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Impact of Information Disclosure Violations on the Company's Stock Price: a Case of Zhangzidao Scallop's Crops

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ABSTRACT

In recent years, with the rapid development of the securities market, violations of information disclosure of listed companies have occurred frequently, which have seriously affected the interests of investors and the positive development of listed companies and the securities market. Based on Zhangzidao scallops "Crops" announcement as the event on October 30, 2014, as the Zhangzidao was the main cause of the incident company information disclosure problems, so further research using event study to explore information disclosure violations to the Zhangzidao enterprise share, and using the method of calculating abnormal returns and the cumulative abnormal returns of two models get the conclusion that scallop "Crops" event's cumulative abnormal returns of the 20 trading days before and after the empirical analysis, finally draw the conclusion that Zhangzidao company realized the excess yield of -0.04115496 on the second day after the event, and the cumulative abnormal rate of return of the event period passed the T-test, which means that the violation of information disclosure has caused significant and negative market reaction. Finally, based on the empirical results and the new securities law, the paper puts forward relevant policy suggestions for investors, listed companies and regulatory authorities. In order to reduce or eliminate information disclosure violations and promote the harmonious and healthy development of listed companies and China's securities market.

Keywords: : Event study, Zhangzidao, Information disclosure, The cumulative abnormal rate of return.

INTRODUCTION

Since the reform and opening up of China, China's market economy and financial market have developed rapidly, and the financial industry has grown stronger on the basis of the real economy. With the establishment of the Shanghai stock exchange and Shenzhen stock exchange, securities investment platform develop more mature. And in the number of listed companies, all kinds of violations occur at the same time also more frequently, of which information disclosure violations is more outstanding, seriously affected the investors ' interests and the healthy development of securities market, and stock price is a direct result of the reaction on companies. The new securities law implemented in March 2020 also puts forward stricter requirements on the information disclosure of listed enterprises, indicating that the government also attaches great importance to the issue of information disclosure. This paper takes Zhangzidao scallops "Crops" information disclosure violation as a case study to study the impact of information disclosure violation on the stock price of enterprises.

On the evening of October 30, 2014, Zhangzidao group announced that because the north yellow sea was hit by an abnormal cold water group once in a few decades, the harvest of shrimps and scallops was more than 1 million and the company had sown in 2011 and part of 2012 was about to be harvested. Affected by this, Zhangzidao's performance in the first three quarters of 2014 changed from forecast profit to loss of about 800 million yuan, and it is expected to suffer a substantial loss for the whole year. The incident immediately attracted the close attention of shareholders, media and financial regulators, and Zhangzidao group's share price was suspended for two months. On January 9, 2015, the Shenzhen stock exchange for Zhangzidao scallops "Crops" incident to Zhangzidao issued a penalty notice, thinking its not fully disclose the cold water mass for company management may produce significant risks and failed to timely and complete disclosure of the company major changes in production and management, the Zhangzidao company, chairman of the board of directors of the company and other executives were given criticism. Domestic scholars have put forward their own views on

the reasons. Y.L. Tian (2017) have doubt of existing really the cold water mass, because according to October 21, 2014, the Marine research institute of Chinese academy of sciences meeting minutes is the happening of the cold water mass is on or before August 2014, but at the same time , Zhangzidao did not disclose any relevant information, so there has reason to doubt or monitoring system problems, or deliberately withheld the incident Zhangzidao. K.M. Ji & T.C. Tang(2018) analyzed the deep-rooted reasons for this incident from the perspectives of internal management and external supervision of Zhangzidao group. First, the board of directors and the board of supervisors of Zhangzidao group could not effectively play its management and supervision role due to the small number of people and the single largest group. Second, securities institutions did not carry out a strong strike and punishment after the occurrence of the first "failure" event, which promoted the recurrence of similar events to some extent. Z.H. Qiu(2019) believed that Zhangzidao's information disclosure was not timely, authentic, incomplete and non-standard. K. Tang(2019) analyzed five elements of Zhangzidao's internal control , and concluded that its property protection control measures were ineffective, risk assessment was lacking, and budget control was deficient. According to Y.X. Tan & K. Yu (2019), Zhangzidao falsified its financial statements by preparing for the depreciation of its inventory and making it difficult to accurately audit its biological assets.

