Equity Incentives, Audit Opinions, and Annual Report's tone: An Analysis Based on Text Information

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Abstract. This paper takes the listed companies in 2011-2021 as the initial sample to study the impact of equity incentive on the annual report's tone, and uses the management expense rate and audit opinion as moderating variables to study the role of equity incentive in the annual report's tone. Research has found that when companies implement a certain degree of equity incentives, the tone of their annual reports is more positive. Further research has found that the effect of equity incentives on the tone of annual reports is influenced by the management expense ratio and audit opinions. Combining the implementation of equity incentives for executives with the annual report information of the company helps to deeply explore the macro overview of the company's corporate behavior under the implementation of incentives for executives on its current and future development, providing a new perspective for understanding the decision-making and planning of listed companies.

Keywords: Equity Incentives, Annual Report's Tone, Audit Opinions

1 Introduction

Equity incentive is an important measure for enterprise management to improve company performance and maintain long-term development. A reasonable equity incentive plan can help enterprises inject vitality and promote healthy operation. Based on current research, most of it is about the use of financial data, lacking research on financial textual information. Based on this, this article will introduce the financial textual information of annual report's tone to study the impact of equity incentives on annual report's tone. The annual report's tone is an important source of information in the capital market, as well as textual information on the company's current operating status, future performance, and industry development prospects. From this, it can be seen that the value creation of executive equity incentives for enterprises can be reflected through textual information through the annual report's tone. This article conducts subsequent research based on this.

In recent years, there have been many studies on equity incentives. After summarizing them, it is found that the current research results mainly focus on three aspects. First, the degree of impact of equity incentives on corporate performance, the research

V. Gaikar et al. (eds.), *Proceedings of the 2023 3rd International Conference on Financial Management and Economic Transition (FMET 2023)*, Advances in Economics, Business and Management Research 262,
https://doi.org/10.2991/978-94-6463-272-9_34

method used is based on the financial data of listed companies, lack of grasp of corporate text information. Second, the impact of equity incentives on corporate innovation. Equity incentives can make corporate managers and corporate goals tend to be consistent, thereby reducing the short-sighted behavior of management authorities and promoting corporate innovation. Third, research on the implementation effect of equity incentives, combined with relevant listed company cases and financial data of operations, reflects the implementation effect and role of equity incentives. However, few people have studied the relationship between equity incentives and the annual report's tone, and few have used annual report text information to analyze corporate decision-making plans. Therefore, it is of great significance to study whether the equity incentive will affect the annual report's tone.

In this study, this article will use the relevant information of listed companies to conduct benchmark regression to explore the positive and negative relationship between equity incentives and the annual report's tone and the correlation between the two. At the same time, through multidimensional fixed effects, replacement of explained variables, and PSM propensity score matching method, the robustness test is carried out to verify the reliability of the regression results, and the two adjustment variables of management expense rate and audit opinion are introduced to generate cross-product items to further study audit opinions, The role of management expense ratio in the impact of equity incentives on the annual report's tone text.

2 Theoretical analysis and hypotheses

2.1 Theory of Positive Correlation Between Equity Incentives and Annual Report's Tone

At present, the problem of "two powers" existing in modern enterprises is not uncommon. The conflict of interest between the management authority and the shareholders has a great negative impact on the company's annual performance. After equity incentives are implemented for executives, the managers of the enterprise become owners of assets. Then, the "two rights" issue is properly handled, which further balances the conflict between managers and shareholders, which can greatly promote the long-term development of the enterprise. development, the company's annual performance is better. A moderately positive annual report's tone can significantly improve the financial performance of a company (Shen Juqin et al., 2022)[1]. Pessimistic tone is significantly negatively correlated with corporate performance (Wu Zhuoran, 2018)[2]. At the same time, when the company's financial performance is pessimistic and negative, the company's annual report's tone will also be negatively affected; a moderate annual report's tone will also have a positive effect on company performance. Therefore, Hypothesis 1 H1a: Executive equity incentives are positively related to the annual report's tone.

