Internal Governance Mechanisms, Financial Reporting Quality and Capital Market Economic Consequences: A Case Analysis of Didi and ST Dasheng

Wenrui Ma*

Changchun University, Changchun 130022, China

*Corresponding author's email: 3174197585@qq.com

Abstract. This paper takes Didi Global Inc. and ST Dasheng as case samples to examine how internal governance mechanisms (internal control, management incentives, digital transformation) affect financial reporting quality and further generate capital market economic consequences. Grounded in principal-agent theory, information asymmetry theory and signaling theory, this study finds that sound internal governance significantly reduces opportunistic behavior, improves the reliability, relevance and timeliness of financial information, and enhances capital market efficiency. By contrast, internal governance defects lead to serious accounting information distortion, regulatory penalties, market value shrinkage, rising financing costs and investor losses. This study integrates internal governance, financial reporting quality and capital market consequences into a unified framework, enriches relevant research in emerging markets, and provides practical guidance for listed companies to strengthen governance and information disclosure.

Keywords: Internal Governance; Internal Control; Financial Reporting Quality; Capital Market Efficiency; Economic Consequences

1 Introduction

1.1 Research Background and Significance

Against the backdrop of strengthened global capital market regulation and the rapid advancement of the digital economy, financial reporting quality has emerged as a critical link between firms and external capital markets. High-quality financial information helps mitigate information asymmetry between listed companies and investors, eases agency conflicts, lowers agency costs, enhances stock pricing accuracy, reduces financing costs, and supports efficient social resource allocation.According to information asymmetry theory and principal-agent theory, high-quality financial information helps mitigate information asymmetry between listed companies and investors, eases agency conflicts, lowers agency costs, enhances stock pricing accuracy, reduces financing costs, and supports efficient social resource allocation. Nevertheless, frequent governance failures, financial misreporting, and disclosure violations in

© The Author(s) 2026
P. S. Borah et al. (eds.), *Proceedings of the 2026 6th International Conference on Enterprise Management and Economic Development (ICEMED 2026)*, Advances in Economics, Business and Management Research 394,
https://doi.org/10.2991/978-94-6239-719-4_49

recent years have severely harmed investor interests and eroded the stability and integrity of global capital markets.

Didi Global Inc. and ST Dasheng represent typical cases in China's emerging market where weak internal governance triggered severe financial information risks and adverse capital market outcomes. As a dominant player in China's mobility services sector, Didi faced cybersecurity reviews, app removal, mandatory delisting from the U.S. market, and a record fine of RMB 8.026 billion due to severe data non-compliance and inadequate internal governance around its overseas listing. ST Dasheng, a cultural and media listed firm, suffered a deep financial crisis driven by aggressive mergers and acquisitions, massive goodwill impairment, an over-concentrated business structure, and ineffective internal control, eventually receiving a delisting risk warning. These two cases span different industries and risk types, offering strong representativeness for case analysis.

In this context, this paper uses these two companies as samples to investigate two core research questions: first, how internal governance mechanisms—including internal control, managerial incentives, and digital transformation—affect the formation of financial accounting information and determine reporting quality and transparency; second, what economic consequences high-quality financial reporting brings to capital market pricing efficiency, financing costs, investor decision-making, and resource allocation efficiency. The findings enrich the literature on internal governance and financial reporting quality in emerging markets and provide practical guidance for listed companies to improve governance, standardize disclosure, and pursue sustainable development.

1.2 Literature Review

Internal Governance and Financial Reporting Quality.
Extensive literature has established that internal governance plays a pivotal role in determining financial reporting quality. Effective internal governance mechanisms significantly enhance the reliability, objectivity, and credibility of financial information, thereby alleviating agency conflicts and information asymmetry[1]. In contrast, internal control deficiencies are consistently associated with a higher risk of financial misstatement, earnings distortion, and reduced accounting quality[2].

Managerial incentives constitute another core determinant of disclosure behavior. Incentive structures that are overly short-term or imbalanced tend to motivate opportunistic earnings management and biased disclosure, which directly undermine reporting quality[3]. Meanwhile, strong board governance and effective internal oversight can constrain managerial discretion, improve the transparency of financial reporting, and reduce information opaqueness.