Based on the punishment announcement of Shenzhen stock exchange and the viewpoints of existing literature, this paper puts the main reason of Zhangzidao incident down to its information disclosure being not timely and incomplete. Prior to the announcement of the scallops "Crops" Zhangzidao did not disclose any factors related to risk, if they are affected by the cold, they should truthfully inform investors during the case, but Zhangzidao does not disclose all the information, which not only harm the interests of investors, eventually also cause severe negative impact of Zhangzidao's development. The paper use event study to study the cumulative abnormal returns before and after the incident , shows this information disclosure violations and whether significant impact on enterprise stock size, then put forward some proposals on the basis of this, expecting to improve the level of information disclosure of listed companies in our country and maintain the interests of the investors, promote the positive development of the listed companies and securities market.

LITERATURE REVIEW

Existing literature on the relationship between information disclosure and stock price mainly focuses on the following three aspects: first, the relationship between information disclosure and stock price crash effect. K.T. Ye (2015) showed that the improvement of the internal control information disclosure level of enterprises can help reduce the information asymmetry, so as to reduce the risk of future share price crash. In other words, the level of information disclosure is negatively correlated with the risk of share price crash. H.Y. Jiang & X.Y. Wang (2018), using the data of A-share listed companies from 2011 to 2015, found that in those companies with poor information transparency, the improvement of internal supervision information disclosure and internal control quality would significantly reduce the risk of share price crash, while the disclosure of risk assessment information would significantly increase the risk of stock price crash. D.M. Kong , L.Shi & F. Zhang (2020), based on text analysis technology to study the causal linguistic features in the annual financial reports and the relationship between the stock price crash risk, found causality language strength positively correlated with future stock price crash risk, revealing the successful managers manipulate causality hidden negative information, thus result in higher stock price crash risk. The second is to study the relationship between the level of information disclosure and the synchronicity of stock prices. The synchronicity of stock price refers to the degree of correlation between the stock price fluctuation of a single company and the stock price fluctuation of the same industry and the market. Dasgupta et al. (2010) concluded that there was a negative correlation between the fluctuation of the price of a single stock and the degree of information disclosure of listed companies. W.W. Zhang (2016) conducted an empirical study on the resource allocation effect of information disclosure in the stock market, and the results showed that information disclosure effectively promoted the degree of synchronicity of stock price fluctuations. B.Y. He(2019) used the event study to conduct the overall sample analysis and the classification sample analysis. The empirical results showed that before the information disclosure, the stock price would react in advance and make changes in the rise or fall, but would

return to normal after the event, indicating that there is the phenomenon of information disclosure in the market in advance. Y. Shi (2013) took non-financial listed A-share companies in Shenzhen stock market from 2007 to 2012 as sample, and obtained A significant positive correlation between the level of information disclosure and the synchronicity of stock prices through empirical test. The third is to study the impact of the level of information disclosure on the level of stock prices. Ryoji Makino (2016) used the data of the Japanese chemical industry to conduct event research and analysis , and proposed that if the latest risk information was disclosed to investors, the company with high risk of accidents would be subject to poor evaluation in the stock market, and the management would take measures to reduce the risk and prevent the stock price from falling. Dennis y. Chung (2019) took companies listed on major stock exchanges in the United States as samples to study the influence of information disclosure level on stock price, and finally found that the higher the level of information disclosure was, the more positive and significant impact it had on stock prices. B.K. Zhang (2008) took the a-share listed enterprises in China as the research object, and through the method of the cumulative abnormal rate of return, concluded that the company with A high level of information disclosure was significantly higher than the company with A low level of information disclosure.

According to the above research, most scholars believe that the high level of information disclosure will have a positive impact on the stock price, no matter from the perspective of stock price crash effect, stock price synchronicity or stock price level. In this paper, with the basic principles of information disclosure, which is true, accurate and complete as a measure of information disclosure level, and roebuck island is one of the information disclosure violations events that lower the degree of information disclosure, based on this, this article makes assumptions, namely, the lower the level of information disclosure, the lower the cumulative abnormal returns.

RESEARCH METHOD

The event study can be used to understand whether there is a certain correlation between the stock price and the event in the stock market. In addition, event studies can determine how the average stock market responds to specific announcements, list stock prices in sequence over the time of event studies, and then calculate how the average stock price changes after a specific announcement. The event study is characterized by simple operation, flexible process and clear results, and has become an important method of financial research. At present, it is widely used in sociology and economics. In particular, when analyzing the impact of major events on enterprises in the food industry, most scholars in China choose the event study method as their main research method. The specific operation process includes:

·Definition of event. Determining the event to be studied and relevant content information. In this paper, Zhangzidao announced crops's report is on October 30, 2014 ,which is the event date. A total of 120 trading days from 140 trading days before the event date to the first 20 trading days were selected as the estimation window, the estimated window is [-140, -21]. The event window is 20 trading days before and after the event, which is. [-20,20].

Estimates of normal and abnormal returns. The normal returns estimation models of the event study are generally divided into two categories: economics model and statistical model. Economics model mainly refers to the capital asset pricing model (CAPM), and statistical model is divided into the mean-adjusted model, market model and market adjustment model. The four models are compared to select suitable ones to be used in this article.

The capital asset pricing model assumes that all investors to invest according to Markowitz assets choice theory, the expected return and variance and covariance estimates are exactly the same, investors can lend freely, investors can know in advance the probability distribution of return on investment for normal distribution, all the investors can get fully free market information. The formula is 1-1.

$$R_{it} = \beta_i (R_{mt} - r_f) + r_f \qquad (1\text{-}1)$$

Due to the inconsistency between the assumptions of CAPM and the real situation , few scholars use this model to calculate the normal returns. Therefore, this paper does not use this model.

The Mean-adjusted model assumes that a stock i expected revenue is equal to a constant Ki, which is by calculating the stock i estimate the phase of the average earnings of n days, and thus the constants Ki is different between different securities, at the same time i will be

the constants Ki as the securities in the event of normal profits, so the security in the event period abnormal returns (AR) used the difference between real earnings and the normal income Ki. The formula is 1-2 and 1-3.

$$K_i = R_{it} \quad (1\text{-}2)$$

$$AR_{it} = R_{it} - K_i \quad (1\text{-}3)$$

H.W. Chen & X.M. Chen (2002) used the random sampling method with regression to calculate the accumulated abnormal returns through the samples to simulate the eventful reaction of share price, and finally came to the conclusion that the application of mean-adjusted model could more effectively achieve the purpose of detecting the eventful performance of stock prices. However, X.Y. Chen & F. Jiang (2005) also used the same method to carry out the simulation way, and found that the results were just opposite to those of H.W. Chen and X.M. Chen. They believed that the non-parametric rank test method based on the market model should be used to test whether the daily market responds to the information no matter whether the events of various companies are similar or overlapping in the event study.

The market model is a statistical model of the correlation between the return of a certainly security and the return of the market portfolio. The market model assumes a stable linear relationship between the return of any security in the market and the return of the market portfolio. For any security i, The formula is 1-4.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1\text{-}4)$$

First of all, in the estimation period, the corresponding relationship between securities i and portfolio returns in the market is utilized, and the linear relationship of formula 1-4 is adopted to carry out regression to obtain the values of the coefficients ái and âi.

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (1\text{-}5)$$

Substitute into formula 1-5 to further calculate the abnormal return of security i in the event period.

$$CAR_{it} = \sum AR_{it} \quad (1\text{-}6)$$

Finally, formula 1-6 was used to obtain its cumulative abnormal returns.

Since the research results of H.W. Chen & X.M. Chen (2002) and X.Y. Chen & F. Jiang (2005) are contrary, this paper chooses the mean-adjusted model and the market model to make an empirical analysis on the cumulative abnormal return rate of Zhangzidao company, so as to make the results more scientific.

The market adjustment model assumes that the normal rate of return of any security i is replaced by the return of the market portfolio index (Shanghai composite index or Shenzhen component index) so that there is the same normal rate of return between different securities. Then, the abnormal return is obtained by subtracting the actual return of the security from the normal return, and the cumulative abnormal rate of return is further obtained, The formula is 1-7,1-8 and 1-9.

$$K_{it} = R_{mt} \quad (1\text{-}7)$$

$$AR_{it} = R_{it} - K_{it} \quad (1\text{-}8)$$

$$CAR_{it} = AR_{it} \quad (1\text{-}9)$$

The market adjustment model has great limitations, because different securities have different normal returns, and the model is processed into all securities and replaced by market portfolio index, which also admits that the normal returns of all securities are the same.

·Test the significance of accumulative abnormal returns. After calculating the accumulated abnormal returns, it is generally necessary to test its significance. The test methods include parametric test method and non-parametric test method. In practice, the two methods are often used in combination. This paper mainly uses T-test to test the significance of CAR.

RESEARCH PROCESS

We take Zhangzidao scallop "Crops" event as an example. The first model is the mean-adjusted model.

This paper chooses 120 trading days prior to the event period as the event's estimated period. During the estimated period of time, if there is any suspension, and no return on stocks, then we will forward to add one day complement (do the same method for the following similar situations) thus received the full 120 days data from February 14, 2014 to September 4 ,2014. The data source for the Shenzhen Guotaian CSMAR database. According to the calculation, the average income of Zhangzidao in this estimated period is 0.1048992%, that is

$$Ki=0.001048992 \quad (1\text{-}10)$$

This is also the normal return during the event period, which is from September 5, 2014, to January 6, 2015, excluding the date of share suspension. Then, according to formula 1-3, AR and CAR of Zhangzidao can be calculated during the event period. The fluctuations are shown in the Figure 1.

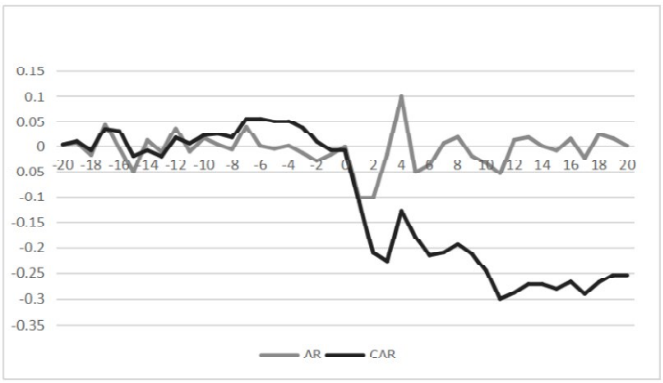

Figure 1 AR and CAR fluctuations of Zhangzidao during the event period

According to Figure 1, during 20 days prior to the event day, the abnormal rate of return always fluctuates up and down near zero and volatility is not very huge, but when the incident happened in two days it was a substantial decline, the abnormal rate of return yield reached -10%, which means this event had a short-term severe impact on abnormal returns. But in four days after the event day, there is a peak and that may because Zhangzidao has taken some measures to cope with this event to reduce the impact of events on share prices of a few days after the event. Finally, the fluctuations of the last days during this period is similar as ones of open days. There are 15 days is greater than zero of the cumulative abnormal rate of return before the event day, explaining its share price is good but the first three days of the event had a sharp decline, while the fourth day has increased, but still far below 0. Until the 11th day after the event day, the cumulative abnormal rate of return fell to -30%, which illustrates the impact of the event on Zhangzidao enterprise is huge and has a certain continuity.

Finally, T-test was conducted on the CAR in the event period. According to Table 1, the cumulative abnormal rate of return's value of Zhangzidao passed the T-test (P = 0.00), which was significant at the 1% level and met the expectation. This shows that Zhangzidao information disclosure violations have a significant impact on Zhangzidao company.

Table 1-T- test

Variable	Obs	Mean	Std.Err.	Std.Dev.	[95% Conf.Intervall]	
CAR	41	-.1060241	.020772	.1330058	-.1480059	-.0640423
mean=mean(CAR)					t=-5.1042	
H0:mean=0					degrees of freedom=	40
Ha:mean<0			Ha:mean!=0		Ha:mean>0	
Pr(T<t)=0.0000			Pr(|T|>|t|)=0.0000		Pr(T>t)=1.0000	

The second model is the market model. The market model selects A-share of Shenzhen index to measure market returns, and the estimated period and event period are consistent with the period used by the mean-adjusted model. In this paper, the daily rate of return of Shenzhen A-share in the selected estimation period was estimated by OLS respectively, and the corresponding market model of the normal rate of return was obtained. The abnormal rate of return and the cumulative abnormal rate of return in the event window period can be calculated by the corresponding market model. The test results were obtained by testing its significance. According to the relationship between stock return rate and market return rate in formula 1-4, Stata software was used to carry out regression processing on the data. The results are shown in Table 2.

