

Research on Negative Earnings Management under the Impact of the Public Emergencies: An Explanation Based on Sympathy Bonus

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Abstract: The Public Emergencies outbreak at the end of 2019 has caused operational issues for many firms. The consideration of “sympathy” from the outside world will not only lower the expectation of corporate profits and easing the regulatory environment, but also give corresponding policies to help enterprises in times of “blood transfusion” need. However, this sympathy is always extended to enterprises in special distress in the abnormal economy. Hence, as a result of this “abnormal” economic impact, enterprises are likely to systematically change the disclosure of earnings data to win “sympathy” support, and “poor-mouth” negative earnings management emerges as the times require. The act of “poor-mouth” is a strategic behavior that arouses the emotional identity of others or achieves the predetermined goal by means of self-deprecation, in order to elicit the sympathy of the targeted audience and its organization, so as to obtain the shield of vested interests and the care of expected interests. “Poor-mouth” earnings management refers to the financial information that enterprises show their current operating difficulties in an effort to gain social sympathy and policy support and other benefits, such as financing support, government subsidies and tax incentives. However, if firms do not hesitate to resort to fraud and “poor-mouth” and take opportunistic actions, it will crowd out the relief resources of the truly trapped enterprises, distort the allocation of the government’s sympathy resources, and is not conducive to the enterprise’s own value promotion and sustainable development.

Based on the fraud triangle theory, this paper clarifies the management’s psychological decision-making path for negative earnings management under the epidemic. Using the earnings management data of Chinese A-share listed companies from the fourth quarter of 2018 to the third quarter of 2020, this paper tests the impact of the major public emergency on the negative earnings management practices of enterprises from the perspective of sympathy bonus. The study discovered that firms tend to engage in negative earnings management under the impact of the epidemic. The greater the impact of the epidemic on the industry, the greater the possibility of engaging in negative earnings management. The external environment, such as investor distraction and deregulation brought about by the epidemic, has promoted the occurrence of negative earnings management. In terms of financing and taxation following the outbreak, negative earnings management aided enterprises in obtaining greater sympathy bonus. More sympathy bonuses were attained in the significantly afflicted industries than in the less affected industries. However, these poor bonus-capture-based earnings management practices damage the market value in the long run.

The contributions of this paper are as follows. This paper first offers a different explanation for how enterprises engage in negative earnings management practices: rent-seeking behavior that is actively pursued in order to receive sympathy bonus, also known as “poor-mouth” earnings management. It enriches the research on the motivation of earnings management from the perspective of



policy bonus pursuit, and reveals the behavior of listed firms when they engage in negative earnings management from the perspective of government subsidies, tax evasion and financing costs. Secondly, through the test of economic consequences, this paper discusses whether negative earnings management deviates from the original intention of government economic assistance and distorts the efficiency of resource allocation of sympathy bonus among firms, so as to examine the efficiency of government economic assistance in the abnormal economy. Finally, this paper incorporates the fraud triangle theory into the enterprise decision-making model of earnings management, and examines the heterogeneity of earnings management behavior, motivation and economic consequences of different firms under the epidemic, and provides evidence for the information disclosure decisions of listed companies under the epidemic, as well as reference for future related research.

Our study offers experience and a point of reference for the research on motivation of corporate earnings management and their effects in the impact of major public emergencies. It also provides policy recommendations for the supervision of corporate earnings management behavior and support for the development of economic entities. The epidemic has a long-term effect on all kinds of economic entities. The “flood China’s firms with liquidity” of economic assistance is inefficient. It is necessary to prevent opportunists from “fishing in troubled waters”. To ensure that the truly trapped enterprises, rather than “poor-mouth” enterprises, receive dividend bonus and to improve the efficiency of capital usage, it is essential to identify the real trapped entities, make the policy dividend focus on greater-impacted industries, micro, small and medium enterprises, and strengthen the targeted supply of funds. Due to data limitations, the research conclusion of this paper mainly elaborates the short-term earnings management strategy of Chinese enterprises when dealing with the impact of the epidemic. Future analysis can not only deeply explore the earnings management behavior of enterprises within the post-epidemic era supported the longer sample interval and annual report data, but also conjointly analyze the impact of the epidemic on the long-run performance and earnings management of enterprises from the logical perspective of globalization. In addition, future analysis will explore the dynamic performance of earnings management from the stage characteristics of epidemic development, specific manipulation methods, projects and alternative aspects, and reveal the psychological path and decision-making process of enterprise information disclosure in combination with text data.

