

Explore the Relationship Between Financial Information Transparency and Corporate Governance Efficiency

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Abstract. Under the current environment of China's capital market, the relationship between financial information transparency and corporate governance efficiency is a practical research point. Based on principal-agent theory, this study first conducts a literature review to sort out the framework of financial information transparency and principal-agent theory. Using Sinopec Group as an example, the various measures to enhance financial information transparency are compared with Kangmei Pharmaceutical and the relationship between the transparency of financial information and the efficiency of corporate governance is analysed. The results show that improving financial information transparency significantly impacts corporate governance efficiency. Simultaneously, improving corporate governance efficiency can also promote the optimisation of financial information transparency. Finally, this study analyses the paths to enhance financial information transparency and the impact on all stakeholders after the improvement of corporate governance efficiency.

Keywords: Financial, transparency, corporate governance.

1. Introduction

In the current economic context, the core issue of corporate governance in China's capital market is capital. How can investors ensure they get returns? Principal-agent is one of the important sources of corporate governance problems. The essence of the "agency problem" is the separation of management and finance, that is, the separation of ownership and control. However, in the continuous development of China's corporate governance system, many companies still have problems such as financial fraud, which has a negative impact on the capital market.

The scope of financial information transparency encompasses all aspects, including the quality of information disclosure, the accuracy and validity of accounting information, and the formulation of standards. Some researchers, through in-depth analysis of the transparency of financial information, have concluded that: Firstly, in order to protect their own interests, investors need to continuously enhance the transparency of financial information and consider whether it can protect the interests of investors as the core indicator. Furthermore, all financial information must be disclosed and comparable. Finally, the disclosed financial information should be helpful to the information users. As an important component of accounting information quality, it has a significant impact on the efficiency of corporate governance. Through the case analysis of Sinopec Group, it is proven that the transparency of financial information has a positive promoting effect on the efficiency of corporate governance.

The first step of this article is to examine the factors influencing the efficiency of corporate governance. The second step is to study and discuss the relationship between the transparency of financial information and the efficiency of corporate governance by taking Sinopec and Kangmei Pharmaceutical as examples. The third step is to analyse how the government, enterprises and investors can improve the transparency of financial information, respectively, and clarify the practices of all parties. Finally, a summary of the entire text is made, highlighting the significance of enhancing the transparency of financial information and the limitations of this article.

2. Literature Review

2.1. Transparency of Financial Information

One of the key reasons for the principal-agent problem is that there is an information gap between the principal and the management in corporate governance. This may lead to the management taking actions that harm the enterprise for their own interests. Therefore, highly transparent financial information enables investors to have a clearer understanding of the company's daily operating conditions. The transparency of the three major financial statements can truly reflect the financial status of an enterprise. This also helps the management make more reasonable strategic decisions, promotes the sustained and healthy development of the enterprise, and improves governance efficiency. Shang, Z. and Chen, H. found through A study of A-share listed companies in China that enhancing supply chain transparency can significantly curb corporate financial fraud, and the suppression is more obvious in terms of the degree of fraud. It emphasised the significant role of non-legal means, such as enhancing supply chain transparency and strengthening corporate social responsibility in combating financial fraud [1]. Jiang Wei also demonstrated in his research that information transparency plays a mediating role between a company's ESG and financial performance [2]. Dai Sihui analysed A-share listed companies from 2018 to 2022 and believed that, under the condition that other factors remain unchanged, the improvement of financial information transparency can reduce the equity concentration of companies, thereby reducing the occurrence of individual major shareholders controlling the quality of information disclosure for personal interests [3]. Meanwhile, Salikhova, T., Ugarov, A. and Orlova, S. found in their research that companies with lower transparency reduced dividend smoothing more after the reform, indicating that there is also a correlation between financial transparency and dividend smoothing behaviour [4]. From this, we can conclude that the transparency of financial information has an immeasurable impact on a company's performance.

2.2. Principal-Agent Theory

Ross SA holds in his research that when one party (the agent) acts on behalf of the other party (the principal) in a specific decision, an agency relationship is formed [5]. The principal-agent issue is an important problem in corporate governance. The core relationship is that between the principal and the agent, and the core contradiction is the conflict of interests and information asymmetry. There is an information asymmetry between the principal and the agent, which may cause the agent to harm the interests of the company for his own benefit. Meanwhile, Zhu, N., Yang, Z. and Hu, Y. constructed a unified continuous-time theoretical model in their research to explore the combined effects and dynamic interactions of shareholder-manager conflicts and shareholder-creditor conflicts. Research has found that by optimising the ownership structure and capital structure, these opposite effects can cancel each other out, thereby achieving optimal investment [6].