Against the backdrop of digitalization, digital transformation has gradually emerged as a new driver of internal governance. Corporate digitalization helps optimize internal control processes, strengthen real-time risk monitoring, and reduce manual intervention in accounting, thereby improving data consistency and information comparability. Although early studies focus less on digital governance, they

lay a foundation for understanding how technology-enhanced governance supports high-quality reporting.

Despite considerable progress, existing research has two key limitations. First, most studies examine individual governance mechanisms in isolation, lacking integrated analysis of the synergistic effects among internal control, managerial incentives, and digital transformation. Second, large-sample empirical studies dominate, while in-depth case analyses that reveal detailed transmission channels remain scarce. This study addresses these gaps through a comparative case design.

Economic Consequences of Financial Reporting Quality.

A well-established literature demonstrates that high-quality financial reporting produces significant positive economic consequences in capital markets. At the financing level, improved reporting quality reduces information asymmetry and investor risk perception, thereby lowering capital costs and risk premiums[4]. In terms of market efficiency[7], find that transparent and reliable accounting information improves stock pricing efficiency and enables share prices to better reflect firm fundamentals.

At the macro level, high-quality financial information helps direct capital toward more efficient and growth-oriented enterprises, thereby improving the overall efficiency of social resource allocation[10]. Collectively, these studies confirm that financial reporting quality functions as a key pillar supporting stable and efficient capital market operation.

Nevertheless, few studies integrate internal governance, financial reporting quality, and capital market consequences into a unified analytical framework, particularly based on typical enterprise cases from emerging economies such as China. Using Didi and ST Dasheng as examples, this paper fills this gap by systematically revealing the transmission mechanism from governance defects to reporting deterioration and further to adverse market outcomes.

2 Case Introduction

2.1 Didi Global Inc.

Founded in June 2012, Didi Global Inc. (formerly Beijing Xiaoju Technology Co., Ltd.) is a leading one-stop mobility and local life services platform in China. Starting with online ride-hailing, the company has expanded into ride-hailing, premium cars, carpooling, chauffeur, shared bikes, food delivery, and other sectors. It holds a dominant position with a market share of over 80% in China's online ride-hailing market and hundreds of millions of users.

In June 2021, Didi filed an IPO prospectus with the U.S. SEC and listed on the New York Stock Exchange on June 30, 2021, at an issue price of $14 per share, issuing 31.68 million ADSs and raising $4.4 billion. Just three days after listing, the Cyberspace Administration of China launched a cybersecurity review and suspended new user registration. On July 4, 2021, regulators announced that the Didi App had

serious violations in collecting and using personal information, along with data practices that threatened national security.

Subsequently, seven regulatory authorities conducted an on-site inspection, and the Didi App was removed from major app stores. In December 2021, Didi announced its delisting from the NYSE, with its share price plunging more than 80% and market value evaporating over $75 billion. In July 2022, Didi was fined RMB 8.026 billion. The core internal governance defects include insufficient internal control over data security and user information, weak internal and external communication, low compliance awareness, and ineffective internal supervision.

2.2 ST Dasheng

ST Dasheng (Dasheng Times Cultural Investment Co., Ltd., stock code: 600892) was listed on the Shanghai Stock Exchange in 1996. Its core businesses include online game development and operation, as well as film and television production and distribution. In 2023, the Tangshan Municipal State-owned Assets Supervision and Administration Commission became the controlling shareholder via Tangshan Cultural Tourism Group, turning the firm into a state-controlled listed company.

In its early expansion, ST Dasheng pursued aggressive mergers and acquisitions, acquiring multiple game and media companies at high premiums and accumulating substantial goodwill. Following the expiration of performance commitments, the acquired assets experienced sharp performance declines, leading to continuous large-scale goodwill impairment. By 2024, goodwill accounted for 109% of net assets, and the asset-liability ratio surged to 76.05%. The business structure is highly concentrated, with game revenue contributing over 90% of total revenue, resulting in weak long-term competitiveness. Operating cash flow has been negative for three consecutive years, reaching -94.5424 million yuan in 2024.

Due to a net loss and operating income below RMB 300 million in 2024, the company received a delisting risk warning. Its internal governance weaknesses are reflected in poor acquisition and goodwill oversight, incomplete incentive and restraint mechanisms, insufficient risk assessment capacity, and low digital governance and financial information management capabilities.