Key Words: major public emergency; negative earnings management; sympathy bonus

When Upward Networking Becomes a Prevention Motivational Necessity During the Public Emergencies: A Regulatory Focus Perspective

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Abstract:

Purpose: Most of the existing studies focus on the negative effects of public emergencies. Few studies have explored how individuals respond positively to the challenges posed by public emergencies outbreak. When a crisis arises at work, upward networking with leaders is an important way to help employees get professional support and get through the challenges at work. However, the highly infectious and pathogenic nature of public emergencies and the policy of social isolation used to contain the public emergencies create a “dilemma” for employees to networking with leaders. This study focuses on the self-regulation mechanism of upward networking in the context of public emergencies. Base on regulatory focus theory, we first hypothesize public emergencies positively influences employees to engage in upward networking. We then hypothesize that state-focused prevention focus mediates the relationship between public emergencies and employee upward networking. We further hypothesize that individual trait-based prevention focus moderates the above relationship such that when individuals have a high level of trait-based prevention focus, the relationship between public emergencies, state-based prevention focus, and upward networking become stronger than when individuals have a low level of trait-based prevention focus.

Methodology: Two studies were conducted to examine the research hypotheses. In Study 1, a sample of 266 employees from a manufacturing enterprise in Hubei Province was collected to examine the mediating effect of state-based prevention focus. In Study 2, a sample of 206 employees across different regions and industries was further collected to examine the moderating effect of trait-based prevention focus.

Findings: Across a multiple-study and multiple-method design, our results have shown as follows: (1) From before to during the public emergencies, individuals tend to engage in more upward networking; moreover, the increasing trend declines from during to after the public emergencies. (2) State-based prevention focus mediates the influence of public emergencies on employees' upward networking. (3) Trait-based prevention focus moderates the indirect effect, such that for individuals high in trait-based prevention focus, the mediating effect is strengthened. Our findings reveal the self-regulation mechanism to promote upward networking in the context of public emergencies and the importance of considering the regulatory focus process in networking decision.

Value: This study initially enriches the research conclusion that public emergencies outbreak may have an impact on individuals' psychological state and proactive networking behaviors. Furthermore, this study expands the research framework of networking antecedents, from both aspects of macro-events and micro-motivations. Last but not least, this research applies the regulatory fo— 158 —

cus theory into the public emergencies research and reforces the theoretical explanations of prevention focus in the loss context.

Implications: The public emergencies have caused some damage to the development of enterprises and the psychological health of employees, making it difficult for enterprises to restart work and production until employees can be stabilized and energized. According to our findings, employees are taking the initiative to self-regulate in the fight against the public emergencies. In addition, while encouraging upward networking behavior can help employees access valuable resources and deal with the challenges brought on by public emergencies once they returning to work, managers should employ various approaches depending on the characteristics of their employees.

Limitation and suggestions for future research: First, Study 1 and Study 2 assessed employees' willingness to engage in upward networking as a proxy for behavior. Future studies that obtain objective data on interpersonal behaviors, such as call time, call frequency and the number of emails with leaders, should be considered to be more accurately examine the relationship between public emergencies and upward networking. Second, this study found that in order to cope with the potential or substantial losses caused by the public emergencies, employees would adopt the proactive strategy of upward networking with their leaders. It is also worth exploring further effective coping strategies. Third, our experiments was conducted after the outbreak of public emergencies, hence participants in the control group might have also been exposed to and impacted by the public emergencies. While the participants in the control group and in the experimental group indicated a significant differences in their public emergencies perceptions, future studies should be cautious in how they use and intepret our research findings.

Key Words: public emergencies; upward networking; state-based prevention focus; trait-based prevention focus; regulatory focus theory

Telecommuting in the Context of Public Emergency Events: Progress and Future Prospects

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Abstract: In late 2019, the world was suddenly hit by the public emergency events, one of the biggest public emergency events during the 21st century, which had a significant impact on both people's daily lives and productivity. One notable change was the widespread implementation of "stay-at-home orders" by governments worldwide, leading to the adoption of telecommuting as a response to the crisis. Not only technology companies like IBM and Microsoft, but also numerous manufacturing and service industries, shifted to reduced on-site workforces or fully embraced telecommuting models. Many cases and data indicate that public emergency events greatly accelerated the progress of telecommuting for businesses.

The meaning of telecommuting underwent substantial changes during public emergency events, resulting in different effects on employees' physical and mental health, as well as their job performance. Therefore, this study deems it necessary to review post-pandemic research on telecommuting and compare it with studies conducted before the pandemic. The goal is to identify new knowledge generated and provide directions for future research. This article aims to summarize relevant post-pandemic research and address the following three questions: Firstly, what changes occurred in the meaning of telecommuting before and after public emergency events? Secondly, how does the impact of telecommuting on employees differ before and after public emergency events? Thirdly, what are the future research directions for telecommuting?

To answer these questions, we initially selected relevant papers published in 38 major English and Chinese journals, categorizing them by year and topic. Subsequently, we reviewed the development of the conceptual framework of telecommuting and defined the concept of telecommuting within the context of public emergency events. Thirdly, based on the situational theory of organizational behavior, we integrated and summarized research on the impact of telecommuting before and after public emergency events, highlighting both similarities and differences.

Furthermore, we provided an outlook on telecommuting research in the post-pandemic era. Firstly, at the telecommuting selection level, further exploration can be conducted to uncover the different psychological mechanisms behind voluntary and involuntary telecommuting. Secondly, at the work-family interaction level, it is worth investigating the positive effects of remote work for dual-earner households, as well as exploring remote work in other family structures such as single-parent households. Lastly, with the continuous advancement of artificial intelligence technology, it is important to examine its potential facilitation or hindrance to remote work progress. What specific impacts will artificial intelligence have on telecommuting employees? These areas require further investigation in the future.

Key Words: public emergency events; telecommuting; work-family interaction; technological dependence



The Impact of Government Support on Managers' Risk Perception

— An Empirical Study of High-tech Corporates from the Perspective of Dynamic Capability

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Abstract:

Research background and theory: Managers' risk perception is the process by which top management teams make judgments and predictions about uncertain factors in the external environment based on resources and capabilities. It is the foundation for managers to make strategic decisions. Drawing upon the resource-based theory, dynamic capabilities theory and environmental uncertainty literature, this article used 268 listed high-tech corporates as research samples to explore the impact of two types of government support and TMT functional background heterogeneity on the complexity and dynamics of Managers' risk perception. It hypothesized that government subsidy can increase the complexity of risk perception, while social ties will dismiss it. And both types of government support are beneficial for improving the dynamism of risk perception.

Research design: The sample for this study consisted of publicly listed firms in the list of National Technological Innovation Demonstration Enterprises (NTIDE) disclosed by the Ministry of Industry and Information Technology of the People's Republic of China from 2011 to 2019. Every year, only about 70 corporates have obtained the NTIDE qualification, which represents their leading positions with outstanding technological innovation capability in China. We extracted the data on risk perception from the corporates' annual report using text analysis methods. While the data on corporates performance, corporate leverage, government subsidy and other financial indicators were collected from the China Stock Market Accounting Research Database. Based on the data type and test results, this article uses a fixed effects model for empirical study.

Research report: This article finds that TMT functional background heterogeneity can enhance the positive impact of government subsidy on risk perception, those with diverse professional experience often paying more attention to the potential social and market signals brought by government subsidy which can help enhance managers' comprehensive understanding of external environment risks. What's more, high TMT functional background heterogeneity can reduce the negative impact of social ties on the complexity of managers' risk perception, while fully leveraging the advantages of diverse experience backgrounds, utilizing the resource advantages and governmental foresight brought by social connections to find diversified development paths, and alleviating the excessive sensitivity to environmental risk changes caused by social connections.

Research contribution: This article uses the method of text analysis to measure Managers' risk perception from the overall level of the top management team. It not only innovates the measurement method of Managers' risk perception, but also enriches empirical study on environmental uncertainty. What's more, this article explores the internal mechanisms of government support

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affects Managers' risk perception, which provides new ideas for risk management research. The findings have important practical significance for government support behavior, internal governance and external investment of high-tech corporates, providing reference for future research.

Key Words: government subsidy; social connections; managers' risk perception; TMT functional background heterogeneity; high-tech corporates



Decision-Making in the Family Business and Its Growth: A Family Aspirations Perspective

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Abstract: In the family business research, multiple ambidextrous goals have attracted extensive attention from scholars. Early studies mainly explored the corporate decision-making behavior and performance outcomes from the perspective of economic goals, and since the introduction of socioemotional wealth theory, more and more scholars began to emphasize the influence of non-economic goals. However, these studies almost focus on firm-level goals, and few studies have examined the goals from the family level. In fact, family businesses are concrete manifestations or extensions of the aspirations and capabilities of the controlling family. Using a family aspirations perspective helps to understand more deeply the nature of family businesses and to identify the essence that influence their decision-making behavior and outcome performance.

In order to fill this research gap, we applied for a National Natural Science Foundation of China (NNSFC) project. The project was later funded by NNSFC, titled “Family Aspirations, Investment Decisions, and the Growth Mechanisms of Private Firm”. Based on this project, we first systematically review the literature on family aspirations to clarify the concept and dimensions of family aspirations in this paper. We then summarize the research content of the relevant literature from three aspects: the mechanism and theoretical basis of family aspirations, the influence of family aspirations on corporate decision-making, and the influence of family aspirations on corporate growth, in order to clarify the main scientific issues and directions of research in this field; Next, we briefly outline the research results of the project team in order to rethink and re-examine the research content and research results of the topic.

We propose four promising directions for future research: Firstly, future research can further expand and enrich the scope of family aspirations, including clarifying the connotation of family aspirations, improving the measurement indicator system of family aspirations, exploring the formation mechanism and institutionalization process of family aspirations, and investigating the interaction and trade-offs among multiple family aspirations; Secondly, future research can further extend the types of family business decision-making behaviors influenced by family aspirations, such as the succession arrangements in inheritance training paths, returning home for entrepreneurship, environmental decision-making, etc., and consider comparing the preferences and impacts of family aspirations on different decision-making behaviors; Thirdly, future research can expand the manifestations of family business growth, including extending the scope of the outcomes affected by family aspirations, such as innovation quality, high-quality development, and ESG ratings, as well as clarifying the mechanisms by which family aspirations influence business growth; Finally, the localization of research issues in China should be considered, including the embedding and impact of the economic system, such as the strategy of digital transformation and the empowering effect of digital economy; the embedding

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of institutional environment, such as the goals of mass entrepreneurship and innovation and dual carbon targets; and the embedding of cultural factors, such as the influence of familism, cultural traditions such as the zodiac birth year, and relationship culture.

Key Words: family business; family aspiration; decision-making behavior; firm growth; future prospects



A Review on the Sensemaking Perspective

by Karl Weick

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Abstract:

Purpose: The fast-changing external environments and the internal environment of the organizations are getting more and more complex and diversified. Sensemaking, systematically investigated by Karl Weick, plays an important role for individuals, teams and organizations during changes with high uncertainties. Previous research using a sensemaking perspective attempts to break the constraint of rational decision-making models on organizational theory. This research stream not only deepens our understanding of meaning and action, but also prompts us to reflect on the dynamic issues of activities, timeliness and flow in managerial practices. Although sensemaking has attracted extensive attention, this construct and its underlying philosophical roots remain to be clarified. First of all, the translation of “sensemaking” in Chinese, literally as “meaning construction”, may induce misunderstanding and undermines a deeper understanding as well as application of the sensemaking perspective in future studies. Secondly, Weick did not explicitly clarify the philosophical stance of sensemaking in his works on sensemaking. The purpose of this paper is to systematically review the development of the sensemaking perspective, to analyze the philosophical stances of sensemaking, and to explore the often-neglected role of body and experience in sensemaking.

Approach: This paper conducts a review of theoretical and empirical research on the sensemaking perspective and related concepts. We also explore the philosophical roots of the sensemaking perspective, analyze the ontological, epistemological, and methodological stances of sensemaking.

Findings: First of all, Weick introduced the concept of sensemaking into organizational research, shifting the focus of research from static organizational structures to dynamic organizational processes. Sensemaking is a complex and continuous enactive activity through interpretations, actions, interactions and identity, which is triggered by ambiguous events or environments. Weick emphasizes that action is an important part of sensemaking and believes that actions can precede meaning, which overturns the idea that plans precede actions, and emphasizes the dynamic process of the organization rather than the static structure. Secondly, Weick is deeply influenced by John Dewey's empiricism, which attempts to break down the division between internal elements and external representations under dualism. By analyzing the concept of sensemaking and its evolution, this study argues that sensemaking is based on nominalist ontology, subjectivist epistemology, and hermeneutic methodology: ①Nominalism assumes that there is no reality separating from individuals' mind and life world can be different across individuals. In a similar vein, Weick (1979) suggests that reality is socially constructed and environment are created by individuals themselves. As such, we postulate that sensemaking can be rooted in nominalist ontology. ②Sensemaking focuses on explaining individuals' construction of social and organizational reality, and thus indicates a subjectivist position in epistemology. ③Considering the enactive nature of sensemaking, Weick

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advocates seeking insightful meaning and interpretation in a mutually subjective way, and most of the follow-up studies adopt qualitative research methods. Last but not least, the model of sensemaking and organization reflects the influence of information processing on Weick's mindset, which ignores the role of emotion and body in sensemaking.

Value: This study contributes to the understanding of sensemaking by reviewing Weick's sensemaking perspective and its development. This study clarifies the philosophical foundation underlying sensemaking perspective, paving the way for a deeper understanding of sensemaking. This paper also discusses the limitations of research on sensemaking and implications for management research, indicating the absence of the role of body and experience in research on sensemaking.

Implications: Firstly, future research could further explore the link between sensemaking and macro-institutional theory. The institutional environment is a necessary part of the sensemaking, and organizations cannot be separated from the social and cultural environment. Secondly, previous research has not paid enough attention to the holistic feelings of sensory channels, emotions, and body in the process of sensemaking that often play important role in individuals' decision making and responses in unexpected events. Future research can explore the role of the body and experience in the sensemaking. Thirdly, sensemaking provides a unique perspective for describing and interpreting indigenous managerial phenomena in China. Since the idea of sensemaking echoes with traditional Chinese culture, how to examine management practices by adopting the sensemaking perspective is of great significance to the development of indigenous management theory.

Key Words: sensemaking; enactment; body; Karl Weick