2.3. Theoretical Framework

Under the framework of traditional agency theory, the fundamental cause of the principal-agent problem lies in the information asymmetry between the principal and the agent. Enhancing the transparency of financial information enables the client to better understand the company's operating conditions. The client requests the management to provide reasonable, effective and accurate information to supervise their behaviour. This can reduce disputes and moral hazard problems caused by information asymmetry, thereby improving the company's governance efficiency and promoting the maximisation of enterprise value. In recent years, the disclosure of ESG information has also been included in the scope of financial transparency. Research shows that high-quality ESG disclosure not only reflects an enterprise's management ethics and long-term risk control capabilities but also supplements pure financial information, helping clients to more comprehensively assess the behaviour and performance of agents, thereby alleviating agency conflicts. Garcia, A.S., and Lee, J.H. explored in their research how ESG disclosure can reduce equity and debt agency costs by enhancing

stakeholder trust, improving risk management, and increasing long-term value consistency through an analytical framework [7].

2.4. Summary

The literature in this article is sorted out respectively from the relationships between financial fraud, corporate governance, digitalisation, etc. and transparency, which can outline a clear core logical chain. Corporate governance mechanisms and external pressures promote enterprises to enhance information transparency, and then generate positive economic effects such as reducing agency costs, optimising capital structure and improving financial performance. These indicate that transparency is no longer merely a financial issue, but has integrated problems such as corporate governance, social responsibility, technological change, and institutional and environmental issues. Future experiments and research should be more inclined towards how new technologies can promote enhanced transparency and the comprehensive value they bring.

3. Financial Information Transparency and Corporate Governance Efficiency

3.1. The Promoting Effect of Financial Information Transparency on Corporate Governance

Financial information transparency affects corporate governance efficiency through three mechanisms: the supervision strengthening mechanism, the decision-making optimisation mechanism, and the trust-building mechanism. Sinopec is China's largest supplier of refined oil products and petrochemical products, and also the world's largest oil refiner and the second largest chemical company. It ranks high among the Fortune Global 500 companies in 2025 and enjoys extremely high industry influence and say. Take him as an example. Research shows that shareholders can effectively identify the opportunistic behaviour of management through the transparency of financial information and reduce agency costs [8]. Sinopec's practice has verified this theory - it has embedded information disclosure requirements into the approval process of the OA system. The OA system can set up standardised approval processes, such as expense reimbursement and price adjustment approvals. Relevant personnel can receive approval notifications in real time and conduct online approvals, shortening the approval cycle, accelerating business advancement, and reducing time and labour costs caused by cumbersome processes. Finally, the business department needs to determine the disclosure obligation at the project initiation stage, moving the governance node forward and significantly reducing the risk of violations.

In terms of strengthening supervision, Sinopec, in light of the characteristics of many listed companies in various regions, strictly adheres to regulatory requirements and the company's actual situation, proactively discloses numerous voluntary announcements, continuously revises relevant disclosure systems, and through the financial shared service center, realizes centralized processing of the entire group's financial data, unifies accounting standards and procedures, and reduces human intervention. At the same time, a financial risk control platform is built by leveraging big data and AI technologies to automatically identify abnormal transactions and strengthen supervision from the source of the process. On the one hand, the transparency of information has been enhanced; on the other hand, the management can better fulfil its duties and improve governance efficiency. In the process of preparing financial information in 2018, the average time taken for data transmission among various departments was 5 days. In 2023, it was shortened to 2 days. The error rate in the internal review of financial information has dropped from 3.2% in 2018 to 0.8% in 2023. The entire process from the generation to the disclosure of financial information has become smoother, and transparency has naturally improved.

Meanwhile, in China's state-owned enterprises, there is the problem of "dual agency", that is, not only the agency problem between investors and company executives, but also the agency problem between the people and the government. Therefore, Sinopec is faced with the task of achieving economic, social and political goals. Under this goal, Sinopec adheres to promoting ESG management effectiveness through information disclosure. For the first time, it has adopted the TCFD framework

for analysis, requiring the disclosure of the board's supervision of climate-related risks and opportunities, as well as the role of management in assessing and managing climate-related risks and opportunities. Sinopec can take this opportunity to clarify the responsibilities of the board of directors and management in matters related to climate change, enabling shareholders to have a clearer understanding of the management's decision-making process and fulfilment of responsibilities, reducing information asymmetry between shareholders and management, and helping to alleviate agency problems. At the same time, the TCFD framework requires enterprises to disclose the processes for identifying, assessing and managing climate-related risks, as well as how to incorporate them into comprehensive risk management. If Sinopec can improve and disclose the relevant risk management processes, it can demonstrate to shareholders and creditors its emphasis on climate risks and its ability to control them, reduce the concerns of stakeholders about the uncertainty of climate risks faced by the company, and help solve the agency problem. The final framework suggests disclosing indicators such as greenhouse gas emissions, as well as related targets and progress. Sinopec's disclosure of such information can provide shareholders and creditors with quantifiable performance evaluation indicators, facilitating their supervision and assessment of the company's performance in responding to climate change, and prompting the management to pay more attention to the company's sustainable development and reduce agency costs. Gain recognition from the capital market.