Table 2:Regression results

Rmt	Std.Error	Beta	t	Sig.
(Constant)	0.0016715	0.0002534	0.15	0.880
Rit	0.1430548	0.7755651	5.42	0.000

a. Dependent Variable: Rmt RSquare .199

As can be seen from the above table, the regression of the whole model is very significant and completely acceptable. Meanwhile, the coefficient of return of Shenzhen A-share is 0.78, which is also very significant. The coefficient of the constant term is approximately 0, which can be converted into formula 1-11.

$$R_{it} = 0.78 R_{mt} \quad (1\text{-}11)$$

Next, according to formulas 1-5 and 1-6, abnormal returns and cumulative abnormal returns of Zhangzidao are calculated during the event period, and their fluctuations are shown in Figure 2.

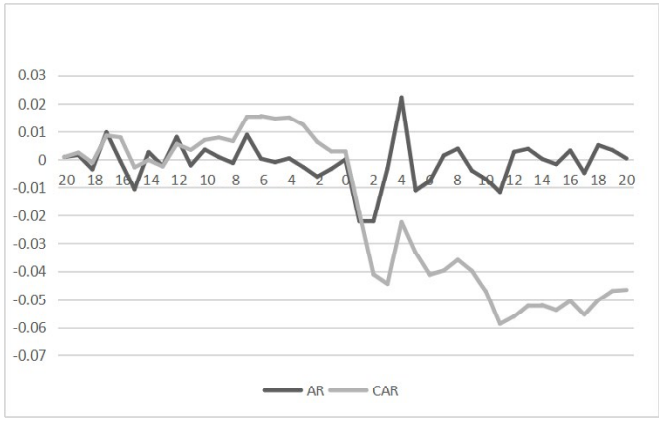

Figure 2 AR and CAR fluctuations of Zhangzidao during the event period

According to Figure 2, the abnormal rate of return always fluctuates slightly above or below 0 in the 20 days before the event day. But the fluctuates become sharply from 0 to 6 days after the event day, and with a significant peak of the abnormal rate of return. However, since the beginning of the event period, the cumulative abnormal rate of return has been below 0 all the time, especially at the beginning of the event day, it suddenly drops steeply, then the third day and the cumulative abnormal rate of return have a synchronous sharp rise, until the eighth day there is another sharp decline. And then the fluctuation tends to be stable. It shows that the "failure" of Zhangzidao scallop 's crops incident indeed had a significant impact on the share price of Zhangzidao company, and the impact was a short-term and dramatic impact. The share price responded immediately after the event happened. However, the cumulative abnormal rate of return is still at a low level, indicating that the influence of this event on Zhangzidao company will last for a period of time.

Finally, T-test was conducted on the cumulative abnormal rate of return in the event period. According to Table 2, the cumulative abnormal rate of return 's value of Zhangzidao passed the T-test (P = 0.00), which was significant at the 1% level and met the expectation. This shows that Zhangzidao information disclosure violations have a significant impact on Zhangzidao company.

Table 2-T- test

Variable	Obs	Mean	Std.Err.	Std.Dev.	[95% Conf.Intervall]	
CAR	41	-.018479	.0041937	.026853	-.0269548	-.0100031
mean=mean(CAR)					t=-4.4063	
H0:mean=0					degrees of freedom=	40
Ha:mean<0			Ha:mean!=0		Ha:mean>0	
Pr(T<t)=0.0000			Pr(|T|>|t|)=0.0001		Pr(T>t)=1.0000	

CONCLUSION

According to the empirical results and charts in this paper, we can learn that whether use the average adjustment model or market model, the calculated results show that the abnormal rate of return and the cumulative abnormal rate of return of the event there is a sharp decline in short-term, the abnormal rate of return rise again in two days later, and then became level off. However, except for a small increase after the event, the cumulative abnormal rate of return has been on a downward trend, and is far below 0, presenting a sharp contrast with the cumulative abnormal rate of return before the event day. At the same time, the cumulative abnormal rate of return obtained by both models passed the T-test, which is significant and in line with the expectation at the level of 1%. It shows that the violation of information disclosure has a significant negative impact on Zhangzidao company, that is, the failure of information disclosure in a timely and incomplete manner will result in the decline of the accumulative abnormal rate of return of listed enterprises.

