implicit "soft" factors can also have a significant impact on corporate financial restatement behavior, and the inconsistent findings of existing studies analyzing the impact of formal factors have made it impossible to reach a consensus on which boards are more effective in avoiding financial restatements, and have led scholars to gradually focus on the role of informal factors (Wu & Su, 2023). Board

informal hierarchy characteristics are an important class of informal board-level characteristics are an important category of informal factors that may have a significant impact on decision-making style and hence effectiveness, and there is no literature on how informal board-level clarity affects corporate financial restatements (Yuang & Wang, 2022). Based on this, this paper explores the mechanisms underlying the influence of board informal hierarchy on corporate financial restatements in the context of China's pursuit of high-quality development.

The remainder of this study is structured as follow: section 2 discusses relevant and pertinent literature and hypotheses; section 3 describes the study methodology; section 4 presents descriptive statistics and discussion of the sample; section 5 shows the regression results and robustness tests, and section 6 concludes.

2. Theoretical Analysis and Hypothesis

2.1 Board Informal Hierarchy and Corporate Financial Restatement Behavior

The board informal hierarchy is an implicit, informal hierarchy that is formed in the board of directors due to individuals' different social capital (Zhu & Tucker, 2016). Members at the top of the board informal hierarchy bring more value to the firm by utilizing their heterogeneous resources and aiding the board informal hierarchy in making better decisions (Hauser & Roie, 2018). Expected status theory suggests that members of the higher group tend to have more organizational resources and higher status in the organization, and their views formed in the decision-making process will be more respected, and they will actively lead other members to gain a sense of accomplishment, which makes the lower members have greater expectations of the role played by the higher members and produce stronger submissive behavior, which converts the trust and respect of the lower members (Xiu & Liu, 2022), and when the heterogeneous resource gap between the informal hierarchy is greater, the informal hierarchy will also be clearer and the organization's submissive behavior will be more pronounced, thus better assisting it to achieve its organizational goals (Veltrop et al., 2017).

According to principal-agent theory, the external monitoring environment, managers' self-interest motives and internal and external corporate governance mechanisms can have a significant impact on financial restatement behavior (Blankley et al., 2012). External oversight helps to weaken management's financial restatement behavior, and management will reduce fraudulent financial restatements for purposes such as preserving the company's image and strengthening personal positions (Boubakri et al., 2013). Self-interested managers may adopt aggressive accounting policies to increase the company's share price and profit from them, leading to frequent financial restatements (Cohen et al., 2013). The board of directors, as a corporate strategic decision-making and advisory body, has the responsibility to oversee managerial violations, and the board informal hierarchy is an important internal oversight force formed by the prestige and influence of board members, so corporate financial restatements will inevitably be affected by the clarity of the informal hierarchy within the board of directors (Linnenluecke et al., 2017). First, the board informal hierarchy can improve the cognitive level of board members and the efficiency of board oversight decisions. The board of directors generally has a short duration and the financial restatement behavior is hidden, which requires the board to effectively deal with fraudulent decisions (Wang & Su, 2023). Second, the higher the clarity of the informal hierarchy of the board of directors, the more it can enhance communication and exchange among board members, create an environment of mutual checks and balances for the board of directors, enhance the overall cohesion of the board of directors, maintain the independence of the board of directors, avoid the board of directors being "captured" by managers, and increase the cost of "collusion" between managers and board members (Yi & Sun, 2022). It also helps to avoid the "capture" of the board of directors by managers, increase the cost of "collusion" between managers and board members, strengthen the board of directors' supervision of managers, inhibit managers' self-interest in the process of financial restatement behavior, and reduce the financial restatement behavior of enterprises. Accordingly, this paper proposes hypothesis 1:

H1: The higher the clarity of the board's informal hierarchy, the lower the likelihood that corporate financial restatement behavior will occur.