The continuous improvement of financial information transparency has promoted the sustained and positive development of Sinopec. For instance, in 2018, Sinopec was issued a regulatory letter by the China Securities Regulatory Commission due to its failure to disclose some financial information in a timely and insufficient manner. In 2023, no regulatory penalties were imposed due to financial information disclosure issues. Moreover, it has received an A-level information disclosure evaluation from the Shanghai Stock Exchange for ten consecutive years in the information disclosure assessment of the Shanghai and Shenzhen stock exchanges. The "Golden Bauhinia Best Listed Company Award" in the Hong Kong stock market in 2022 confirms the recognition of the international capital market. At the same time, in terms of financing, as investors can better understand its business conditions, it attracts a large amount of low-bond financing, reduces the management risks of the enterprise, gains trust when cooperating with suppliers and customers, enhances its own competitiveness, and makes it a leading figure in China's petroleum industry.

On the contrary, Kangmei Pharmaceutical, as one of the largest financial fraud cases in the history of the A-share market, is a typical negative example. As a "blue-chip stock" in the pharmaceutical industry, the exposure of its fraud incident has drawn high attention from all sectors of society to the financial authenticity of listed companies, causing a huge negative impact. Rui Wenqing summarised and reviewed the financial fraud of Kangmei Pharmaceutical in his research. From 2016 to 2018, it falsely reported an increase in profits of 27.515 billion yuan, seriously misleading investors. The transparency of its financial information is extremely low, exposing serious flaws in corporate governance, such as highly concentrated equity, the failure of the supervision and checks and balances mechanism due to the dominance of a single shareholder, and the lack of independence of the internal audit department [9]. From the perspective of the company's internal operations, there exists a governance black hole. The Ma Xingtian family has a "one-man show"; independent directors have become mere decorations, the supervisory board has failed to play its supervisory role, and internal controls have become ineffective, providing convenience for fraud. From an external perspective, the characteristic of the traditional Chinese medicine industry that the trade of Chinese medicinal materials is difficult to verify has been exploited by it to cover up the loopholes of fraud. Meanwhile, the high proportion of equity pledged by the actual controller has a strong motive for fraud to maintain the stock price. Ultimately, Kangmei Pharmaceutical became the target of China's first substantive class action lawsuit, which had a negative impact on the capital market.

3.2. The Counter-Effect of Corporate Governance on the Transparency of Financial Information

Firstly, studies have shown that the equity structure of a company can cause relevant stakeholders to interfere with the quality of financial information [6]. On the one hand, when a stakeholder holds the majority of shares or has absolute control over the enterprise, they will artificially interfere with the content disclosed in the financial information for their own personal benefit. On the other hand, when there is a large number of shareholders and the situation is evenly matched among all parties, the decision-making efficiency may decrease, thereby affecting the quality of information disclosure from another perspective. The proportion of independent directors on Sinopec's board of directors has increased from 30% in 2018 to 40% in 2023, and the proportion of independent directors with backgrounds in finance and law has reached 75%. The Audit Committee has increased the number of times it reviews financial reports each year from two to four, and its supervision over the process of financial information preparation has become more frequent and in-depth. After an external audit of the 2023 financial report, the number of adjusted items decreased by 60% compared to 2018. The authenticity and accuracy of financial information have been better guaranteed, demonstrating the promotion of information transparency by the improvement of governance efficiency.

Secondly, effective financial information disclosure is also inseparable from the company's corporate governance. Effective corporate governance can better coordinate the internal relationship between management and investors. Through the executive compensation incentive mechanism, it can inspire management to think more about the company's interests, enhance the effectiveness of internal control, force the company to increase the transparency of financial information, and effectively alleviate agency problems.

4. Policy Recommendations for Enhancing the Transparency of Financial Information

4.1. Government

The government should improve the legal regulations and institutional system, incorporate the disclosure of financial information into the legal track, formulate corresponding penalty measures, and consolidate the foundation of the transparency of enterprise financial information by improving accounting standards and information disclosure systems. For instance, it should continuously update accounting standards, introduce specific information disclosure details, and standardise the recognition and measurement of new assets. Enterprises are required to disclose the confirmation, measurement and related risks of data resources. Implement the accrual basis financial reporting system, establish a comprehensive accrual basis financial reporting system covering all levels of government and departments, fully reflect assets, liabilities, operating costs and fiscal sustainability, replace the traditional cash basis final accounts report, and solve the problem of information fragmentation. Promote the full-process electronicization reform of electronic invoices and electronic accounting archives, and formulate unified national standards. This not only reduces the space for human manipulation, but also provides the possibility for the automatic collection, verification and comparison of data, improving the quality of information from the source. Build a collaborative supervision system, establish a system of "main responsibility supervision by the finance department, supervision by departments based on their responsibilities, internal supervision by units, and supervision by intermediary practice", and ensure that the main person in charge of each unit is the first person responsible for financial and accounting supervision and bears legal responsibility for the authenticity of finance. At the same time, expand and refine the scope of information disclosure. Expanding the scope of mandatory disclosure, requiring enterprises to disclose more non-financial information, promoting comprehensive reporting, integrating financial information with non-financial information, and strengthening the disclosure of internal control information, especially the identification and rectification of internal control deficiencies, will help assess the reliability of