This paper takes Zhangzidao as an example to illustrate the impact of information disclosure violations on the stock price of listed companies. It can be seen that the rate of return of listed companies has shown a significant decline, indicating that the negative impact of information disclosure violations on listed companies is dramatic and significant. In today's rapid development of the securities market, from a micro perspective, information disclosure as a way of investors know the enterprise situation, play an enormous role, good or bad behaviour will directly affect the information disclosure whether investors can make a reasonable judgment to avoid risk, and to maintain their own interest. For the enterprises, they will be directly reflected in the enterprise's share price, which will affect the prospects of the enterprise. From a macro perspective, information disclosure violations disrupt the order of the securities market and are not conducive to the orderly development

of the financial market. Therefore, Zhangzidao and other listed companies should attach great importance to the issue of information disclosure, take corresponding measures to improve the level of information disclosure, reduce or even put an end to violations of information disclosure, so as to promote the healthy development of enterprises and the securities market.

SUGGESTIONS

The enterprises shall earnestly fulfil the obligation of information disclosure. Zhangzidao scallop's crops event 's root cause is its information disclosure is not true, timely, accurate, making investors suffered huge losses, and Zhangzidao's net profit was negative for two consecutive years. In order to enhance the company management's understanding of the importance of information disclosure, it is necessary to make them realize that the disclosure of internal control information plays an important role in improving the company's value and long-term interests. At the same time, they should hire an authoritative and professional audit team, if the enterprise internal control information disclosure of the content without strict standards and authoritative review, Enterprises will take advantage of their own information advantages and only disclose the information that is beneficial to them, Only high-quality information and greater credibility enable investors to make effective decisions. Information without credibility is ignored. Therefore, the audit of an independent, non-interested and professional third-party accounting firm can improve the credibility of information disclosure.

Regulatory authorities should increase the penalties for violations of information disclosure. After the Zhangzidao scallop's crops event in 2014, Shenzhen stock exchange only gave the company and relevant parties the punishment of criticism by notification, which was easy for the company's management to take a lucky chance. In 2015, the company was again informed that the information of that year was not disclosed in a timely and truthful manner in the third-quarter report, and was given the punishment of criticism by notification. These two punishments did not sufficiently warn Zhangzidao, leading to a repeat of the "crops" of scallops in 2018. This requires the regulatory authorities to strengthen the daily supervision of information disclosure, strengthen the binding force of information disclosure rules, and urge listed companies to disclose relevant information in accordance with the requirements. The new securities law implemented in March 2020 set up a special chapter on information disclosure system, which has systematically improved the information disclosure system. Including expanding the scope of the obligor of information disclosure; Improve the content of information disclosure; It emphasizes that the information necessary for investors to make value judgments and investment decisions should be fully disclosed. Standardizing the voluntary disclosure behaviour of the obligor of information disclosure; To make clear that the purchaser of the listed company shall disclose the source of funds for increasing its shares; The issuer and its controlling shareholders, actual controllers, directors, supervisors and senior managers have made public commitments to the information disclosure system, which provides more stringent punishment and measures for violations of relevant information disclosure, which is conducive to improving the level of information disclosure of listed companies.

·Investors should improve their awareness of enterprise supervision and self-protection. The new securities law has improved the investor protection system, including distinguishing ordinary investors from professional investors, establishing a compulsory mediation system for disputes between ordinary investors and securities companies, and making targeted arrangements to protect investors' rights and interests. In addition, the investors can find various channels to understand various financial and non-financial information, and the corporate disclosure is not only through the enterprise disclosure of quarterly reports, annual reports, etc. They can also through the media, authoritative stock site reports and some temporary announcement to get a more comprehensive understanding of enterprise development, so as to help investors to invest rationally.

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