2.2 The positive effect of audit opinions inhibiting equity incentives on the annual report's tone text

After the implementation of equity incentives, when promoting the management to achieve the standard of exercising rights, there will also be fraudulent behaviors in order to meet performance commitments or to achieve equity incentive goals. Before the announcement date of the equity incentive plan, the management authorities have the motivation to manage earnings downward, to obtain a more favorable exercise price, the management has a relatively strong intention to purchase audit opinions (Jia Jinxuan, 2023)[3], but purchasing audit opinions will aggravate the information asymmetry in the capital market and reduce market transparency. Therefore, it is not conducive to the balance of the equity market, inhibit the company's development process. If corporate performance is affected, the text of the annual report will become more negative, thus playing a positive role in inhibiting the annual report's tone from equity incentives. The more positive the net tone of annual report's tone information, the lower the probability of non-standardized audit opinions (Li Shigang and Jiang Yaoming, 2020)[4]. In addition, after the implementation of executive equity incentives, the management authority has more rights and is both an operator and an owner. The possibility of the above situation is still very high. Therefore, Hypothesis 2 H1b: Audit opinions inhibit the positive effect of equity incentives on the annual report's tone text.

3 Literature review

3.1 Research on Executive Equity Incentive

Equity incentives were first introduced slowly in the 1960s. China's equity incentive system has a long history, which can be traced back to the Shanxi merchant period, when the "top body stock" system appeared (Wu Fan, 2022)[5].Li Xuebin (2013)[6]analyzed the operation mechanism and limitations of equity incentives in China by analyzing the differences in the actual national conditions (politics, economy, culture) of equity incentives in the West and China, combined with the equity incentive cases of Chinese GEM companies. Jin Na (2018)[7]conducted a study on Chinese historical cases, and described the problems and solutions of equity incentives. Jia Jinxuan (2023)[错误!未定义书签。] proposed that listed companies that implement equity incentives are more likely to purchase audit opinions, and put forward relatively reasonable and feasible countermeasures and suggestions through relevant levels. Zhang Dongxu (2023)[8]and others also pointed out that executive equity incentives can promote companies to undertake social responsibilities, which is manifested in that samples that implement equity incentives have higher corporate social responsibility scores. This is also very conducive to the improvement of corporate performance. Equity incentives have a significant positive correlation with corporate performance, and Shen Juqin et al. (2022)[错误!未定义书签。]researched that there is a significant "inverted U-shaped" relationship between corporate performance and the annual report's tone. Based on this, in-depth research on executive equity The influence between motivation and the annual report's tone has strong research value.

3.2 Research on Audit Opinions

Audit opinion is the carrier for certified public accountants to convey the quality of accounting information of listed companies to information users, and is an important basis for information users to make relevant decisions (You Ning, 2017) [9]. Auditing can judge the authenticity and accuracy of information issued by listed companies, and alleviate the principal-agent problem between management and shareholders (Jia Jinxuan, 2023) [错误!未定义书签。]. Li Yan (2017) [10] et al. expounded the effect of going-concern audit opinions from three aspects: auditor independence and audit environment, the information content of going-concern audit opinions and their economic consequences. Therefore, audit opinions are very important to enterprises. However, Jia Jinxuan (2023) [错误!未定义书签。]and others proposed that the management of listed companies under the equity incentive plan is more likely to purchase audit opinions. The purchase of audit opinions directly damages the independence of audit, causes audit failure, and reduces the efficiency of market resource allocation. This will seriously affect the company's reputation and development prospects. Therefore, the research on audit opinions is of great help to joint-stock companies.

3.3 Research on the Annual Report's Tone

The annual report's tone is to indicate that the more positive the management's overall language is, the more positive it is, and the attitude it holds towards the company's current operating status, future performance and industry development prospects. In the regression model of the main board of the Shanghai Stock Exchange, optimistic tone is significantly related to the company's performance in the year (Wu Zhuoran, 2018) [错误!未定义书签。].Cai Yandong (2022) [11] and others also proposed that strengthening auditors' management of the annual report's tone will have a stronger inhibitory effect on the risk of stock crashes, which is particularly important for stock market stability. Kang Xin (2022) [12]and other studies have shown that the more positive the net annual report's tone text, the higher the audit service level will be.Yao Jiaquan (2021) [13]and others pointed out that the tone index and sentiment index of the annual report have a significant predictive effect on the stock price crash risk of listed companies.Therefore, it is of great interest to study the relationship between executive equity incentives and the annual report's tone.

Existing studies have shown that the role of executive equity incentives is focused on the long-term development goals of the company.The correlation between corporate performance and the annual report's tone is obvious, and a suitable positive the annual report's tone can promote corporate performance The improvement of the company's performance and the language of the annual report shows an "inverted U-shaped" relationship.(Shen Juqin et al., 2022)[错误!未定义书签。],How to control the appropriate annual report's tone is worth discussing. Based on the above studies, executive equity incentives are positively correlated with corporate performance and corporate performance is positively correlated with appropriate positive tone of annual reports. The research shows that it is feasible to explore the topic research direction of the impact of executive equity incentives on the tone of annual reports.

4 Study design

4.1 Sample selection and data sources

In order to study the impact of equity incentive on the annual report's tone, this paper uses listed companies in 2011-2021 as the initial sample, and the data related to equity incentive are mainly from CSMAR database. On the basis of this standard, this article further processes the data according to the following process:(1) excluding companies with years of PT, ST, and * ST; (2) Excluding financial industry companies; (3) Eliminate samples with missing data. After the above steps, a total of 11854 company annual observations were obtained in this article.

The industry code, management expense rate, and related financial indicators in this article are all from the CSMAR database, and the annual report's tone is from the CNRDS database. At the same time, Stata software was used for statistical analysis of the data in this study.

4.2 Variable Description

Explanatory variable: Annual Report's Tone (TONE).

The annual report's tone is based on the research of Zeng Qingsheng et al. (2018) [14], and is based on the English vocabulary list of financial emotions provided by Loughran and McDonald (2011) [15]. English vocabulary in LM dictionary was translated based on Youdao Dictionary and Kingsoft Word. The data in this article only retains the Chinese vocabulary most relevant to the Chinese emotions expressed by the English vocabulary. Measure the intonation of the annual report by the proportion of the difference between the number of positive and negative words in the annual report vocabulary (TONE). The higher the TONE value, the more positive the annual report's tone text information.

Explanatory variable: Equity incentive (Mshare).

Using the proportion of executive shareholding in the total equity of a company as a measure, the higher the proportion of executive shareholding, the stronger the intensity of equity incentives, and vice versa.

Adjusting variables.

This article uses management expense rate and audit opinion as moderating variables. Among them, the management expense ratio refers to the percentage of management expenses to main business income. The management expense ratio is an important factor that affects a company's profitability and reflects the level of business management. If the management cost rate is high, it indicates that the profits of the enterprise are consumed too much by organizational and managerial expenses. It is necessary to strengthen the control of management costs in order to improve the profitability level. The audit opinion is measured by whether the company's financial report for the current year has been issued with a standard audit opinion. If a standard audit opinion has been issued, it is assigned a value of 1, and if no standard audit opinion has been issued, it is assigned a value of 0.

Control variables.

This article refers to the research by Xie Deren et al. (2015)[16] to control variables such as listed company size, return on equity (ROE), top five shareholder shareholding ratio (Top5), revenue growth rate (Growth), loss or loss (Loss), book to market ratio (BM), major shareholder capital occupation (Occupy), and listing age. To eliminate the influence of extreme values, this article performed tail reduction on all continuous variables at the 1% and 99% quantiles. The specific variable definitions are shown in Table 1.

Table 1. Variable definitions

variable	name	symbol	definition
dependent Variable	Equity Incentives	Mshare	managerial ownership/ Total share capital of the enterprise
independent Variable	Annual Report's Tone	TONE	（Positive vocabulary count - Negative vocabulary count）/ Total vocabulary in annual report
Control variables	Compay size	Size	Natural logarithm of annual total assets
	Return on equity	ROE	Net profit/ Average balance of share-holders' equity
	Shareholding ratio of the top five major shareholders	Top5	Number of shares held by the top five shareholders / Total number of shares
	Growth rate of oper-ating income	Growth	Current year's operating income /Previous year's operating income -1
	Whether to lose money or not	Loss	If the net profit of the current year is less than 0, assign a value of 1, otherwise take 0
	Book value to market value ratio	BM	Book value/market value
	Capital occupation by major shareholders	Occupy	Other receivables/total assets
	Age of listing of the company	ListAge	Ln（Current year - Year of launch +1）
	Year	annual	Annual virtual variable
	Industry	industry	Industry virtualization variable
Adjusting variables	Management fee rate	Mfee	overhead/operating
	Audit opinion	Opinion	If the company's financial report for the year was issued with a standard audit

	opinion, the value is 1, and vice versa, the value is 0

4.3 Model settings

This article uses regression model (1) to test the relationship between equity incentives and annual report intonation:

$$\mathrm{TONE}_{i,t} = \alpha_0 + \alpha_1 \mathrm{Mshare}_{i,t} + \alpha_2 \mathrm{controls} + \Sigma \mathrm{Year} + \Sigma \mathrm{IND} + \varepsilon_{i,t} \quad (1)$$

Among them, TONE is the dependent variable, Mshare is the explanatory variable, Size, ROE, Lev, Top5, Growth, Loss, BM, Occupy, ListAge are the control variables of the model. To control for potential macro factors, the model also controls for two dummy variables: annual and industry, ε The disturbance term is defined in detail in Table 1.

5 Empirical analysis

5.1 Descriptive statistics

The descriptive statistical results of the main variables are listed in Table 2. From the table, it can be seen that the maximum value of TONE (TONE) based on LM dictionary is 0.039, the minimum value is -0.037, the mean is 0.002, and the standard deviation is 0.009, indicating that the overall tone of the annual report of listed companies is relatively positive. The maximum intensity of equity incentive (Mshare) is 0.708, the minimum value is 0, the mean is 0.228, and the standard deviation is 0.221. This indicates that the ratio range of management shareholding to the total number of shares at the end of the period in this sample study is 0% to 70.8%, with an average of 22.8%.

Table 2. Descriptive statistics of main variables

Variable	N	Mean	SD	Min	p50	Max
TONE	12221	0.002	0.009	-0.037	0.002	0.039
Mshare	12125	0.228	0.221	0	0.167	0.708
Size	12221	21.88	1.102	19.52	21.73	26.43
ROE	12213	0.0750	0.131	-1.072	0.0830	0.406
Top5	12221	0.562	0.145	0.175	0.571	0.892
Loss	12221	0.0900	0.286	0	0	1
Growth	12216	0.194	0.415	-0.660	0.133	4.330
BM	11971	0.775	0.854	0.0510	0.558	10.14
Occupy	12212	0.0140	0.0220	0	0.00700	0.202
ListAge	12221	1.686	0.885	0	1.792	3.367

5.2 Correlation analysis

Table 3 summarizes the correlation analysis results of each major variable. The absolute values of the correlation coefficients between the control variables are small, indicating weak correlation and the absence of multicollinearity issues between the variables. The relationship between equity incentives (Mshare) and LM dictionary based TONE (TONE) is significant at the 1% level, and there is a positive correlation, indicating that implementing equity incentives in enterprises will have a positive impact on the tone of annual reports. Preliminary validation of hypothesis H1a was conducted.

Table 3. Correlation analysis

	TONE	Mshare	Size	ROE	Top5	Loss	Growth	BM	Occupy	ListAge
TONE		0.240***	-0.173***	0.179***	0.089***	-0.177***	0.177***	-0.211***	-0.102***	-0.272***
Mshare	0.231***		-0.250***	0.128***	0.185***	-0.106***	0.095***	-0.206***	-0.105***	-0.461***
Size	-0.191***	-0.288***		0.121***	-0.108***	-0.020**	0.092***	0.541***	0.160***	0.465***
ROE	0.211***	0.109***	0.096***		0.285***	-0.498***	0.374***	-0.257***	-0.135***	-0.211***
Top5	0.104***	0.241***	-0.055***	0.254***		-0.186***	0.068***	-0.192***	-0.177***	-0.503***
Loss	-0.190***	-0.109***	-0.025***	-0.680***	-0.193***		-0.244***	0.100***	0.140***	0.173***
Growth	0.083***	0.026***	0.094***	0.272***	0.062***	-0.177***		-0.071***	-0.029***	-0.101***
BM	-0.245***	-0.196***	0.567***	-0.123***	-0.093***	0.081***	-0.033***		0.182***	0.354***
Occupy	-0.181***	-0.124***	0.140***	-0.189***	-0.144***	0.165***	-0.023***	0.248***		0.225***
ListAge	-0.273***	-0.445***	0.444***	-0.198***	-0.480***	0.178***	-0.019**	0.322***	0.206***	

Lower-triangular cells report Pearson's correlation coefficients, upper-triangular cells are Spearman's rank correlation

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

5.3 Baseline regression

Column (1) of Table 4 shows the benchmark regression results of the implementation of equity incentives by listed companies on the tone of annual report texts. The explanatory variable in the regression is the tone of the company's annual report text (TONE), and the explanatory variable is the listed company's equity incentive (Mshare). The regression coefficient between equity incentives and the tone of the annual report text is 0.003 and is significantly positive at the 1% level. It is preliminarily determined that equity incentives are positively correlated with the tone of the annual report text, indicating that in listed companies, if equity incentives are implemented, the annual report's tone is more positive, further verifying hypothesis H1a.

5.4 Robustness test

Replace the model.

The columns (2) and (3) in Table 4 present the results of benchmark regression for listed companies implementing equity incentives and the annual report's tone, with individual control years and industry individual control years respectively. The regression coefficient between equity incentives and annual report intonation in the above two models is 0.003 and significantly positive at the 1% level, which is consistent with the results obtained from the previous regression, further verifying hypothesis H1a.

Replace explained variables.

To verify the robustness of the regression results, this article replaced the explanatory variable the annual report's tone with TONE1, where TONE1=(number of positive words - number of negative words)/(number of positive words+number of negative words). Benchmark regression was conducted again, and the results are shown in column (4) of Table 4. The benchmark regression results of TONE1 for equity incentives of listed companies and annual report intonation show a regression coefficient of 0.022, which is significantly positive at the 1% level, consistent with the results obtained from the previous regression, proving the robustness of the benchmark regression results.

Endogeneity problem.

In order to reduce the impact of confounding factors such as data bias and data omission, this article uses propensity score matching (PSM) to address this issue. This study takes the median of equity incentive intensity as the standard, and transforms continuous variables into dummy variables. Groups below the median are assigned a value of 0, while groups above the median are assigned a value of 1.After selecting control variables such as enterprise size, loss, and book to market ratio for regression, a propensity score is obtained.The balance test results showed no significant difference between the treatment group and the control group. The regression results of the matched samples are shown in column (5) of Table 4, indicating that the regression coefficient is still significantly positive at the 1% level, further confirming the hypothesis.

Table 4. Regression results

VARIABLES	(1)TONE	(2)TONE	(3)TONE	(4)TONE1	(5)TONE
Mshare	0.003***	0.003***	0.003***	0.022***	0.001***
	(6.92)	(4.53)	(4.53)	(6.79)	(6.40)
Size	0.001***	0.001***	0.001***	0.004***	0.000***
	(4.91)	(6.29)	(6.29)	(4.95)	(3.59)
ROE	0.007***	0.007***	0.007***	0.047***	0.007***
	(11.67)	(11.53)	(11.53)	(11.23)	(11.05)

Top5	-0.002**	-0.001	-0.001	-0.012**	-0.001
	(-2.50)	(-0.66)	(-0.66)	(-2.46)	(-1.52)
Loss	-0.001***	-0.001**	-0.001**	-0.005***	-0.001**
	(-2.72)	(-2.30)	(-2.30)	(-2.81)	(-2.32)
Growth	0.000***	0.000***	0.000***	0.004***	0.001***
	(3.94)	(3.18)	(3.18)	(4.21)	(3.70)
BM	-0.001***	-0.001***	-0.001***	-0.009***	-0.001***
	(-11.27)	(-10.06)	(-10.06)	(-12.00)	(-9.44)
Occupy	-0.017***	-0.015***	-0.015***	-0.127***	-0.016***
	(-6.08)	(-5.17)	(-5.17)	(-6.17)	(-4.89)
ListAge	-0.001***	-0.000**	-0.000**	-0.006***	-0.001***
	(-5.36)	(-2.18)	(-2.18)	(-5.52)	(-5.03)
Constant	0.005	-0.007**	-0.007**	0.039	0.007*
	(1.36)	(-2.49)	(-2.49)	(1.47)	(1.83)
Observations	11,854	11,854	11,854	11,854	9,284
Number of code	1,602	1,602	1,602	1,602	1,584
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	NO	YES	YES	YES
Individual FE	NO	YES	YES	NO	NO

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

6 Further analysis

In order to conduct a more specific study on the impact of equity incentives implemented by listed companies on the tone of annual report texts, this article will use the method of introducing moderating variables to further analyze the article. This article is based on the research of Wang Qin (2021)[17], Jia Jinxuan et al. (2021)[错误!未定义书签。], and Liu Xiaowei (2020)[18]. The moderating effects of management expense rate (Mfee) and audit opinion (Opinion) are studied as moderating variables in the article. The results obtained are shown in Table 5, which confirms H1b.

6.1 Research on the Impact of Equity Incentives on the Intonation of Annual Reports Based on Management Fee Ratio

Before introducing the moderating variable, this study expanded the dimension of TONE in the annual report intonation, with the original dependent variable TONE=TONE/100 after expanding the dimension. This treatment did not affect the significance of the regression results.

Liu Xiaowei (2020) [18]confirmed that implementing equity incentives for executives significantly reduces audit fees,Wang Qin (2021) [17]found a significant negative correlation between executive equity incentives and audit fees.As a secondary subject of management expenses, audit expenses will be presented in the form of management expenses in the financial reports of enterprises, which to some extent affects the company's annual report's tone

According to column (1) of Table 5, the interaction between the management expense ratio (Mfee) and executive equity incentive (Mshare * Mfee) and the annual report's tone is significantly correlated at the 5% level, with a regression value of -1.036, indicating that the management expense ratio can significantly suppress the positive relationship between equity incentive and the annual report's tone.

The management power theory suggests that equity incentives may encourage executives to increase the likelihood of earnings management, financial statement restatement, and financial statement fraud in order to meet the exercise conditions of equity incentives. When auditors increase audit fees to avoid the risk of significant misstatement that may occur in the audited entity, the management fee rate (Mfee) indicator will be correspondingly increased. At this time, the management fee rate (Mfee) indicator will play a inhibitory role in the positive impact of equity incentives on the annual report's tone.

6.2 Exploring the impact of equity incentives on the annual report's tone based on audit opinions

Jia Jinxuan et al. (2021) [错误!未定义书签。] found that some listed company managers have a strong motivation to implement financial manipulation behaviors, including earnings management, in order to meet the conditions specified in the "incentive measures".The Opinion indicator is used to measure whether a company's financial report for the current year has issued a standard audit opinion, which in turn affects the tone of the annual report of a listed company.

According to the low (2) column of Table 5, the interaction term (Mshare * Opinion) of audit opinion and executive equity incentive (Mshare) is significantly correlated with the annual report's tone at the 5% level, and the regression value is -0.004, indicating that audit opinion can significantly suppress the positive relationship between equity incentive and annual report's tone.In order to maximize their interests, the management of some listed companies have a strong motivation to implement financial manipulation, including earnings management, and purchase audit opinions. When the management of a listed company colludes with a certified public accountant, audit opinions become a tool for fraud, resulting in the purchase of audit opinions. At this point, audit opinions significantly inhibit the positive impact of equity incentives on the annual report's tone.

Table 5. Analysis of regulatory effects

	(1)	(2)
VARIABLES	TONE	TONE
Mshare	0.321***	0.003***
	(7.010)	(6.939)
Mfee	0.030	
	(0.249)	

Opinion		0.002***
		(5.568)
interact	-1.036**	-0.004**
	(-2.290)	(-2.037)
Size	0.057***	0.001***
	(5.024)	(4.627)
ROE	0.675***	0.006***
	(11.673)	(10.264)
Top5	-0.162**	-0.002***
	(-2.358)	(-2.655)
Loss	-0.067***	-0.001***
	(-2.846)	(-2.632)
Growth	0.050***	0.001***
	(3.951)	(4.070)
BM	-0.114***	-0.001***
	(-11.210)	(-10.689)
Occupy	-1.753***	-0.015***
	(-6.128)	(-5.344)
ListAge	-0.075***	-0.001***
	(-5.409)	(-5.583)
Constant	0.444	0.004
	(1.187)	(0.986)
Observations	11,854	11,854
Number of code	1,602	1,602
Year	YES	YES
Industry	YES	YES

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

7 Conclusions

This article takes the impact mechanism of implementing executive equity incentives combined with audit opinions on the tone of annual reports as the starting point. Explore the interrelationships between equity incentives, audit opinions, and annual report tone. Based on relevant data from 2011 to 2021, this article selects 11854 eligible observation samples from listed companies for regression testing. Research has found that (1) equity incentives have a positive impact on the tone of annual reports; (2) The management expense ratio and audit opinion both have a inhibitory effect on the positive impact of equity incentives on the tone of annual reports. At the same time, the article used non-financial data - financial text information for analysis, and various methods were used for verification. The results obtained have strong effectiveness and have good reference value for enterprises implementing equity incentives. Future research can further analyze the reasons for the inhibitory effect of audit opinions and management expense ratios on the intonation of annual reports by equity incentives in listed companies, as well as the impact of different equity incentive methods and executive compensation incentives on the intonation of annual reports.

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