2.2 Moderating Effect of the Board Size

According to expected status theory, as the group size increases, the informal hierarchy becomes blurred and less easily identifiable, and thus an increase in board size may diminish the role of board informal hierarchy in corporate financial restatement behavior (Wang & Wu, 2022). First, the high or low status of board members in the board informal hierarchy is relative and comes from comparison with other members of the board (Hauser & Roie, 2018). As the size of the board increases, the difficulty of comparing board members with each other rises, which undoubtedly adds difficulty and time to the identification of the board informal hierarchy, and board members with different social status may have different psychosocial orientations and thus exhibit different social cognitions, and the cognitive differences among board members increase and make different expectations

about the status differences among members. It is more likely that board members will have different expectations about the status differences among members, so it is more difficult for board members to reach a consistent consensus about the expected status differences among members (Zhu & Tucker, 2016). Second, as the size of the board of directors increases, the heterogeneous resources of the board will also become more, which will “dilute” the heterogeneous differences in the informal hierarchy, making the lower members make heterogeneous comparisons when they are subservient to the higher members, and the increased target of comparison will lead to the bias of the board members about the expected status differences among members (He & Fang, 2023), and the cognitive burden will increase the difficulty for board members to reach agreement on expected status differences, and disagreements among members will make the conflict of interest between them expand, thus increasing the coordination and communication costs of the team. Accordingly, this paper proposes hypothesis 2:

H2: The larger the board size, the weaker the negative effect of board informal hierarchy on corporate financial restatement behavior.

2.3 Moderating Effect of the Number of Board Meetings

The intensity of the influence of the board informal hierarchy on the behavior of the board members is also closely related to the intensity of the interaction between the board members, provided that the board membership remains stable (Guo & Lv, 2022). Board meetings, as a manifestation of board behavior, can perform both “supervisory control” and “resource provision” functions. First, first of all, as the number of board meetings increases, the degree of familiarity among the members of the board group increases, and as the members of the group obtain more information in subsequent group interactions, the expected differences in status among the board members gradually reach a consensus, and the role of the informal hierarchy in the group becomes stronger, the stronger the degree of interaction among the members of the group, the more relevant information the members obtain, and the stronger the mutual understanding of the board members (IH & SA, 2017). The greater the degree of mutual understanding among board members, the stronger the clarity ranking regarding the formation of expected status differences among group members (Zhang & Zhao, 2022). Secondly, more frequent meetings of the board of directors can increase the efficiency of the board of directors, and the more frequent meetings directors are more willing to perform their duties, which help to solve problems in the company in a timely manner and reduce the occurrence of financial restatement behavior (Chen & Fang, 2023). Board meetings can increase the probability of mentioning financial issues at the meetings, increase the supervision of management, give full play to the functions of the board of directors, further improve the transparency of information in the financial aspects of the enterprise (Zhu & Tucker, 2016), bring better economic benefits to the enterprise, and improve the business performance of the enterprise as a result of the increase in this aspect. Accordingly, this paper proposes hypothesis 3:

H3: The greater the number of board meetings, the stronger the negative effect of board informal hierarchy on corporate financial restatement behavior.

2.4 Moderating Effect of Board Performance Pressure

The strength of the relationship between board informal hierarchy and financial restatement behavior can be influenced by specific circumstances and specific factors, the salient advantage of a stronger board informal hierarchy lies in decision efficiency, the stronger the negative contribution of informal hierarchy to financial restatement when the firm’s need for efficient decision making is stronger (Chen & Fang, 2023), and board performance pressure can act as a feedback mechanism for directors’ decision efficiency, the Good or bad past performance reflects the pressure for efficient board decision making (Garg et al., 2018). When a company has good past performance, the board faces less pressure for decision efficiency, when the board is more satisfied with current decisions and strategies, the board is less likely to be in conflict, and the board has relatively little need for informal hierarchy (Wang & Long, 2023). On the contrary, when the company’s performance is poor, the board faces greater pressure and crisis, and the board is more prone to conflict and disagreement within the board, thus the strong need for efficient board decisions will urgently go to the need to establish order and minimize destructive conflict (Veltrop et al., 2017). When the company has poor past performance and urgently needs a strong organizational leadership, the efficiency advantage of the informal level of the board of directors with high clarity will be more prominent and necessary in modern times, and the directors with higher authority will guide the board to make decisions quickly in order to bring the company’s daily operations back on track as soon as possible and improve the company’s performance quickly (IH & SA, 2017). Thus, when the company faces strong board performance pressure, the board of directors has a stronger need for high clarity at the informal level in order to improve the efficiency of decision making and quickly improve the company’s

performance.