3 Case Analysis

3.1 Internal Governance Defects and the Decline of Financial Reporting Quality

Internal Control Failure Undermines Information Reliability.
Internal control serves as the primary safeguard for reliable financial reporting[6,8]. From the perspective of information asymmetry theory, weak internal control increases information opacity and prevents investors from obtaining the true state of affairs.From the perspective of principal-agent theory, ineffective control allows managers to engage in opportunistic behavior.The severe control deficiencies in both Didi and ST Dasheng directly distorted their financial information. For Didi, the lack

of data security and user information control led to illegal data collection and incomplete risk disclosure in IPO documents and financial reports, severely undermining the credibility of its disclosed information. For ST Dasheng, ineffective internal control over mergers and acquisitions, goodwill impairment, and financial accounting led to non-standard decision-making and delayed impairment recognition, resulting in overstated assets and earnings and extremely low information reliability.

Imperfect Management Incentives Induce Opportunistic Reporting.

Management incentive structures directly influence financial reporting quality[5]. According to principal-agent theory, unreasonable incentives separate managers' interests from shareholders, leading to earnings management and disclosure manipulation.Didi's management prioritized short-term goals such as speedy listing, which encouraged the concealment of violations and risks to satisfy listing requirements, as incentive arrangements were misaligned with long-term corporate development. For ST Dasheng, management engaged in earnings management to avoid losses and potential delisting, taking advantage of weak internal control to inflate performance. Its incentive system overemphasized short-term targets without adequate long-term constraints.

Lagging Digital Transformation Reduces Information Transparency and Timeliness.

Digital transformation strengthens governance efficiency and disclosure transparency[9]. Information asymmetry theory suggests that digital tools reduce information gaps.Signaling theory implies that transparent digital disclosure sends a positive signal to the market.However, the slow digital progress in both firms damaged reporting quality. Although Didi held massive user data, it lacked a sound digital security system, which prevented effective monitoring of data usage and timely public disclosure. ST Dasheng relied heavily on manual financial management and risk assessment without intelligent systems, leading to poor timeliness and transparency in financial reporting and insufficient support for decision-making.

3.2 Low-Quality Financial Reporting and Negative Capital Market Consequences

Impaired Capital Market Pricing Efficiency.

Low-quality financial reports distort stock valuation and reduce market efficiency. Based on information asymmetry theory, poor disclosure makes stock prices deviate from intrinsic value. After Didi's listing, the sudden exposure of hidden risks triggered a share price collapse of over 80% and massive market value erosion, as the market could not accurately assess its intrinsic value. ST Dasheng's reports long concealed its financial distress, misleading investors; the subsequent delisting risk warning and continuous share price decline demonstrated that stock prices failed to reflect real operational conditions.

Sharply Increased Corporate Financing Costs.

Poor financial information quality significantly raises financing costs (Iqbal et al., 2025). Signaling theory suggests that low-quality reporting sends a negative signal, increasing risk perception and financing premiums.Following the exposure of violations, Didi suffered reputational damage, restricted financing channels, and soaring equity and debt financing costs, further intensified by U.S. delisting and heavy penalties. For ST Dasheng, sustained losses, weak cash flow, and low disclosure transparency eroded creditor and investor confidence, leading to difficult and costly debt financing and the loss of equity financing functionality.

Misguided Investor Decisions and Damaged Interests.

Low-quality financial reports mislead investors and erode their wealth. Didi investors relied on incomplete disclosure and suffered heavy losses once hidden risks emerged. Similarly, ST Dasheng's long-term performance whitewashing and risk concealment led investors to misjudge corporate value, resulting in substantial losses amid falling share prices and unfolding financial distress.

Reduced Social Resource Allocation Efficiency.

Low-quality financial information distorts value signals and impairs resource allocation efficiency (Zhang & Wu, 2026; Li et al., 2024). Information asymmetry theory indicates that opaque information misleads capital flow and reduces allocation efficiency.Didi attracted large-scale social capital but experienced a severe risk outbreak due to weak governance, causing considerable capital losses. ST Dasheng's blind mergers and inefficient operations occupied substantial social resources, while its financial reports disguised low resource utilization, leading to capital misallocation and inefficiency.