financial reports. Finally, the government itself should also be strict. In his research, Du Yanfei, through the reform of the accounting system of administrative institutions and public institutions in our country, deeply explored and expounded on its positive impact on financial work. It can provide theoretical references for further promoting the reform of the accounting system in administrative institutions and public institutions [10].

4.2. Enterprise

With the development of The Times, AI is becoming increasingly popular. Enterprises should keep up with The Times and leverage artificial intelligence to enhance the transparency of their financial information. Smith and Johnson explored the application of AI technology in automating financial reporting processes, enhancing data analysis, and error detection in their research. AI can help identify abnormal transactions, predict financial risks, and generate more understandable visual reports, making financial information more transparent and accessible [11]. The application of intelligent financial systems utilizes technologies such as data mining and machine learning to automatically generate management reports and risk warnings, reducing manual intervention and enhancing the accuracy and timeliness of data. Explore blockchain technology in scenarios such as supply chain finance and bill management, and leverage the immutable and traceable features of blockchain to enhance the credibility of transaction information. Not only that, enterprises themselves should strictly abide by the constraints of national laws and regulations, operate with integrity, make financial information easy to understand as required by the China Securities Regulatory Commission and regularly conduct training for financial personnel [12]. Establish a supervision mechanism, conduct compliance self-inspections every quarter, and severely crack down on financial fraud. The management strengthens internal control, enhances risk prevention, and promotes the efficient operation of internal governance. The external regulatory environment is an important force in shaping corporate disclosure behavior. Kim and Li explored the practical impact of mandatory disclosure reform on corporate transparency. This type of research typically employs quasi-natural experimental methods to compare the changes in corporate transparency before and after policy implementation and analyze the differences in their effects under different institutional environments [13].

4.3. Investor

Investors and other relevant stakeholders can combine the transparency of financial information with the executive incentive mechanism, which is a voluntary improvement in the quality of information disclosure by the management. At the same time, investors should promptly exercise their right to question and raise questions about the company's financial information to ensure the authenticity and validity of the information disclosure. Exercise the right of supervision and track whether the implementation of the company's "Honesty Convention" has been carried out. Li Xuejing, Xiao Shufang, and Wang Xiya found through research based on the data from the Investor Service Center that attending its shareholders' meeting can greatly assist small and medium-sized investors in safeguarding their own interests [14]. Regularly conduct performance evaluations and analyses, assess performance by asset class, industry, and region respectively, compare the performance relative to the benchmark, distinguish the benefits brought by luck and skills, and objectively evaluate the quality of investment decisions. Recognize the impact of non-financial information on long-term investment value, and pay attention to the sustainable development capacity, corporate governance level and social reputation of enterprises. Enterprises with good ESG performance may have lower long-term risks. Finally, one can also utilize the data visualization and intelligent analysis tools provided by the fintech platform to conduct in-depth mining and cross-validation of massive financial data, and independently determine the true financial status and risks of the enterprise.

5. Conclusion

This paper first clarifies the literature review and studies the framework relationship between the principal-agent theory and the transparency of financial information. Meanwhile, taking Sinopec as an example, the role of financial information transparency in the efficiency of corporate governance was explored, and then compared with Kangmei Pharmaceutical. The research shows that there is a positive correlation between financial information transparency and the efficiency of corporate governance. The improvement of financial information transparency is conducive to the improvement of governance efficiency, and along with the improvement of governance efficiency, the quality of information disclosure is also constantly improving. At the same time, the improvement of corporate governance efficiency also enhances its own operational efficiency and reduces management costs. For the stakeholders, it can safeguard shareholders' right to know, protect the interests of creditors and attract more investors. In terms of the market environment, it can reduce financing costs, foster healthy competition, promote the healthy development of the capital market, and accelerate the standardization process of the entire industry. However, some companies may have other circumstances due to equity issues. The conclusion of this paper is not applicable to all enterprises. It is hoped that in the future, through more empirical and case studies, the relationship between financial information transparency and corporate governance efficiency can be explored more deeply to enhance the objectivity of the research.

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