Accordingly, this paper proposes hypothesis 4:

H4: The greater the board performance pressure, the stronger the negative effect of board informal hierarchy on corporate financial restatement behavior.

3. Research Design

3.1 Research Sample and Data

In this paper, we select the sample of listed enterprises in Shenzhen and Shanghai A-shares during 2013-2019. The reason for choosing this sample interval is to avoid errors in the sample selection of financial restatements due to definition ambiguity, and also financial restatements have a lag, and generally the financial restatements published are 2-3 years ago. The following samples were excluded to ensure the accuracy of the research results: (1) samples in the financial industry (2) samples that were ST or PT in the current year (3) samples with abnormal financial data, including samples with operating income or total assets less than 0, gearing ratio greater than or equal to 1 or less than or equal to 0 (4) samples with serious missing data, and finally 12,720 valid observations were obtained. The data related to financial restatement used in this paper were obtained from the CSMAR database, and the data were processed and analyzed using Excel 2019 and Stata16.

3.2 Variable Description

3.2.1 Financial Restatement Behavior

Drawing on established studies related to financial restatements, the value is defined as 1 if the listed company has a financial restatement in a year and 0 otherwise.

3.2.2 Board Informal Hierarchy

In this paper, the Gini coefficient is used to measure the clarity of the board informal hierarchy of directors, cf. equation (1):

$$G = \frac{2 \times \text{cov}(y, r_y)}{N \times \bar{y}} \quad (1)$$

G represents the Gini coefficient, which indicates the clarity of the board informal hierarchy; y indicates the number of part-time positions on the board, and r_y indicates the ranking of this director's status indicator on the board; $\text{cov}(y, r_y)$ indicates the covariance between y and r_y ; N indicates the board size; and \bar{y} indicates the mean value of y . The Gini coefficient takes values in the range of 0 to 1.

3.2.3 Board Size

The natural logarithm of the total number of board members plus one is used as a measure of board size.

3.2.4 Number of Board Meetings

The board meetings mainly include two types of on-site meetings and correspondence meetings. Since correspondence meetings do not reflect the degree of interaction among board members, this paper uses the number of on-site board meetings held by the company each year to measure the number of meetings among board members.

3.2.5 Board Performance Pressure

If this year's company performance index (ROA) is worse than the previous year's company performance index, a value of 1 indicates that there is board performance pressure; conversely, a value of 0 indicates that there is no board performance pressure.

3.2.6 Control Variables

In this paper, board-level and firm-level control variables were selected. The details are shown in Table 1.

Table 1. Variable definition

Variable	Definition
Restate	The presence of a financial restatement takes the value 1, otherwise it is 0
Gini	$Gini = 2cov(y, r_y) / (Ny)$
Size	Number of board meetings
Number	Number of board meetings held on-site in a year
pressure	ROA is lower than the previous year, take the value of 1, otherwise take 0
Duality	If the chairman and general manager are one person, the value is 1, and the opposite is 0
Indratio	Independent board members/all board members
A_age	Average age of all board members
A_inequality	Gini coefficient of the age of all board members
A_tenure	Average term of office of all board members (years)
T_inequality	Gini coefficient of tenure of all board members
G_diversity	Heterogeneity index of gender of all board members
A_CEOs	Proportion of CEOs of other companies who are also directors of the Company
Finan	Director members with financial background/all directors
LawLaw	Director members with legal background/all directors
F_experience	Number of directors with overseas experience/all directors
Boardratio	The sum of the shareholding ratio of board members
Top1	Shareholding ratio of the first largest shareholder
T_2~10	Sum of the shareholdings of the second to tenth largest shareholders
Instratio	Sum of shareholdings of institutional investors
F_size	Natural logarithm of the company's total assets
Roa	Return on total assets of the company
Lev	Ratio of company's assets to liabilities
O_receivables	Ratio of net other receivables to total assets
Guarantee	Ratio of total external guarantees to total equity

3.3 Model Design

To verify that the board informal hierarchy of directors has a negative impact on corporate financial restatement behavior, model (2) is constructed:

$$Restate_{i,t} = \alpha_0 + \alpha_1 Gini_{i,t} + \Sigma \alpha_i Control_{i,t} + \varepsilon_{i,t} \quad (2)$$

In order to verify that the larger the board size, the weaker the negative effect of informal board level clarity on corporate financial restatement behavior; the more the number of board meetings, the stronger the negative effect of informal board level clarity on corporate financial restatement behavior; and the weaker the negative effect of informal board level clarity on corporate financial restatement behavior, models (3), (4) and (5) are constructed respectively:

$$Restate_{i,t} = \beta_0 + \beta_1 * Gini_{i,t} * Size_{i,t} + \beta_2 Size_{i,t} + \Sigma \beta_i Control_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$Restate_{i,t} = \gamma_0 + \gamma_1 * Gini_{i,t} * Number_{i,t} + \gamma_2 Number_{i,t} + \Sigma \gamma_i Control_{i,t} + \varepsilon_{i,t} \quad (4)$$

$$Restate_{i,t} = \rho_0 + \rho_1 * Gini_{i,t} * Power_{i,t} + \rho_2 Power_{i,t} + \Sigma \rho_i Control_{i,t} + \varepsilon_{i,t} \quad (5)$$

4. Analysis of Empirical Results

4.1 Descriptive Statistics

Table 2 shows the results of the descriptive statistical analysis of the main variables. From the descriptive statistics presented in Table 2, it can be seen that the mean value of financial restatement behavior in companies is 0.212, which shows that financial restatement behavior is very common in companies; for the indicator of the clarity of the informal level of the board of directors, the mean value of the clarity of the informal level of the board of directors is 0.162, the maximum value is 0.451, and the minimum value is 0, which reflects that there is an informal level of the board of directors in companies during the sample period, and the clarity of the informal level of the board of directors varies significantly from company to company. There are significant differences in the clarity of the informal level of the board of directors of different companies, but the clarity of the informal level of the board of directors is generally small.

Table 2. Descriptive statistics

Variable	Count	Mean	SD	Min	Max
Restate	18780	0.213	0.409	0	1
Gini	18780	0.163	0.062	0.05	0.323
Size	18780	22.183	1.298	19.867	26.179
Number	18780	9.896	3.997	4	25
pressure	17763	0.305	0.46	0	1
Duality	18780	0.287	0.452	0	1
Indratio	18780	0.376	0.053	0.333	0.571
A_age	18780	51.476	3.457	43.222	60.143
A_inequality	18780	1.907	0.362	0.875	2.598
A_tenure	18780	1.505	0.326	0.618	2.227
T_inequality	18780	0.275	0.997	0	4.553
G_diversity	18780	0.222	0.155	0	0.5
A_CEOs	18780	0.555	0.294	0.1	1.571
Finan	18780	0.135	0.145	0	0.625
LawLaw	18780	0.142	0.118	0	0.556
F_experience	18780	0.113	0.139	0	0.625
Boardratio	18780	2.122	0.198	1.609	2.708
Top1	18780	34.493	14.748	8.804	74.566
T_2~10	18780	24.733	13.058	2.482	56.169
Instratio	18780	37.71	23.956	0.018	88.008
F_size	18780	0.045	0.076	-0.742	0.876
Roa	18780	0.036	0.065	-0.299	0.186
Lev	18780	22.183	1.298	19.867	26.179
O_receivables	18780	0.016	0.025	0	0.154
Guarantee	18780	0.313	0.532	0	1

4.2 Analysis of Test Results

Based on the econometric model established in the previous section, STATA16 software was used to analyze the relationship between the clarity of the board informal hierarchy of directors of listed companies and firm performance in order to test the hypotheses proposed in this study. The Hausman test was conducted on the panel data, and based on the test results, this study used fixed effects on the panel data. Table 3 reports the regression results for hypotheses 1, 2, 3 and hypothesis 4. To exclude the effect of extreme values, a 1% Winsorize treatment was applied to the continuous variables. Also, the independent variables were decentered from the moderating variables when testing for moderating effects. The results of regression (1) in the table show that the coefficients of the clarity of the informal level of the board of directors are all significantly positive at the 1% level, indicating that the clarity of the informal level of the board of directors has a positive effect on corporate financial restatement behavior, which verifies hypothesis 1; regressions (2) and (4) add the moderating variables board size and performance pressure, and the results show that the coefficients of the clarity of the informal level of the board of directors and corporate financial restatement behavior in model (2) However, the coefficients of the cross-products of board of directors' informal clarity and board size are both significantly negative, indicating that the increase in board size will hinder the transmission of information within the board of directors, thus weakening the inhibitory effect of board of directors' informal clarity on financial restatement behavior. The negative coefficient of the cross multiplier between the board of directors' informal hierarchy and the board of directors' performance pressure in model (4) is significant, which indicates that the board of directors' performance pressure will lead to a greater passivity of the company, and will take more aggressive behavior to get the company out of trouble. In (3), the coefficients of the two cross-multipliers of board of directors' informal clarity and the number of board of directors' meetings are significantly positive, indicating that the increase in the number of board of directors' meetings will strengthen the monitoring effect on the board of directors, which will lead to the reduction of directors' irregularities, so the number of board of directors' meetings will strengthen the inhibitory effect of board of directors' informal clarity on financial restatement behavior.

Table 3. Regression analysis of board informal hierarchy and corporate financial restatement behavior

VARIABLES	(1)	(2)	(3)	(4)
	Restate	Restate	Restate	Restate
Gini	-0.205*** (0.061)	-0.079** (0.031)	-0.081*** (0.030)	-0.048 (0.034)
Duality	0.030 (0.076)	0.006 (0.077)	0.006 (0.077)	0.013 (0.079)
Indratio	-0.861 (0.677)	-0.193 (0.812)	-0.687 (0.677)	-0.657 (0.688)
Boardratio	1.695*** (0.343)	1.308*** (0.349)	1.301*** (0.349)	1.227*** (0.354)
Top1	0.028*** (0.004)	0.029*** (0.004)	0.030*** (0.004)	0.028*** (0.004)
T_2~10	0.012*** (0.004)	0.022*** (0.004)	0.022*** (0.004)	0.021*** (0.004)
Instratio	-0.008*** (0.002)	-0.010*** (0.002)	-0.010*** (0.002)	-0.010*** (0.002)
F_size	-3.841 (3.256)	-3.699 (3.253)	-3.621 (3.225)	-3.727 (3.242)
Lev	-3.038*** (1.101)	-2.662** (1.101)	-2.855*** (1.103)	-2.134* (1.109)
Roa	-0.034*** (0.013)	-0.036*** (0.013)	-0.036*** (0.013)	-0.037*** (0.013)
A_age	0.130 (0.274)	0.148 (0.275)	0.132 (0.275)	0.161 (0.292)
Finan	0.352 (0.269)	0.331 (0.269)	0.319 (0.270)	0.074 (0.291)
Law	-0.257 (0.209)	-0.232 (0.209)	-0.222 (0.209)	-0.370* (0.221)
A_CEOs	0.096 (0.119)	0.070 (0.119)	0.078 (0.119)	-0.055 (0.138)
A_inequality	-0.017 (0.092)	-0.020 (0.092)	-0.009 (0.092)	-0.015 (0.094)
Guarantee	1736.475 (6909.59)	2611.117 (6923.10)	1851.279 (6932.32)	3439.918 (6990.16)
A_tenure	-0.546*** (0.113)	-0.444*** (0.114)	-0.403*** (0.115)	-0.351*** (0.119)
O_receivables	-0.590** (0.261)	-0.643** (0.263)	-0.626** (0.263)	-0.741*** (0.278)
T_inequality	0.020 (0.089)	0.016 (0.089)	0.010 (0.089)	0.016 (0.089)
Size		0.061 (0.054)		
Size×Gini		-0.049* (0.026)		
Number			0.133*** (0.031)	
Number×Gini			0.056** (0.024)	
pressure				-0.251*** (0.050)
pressure×Gini				-0.094* (0.050)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Observations	12720	12720	12720	12020
Pseudo R2	0.140	0.144	0.143	0.145

Note. *, **, *** in the table represent significant at 10%, 5% and 1% levels respectively. t-statistics in parentheses.

5. Robust Test

The following robustness tests are conducted in this paper. (1) There are many other measures of board informal hierarchy besides the Gini coefficient, including standard deviation, variance, and relative mean deviation. In the above, we use the Gini coefficient as a metric to examine the moderating effect of board informal hierarchy. In order to compare the results obtained and improve the reliability of the results, other measures of imbalance, such as relative mean deviation and variance, are calculated in this paper. Table 4 shows the results of the regression using relative average deviation (AAD) as a proxy for the Gini coefficient to measure the clarity of the board informal hierarchy, with no change in the test results.

Table 4. Robustness tests results

VARIABLES	(1)	(2)	(3)	(4)
	Restate	Restate	Restate	Restate
Gini	-1.116** (0.565)	-1.308*** (0.502)	-1.352*** (0.485)	-0.814 (0.546)
Duality	-0.013 (0.077)	-0.005 (0.077)	-0.005 (0.077)	0.003 (0.079)
Indratio	-0.693 (0.680)	-0.146 (0.813)	-0.670 (0.679)	-0.632 (0.690)
Boardratio	1.306*** (0.351)	1.377*** (0.350)	1.369*** (0.351)	1.295*** (0.355)
Top1	-0.066 (0.041)	-0.066 (0.041)	-0.067 (0.041)	-0.058 (0.041)
T_2~10	-0.017*** (0.006)	-0.082** (0.040)	-0.083** (0.040)	-0.073* (0.041)
Instratio	-0.011*** (0.002)	-0.011*** (0.002)	-0.011*** (0.002)	-0.010*** (0.002)
F_size	-3.619 (3.243)	-3.644 (3.241)	-3.560 (3.212)	-3.699 (3.235)
Lev	-2.762** (1.104)	-2.690** (1.104)	-2.893*** (1.106)	-2.138* (1.112)
Roa	-0.037*** (0.013)	-0.036*** (0.013)	-0.035*** (0.013)	-0.036*** (0.013)
A_age	0.075 (0.276)	0.094 (0.276)	0.077 (0.276)	0.114 (0.293)
Finan	0.301 (0.270)	0.287 (0.270)	0.277 (0.271)	0.039 (0.292)
Law	-0.192 (0.210)	-0.205 (0.210)	-0.196 (0.210)	-0.336 (0.221)
A_CEOs	0.025 (0.119)	0.042 (0.120)	0.050 (0.120)	-0.073 (0.139)
A_inequality	0.005 (0.092)	-0.005 (0.093)	0.006 (0.092)	-0.001 (0.094)
Guarantee	2264.66 (6941.8)	2172.50 (6950.0)	1478.39 (6958.8)	3023.88 (7008.0)
A_tenure	-0.423*** (0.115)	-0.425*** (0.115)	-0.385*** (0.116)	-0.339*** (0.119)
O_receivables	-0.643** (0.265)	-0.633** (0.264)	-0.616** (0.264)	-0.744*** (0.278)
T_inequality	0.012 (0.089)	0.015 (0.089)	0.009 (0.089)	0.014 (0.089)
Size		0.195** (0.088)		
Size×Gini		-0.796* (0.421)		
Number			-0.016 (0.070)	

Number×Gini			0.902** (0.387)	
pressure				-0.008 (0.135)
pressure×Gini				-1.513* (0.803)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Observations	12720	12720	12720	12720
Pseudo R2	0.146	0.146	0.148	0.146

Note. *, **, *** in the table represent significant at 10%, 5% and 1% levels respectively. t-statistics in parentheses.

(2) As the legal representative of a listed company, the chairman of the board of directors has a very high status in China and has a significant influence on the company's decision making. Also, studies have shown that there is a significant relationship between the characteristics of the chairman of the board and the decision-making behavior of the company. Therefore, in order to exclude the influence of the chairman's pressure on the clarity of the board informal hierarchy of directors, this study removes the chairman from the board of directors and forms new relative differences in the status of directors, relative differences in age, relative differences in tenure, and new average age and average tenure of the board of directors, and substitutes them into the model for testing respectively, and the test results remain unchanged.

Table 5. Robustness tests results

VARIABLES	(1)	(2)	(3)	(4)
	Restate	Restate	Restate	Restate
Gini	-1.116** (0.565)	-1.308*** (0.502)	-1.352*** (0.485)	-0.814 (0.546)
Duality	-0.013 (0.077)	-0.005 (0.077)	-0.005 (0.077)	0.003 (0.079)
Indratio	-0.693 (0.680)	-0.146 (0.813)	-0.670 (0.679)	-0.632 (0.690)
Boardratio	1.306*** (0.351)	1.377*** (0.350)	1.369*** (0.351)	1.295*** (0.355)
Top1	-0.066 (0.041)	-0.066 (0.041)	-0.067 (0.041)	-0.058 (0.041)
T_2~10	-0.017*** (0.006)	-0.082** (0.040)	-0.083** (0.040)	-0.073* (0.041)
Instratio	-0.011*** (0.002)	-0.011*** (0.002)	-0.011*** (0.002)	-0.010*** (0.002)
F_size	-3.619 (3.243)	-3.644 (3.241)	-3.560 (3.212)	-3.699 (3.235)
Lev	-2.762** (1.104)	-2.690** (1.104)	-2.893*** (1.106)	-2.138* (1.112)
Roa	-0.037*** (0.013)	-0.036*** (0.013)	-0.035*** (0.013)	-0.036*** (0.013)
A_age	0.075 (0.276)	0.094 (0.276)	0.077 (0.276)	0.114 (0.293)
Finan	0.301 (0.270)	0.287 (0.270)	0.277 (0.271)	0.039 (0.292)
Law	-0.192 (0.210)	-0.205 (0.210)	-0.196 (0.210)	-0.336 (0.221)
A_CEOs	0.025 (0.119)	0.042 (0.120)	0.050 (0.120)	-0.073 (0.139)
A_inequality	0.005 (0.092)	-0.005 (0.093)	0.006 (0.092)	-0.001 (0.094)
Guarantee	2264.66 (6941.8)	2172.50 (6950.0)	1478.39 (6958.8)	3023.88 (7008.0)

A_tenure	-0.423*** (0.115)	-0.425*** (0.115)	-0.385*** (0.116)	-0.339*** (0.119)
O_receivables	-0.643** (0.265)	-0.633** (0.264)	-0.616** (0.264)	-0.744*** (0.278)
T_inequality	0.012 (0.089)	0.015 (0.089)	0.009 (0.089)	0.014 (0.089)
Size		0.195** (0.088)		
Size×Gini		-0.796* (0.421)		
Number			-0.016 (0.070)	
Number×Gini			0.902** (0.387)	
pressure				-0.008 (0.135)
pressure×Gini				-1.513* (0.803)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Observations	12720	12720	12720	12720
Pseudo R2	0.146	0.146	0.148	0.146

Note. *, **, *** in the table represent significant at 10%, 5% and 1% levels respectively. t-statistics in parentheses.

6. Conclusions

This paper empirically finds that clarity at the informal board level inhibits the occurrence of financial restatement behavior. The results suggest that the informal board level increases the monitoring effect on the board thereby inhibiting the emergence of corporate irregularities. Clarity at the informal board level has a positive effect on financial restatement behavior, further tests show that board size and board performance pressure have a significant negative effect clarity and corporate financial restatement behavior on the informal board level, as well as the number of board meetings on clarity and corporate financial restatement behavior at the informal board level. The results suggest that when board size increases the difficulty of group ranking, which hinders the formation of the informal board level, whereas the number of board meetings enhances internal communication promotes the formation of the informal board level.

This paper further enriches the research on the consequences of board informal hierarchy by examining the influence of board informal hierarchy on corporate financial restatement behavior from the perspective of the board of directors, and the results of the study are enlightening in that companies should ensure a diverse knowledge structure of the board of directors and build a reasonable and efficient board staff structure. The hierarchical differences within the board based on professional competence and personality are an effective mechanism to coordinate the board's operations. A board of directors without a leader will inevitably lose process if the directors do not reach consensus on decision issues. The hierarchical differences within the board of directors based on professional competence and charisma are an effective mechanism to coordinate the operation of the board of directors, and listed companies should give full play to the role of the informal structure of the board of directors. Listed companies should give full play to the role of the informal structure of the board of directors. Therefore, the decision-making and supervision functions of the board of directors should be further brought into play in the practice process to ensure the effectiveness of the board of directors governance.

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