4 Research Conclusions and Implications

This paper establishes a unified "internal governance mechanisms → financial reporting quality → capital market economic consequences" framework based on principal-agent theory, information asymmetry theory, and signaling theory, using Didi and ST Dasheng as case samples. The main conclusions are as follows:

First, internal control, management incentives, and digital transformation jointly determine financial reporting quality. Deficiencies in these three dimensions directly cause unreliable information, opportunistic reporting, and low transparency.Second, poor financial reporting quality leads to a series of negative capital market consequences, including weakened pricing efficiency, higher financing costs, investor losses, and distorted resource allocation.Third, Didi's failure in data security control and ST Dasheng's ineffective control over mergers and acquisitions and goodwill, combined with flawed incentives and slow digital transformation, directly triggered information distortion and market crises.Fourth, for listed companies in emerging markets, internal control acts as the foundation, reasonable incentives as the core, and

digital transformation as an important enabler to improve governance and financial reporting quality.

4.1 Theoretical Contributions.

This study integrates three internal governance mechanisms into a unified framework and supplements the literature with in-depth case evidence from Chinese enterprises. It clarifies the transmission path from internal governance to financial reporting quality and then to capital market consequences, enriching research on corporate governance and reporting quality in emerging markets.

4.2 Practical Implications.

Listed companies should strengthen internal control over data security, compliance, mergers and acquisitions, and goodwill impairment; design long-term-oriented managerial incentive and restraint systems; and accelerate digital transformation to improve real-time monitoring and disclosure transparency. Regulators should strengthen oversight of internal governance and information disclosure to protect investors and maintain market stability.

4.3 Limitations and Future Research.

This paper adopts a dual-case design, which limits the generalizability of conclusions. Future research may use large-sample empirical methods to quantify the effects of internal governance on financial reporting quality and economic consequences. Cross-industry comparative studies and long-term tracking analyses can further verify the robustness of the findings.

References

1. Dechow, P. M., Ge, W., & Schrand, C. M. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. Journal of Accounting and Economics, 50(2–3), 344–401. https://doi.org/10.1016/j.jacceco.2010.09.001
2. Doyle, J. T., Ge, W., & McVay, S. (2007). Accruals quality and internal control over financial reporting. The Accounting Review, 82(5), 1141–1170. https://doi.org/10.2308/accr.2007.82.5.1141
3. Bergstresser, D., & Philippon, T. (2006). CEO incentives and earnings management. Journal of Financial Economics, 80(3), 511–529. https://doi.org/10.1016/j.jfineco.2004.10.011
4. Iqbal, M. A., Rouf Sarkar, M. A., Alharthi, M., Ebn Jalal, M. J., & Rahman, M. N. (2025). Reporting quality, cost of capital, and corporate governance. *PLOS ONE*, 20(6), e0324147. https://doi.org/10.1371/journal.pone.0324147
5. Kalelkar, R., Shi, Y., & Xu, H. (2025). Top management team incentive dispersion and management earnings forecasts. *Journal of Business Finance & Accounting*, 52(2), 963–990. https://doi.org/10.1111/jbfa.12833

6. Khlif, H., & Omri, A. (2023). Internal control deficiencies and financial misreporting. *International Journal of Accounting*, 58(3), 245–267. https://doi.org/10.1080/00206990.2023.2201445
7. Li, H., Liu, Y., & Chen, J. (2024). Digital governance and capital market pricing efficiency. *Emerging Markets Finance and Trade*, 60(7), 2001–2018. https://doi.org/10.1080/1540496X.2024.2328899
8. Liu, Y., & Zhang, Q. (2025). Board governance, internal control, and disclosure transparency. *Corporate Governance: The International Journal of Business in Society*, 25(3), 588–606. https://doi.org/10.1108/CG-03-2024-0123
9. Obermaier, R., & Grottke, M. (2025). Digital transformation and management control systems. In *Research Handbook on Accounting and Organizational Change*. Edward Elgar Publishing. https://doi.org/10.4337/9781789909363.00006
10. Zhang, Y., & Wu, J. (2026). Financial reporting quality and resource allocation efficiency in capital markets. *Journal of Corporate Finance*, 78, 102567. https://doi.org/10.1016/j.jcorpfin.2026.102567

Open Access This chapter is licensed under the terms of the Creative Commons Attribution-NonCommercial 4.0 International License (http://creativecommons.org/licenses/by-nc/4.0/), which permits any noncommercial use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons license and indicate if changes were made.

The images or other third party material in this chapter are included in the chapter's Creative Commons license, unless indicated otherwise in a credit line to the material. If material is not included in the chapter's Creative Commons license and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder.