Parent-subsidiary Companies Institutional Distances, Independent Directors' Nature and Earnings Management

Qin Yue¹,a and Jiameng Chen²,b

¹,²School of Management, Dalian Polytechnic University, Dalian Liaoning, China

¹yueqin2002@163.com, ²337881000@qq.com

Keywords: Earnings management, Parent-subsidiary companies institutional distances, Independent directors' nature

Abstract: Enterprise collectivization has been the development trend of listed companies, the development of collectivization increases the geographical diversification of enterprises, and the institutional differences between parent and subsidiary companies increase accordingly. This paper studies the influence of the parent-subsidiary system distance on earnings management of listed manufacturing companies in China, and explores the role of independent directors in the management of companies, extending the research perspective of earnings management to the distribution of parent-subsidiary companies. Based on the parent-subsidiary data of manufacturing A-share listed companies from 2008 to 2016, the empirical research results tells us as follows. Firstly, the greater the institutional distance between parent and subsidiary companies is, the greater the accrual earnings management and the real earnings management of enterprises will be. Secondly, further research shows that independent directors' related natures, such as educational background and political background, play a negative moderating role in the relationship between parent-subsidiary company distance and earnings management, and a good independent directors' nature is helpful to enterprise management.

1. Introduction

The diversification and collectivization of listed companies are the normal development of modern enterprises, especially in the areas where the market system is not fully established or facing transformation[1]. In recent years, the number of subsidiaries of Listed Companies in China has increased rapidly, which controls a large number of resources and markets. The diversified development of subsidiaries is not only the diversification of business development, but also the diversification of business areas. China is a vast country with huge differences in macro-environment, such as resource allocation and national policies, showing an unbalanced trend of economic development. Therefore, the development of subsidiaries in different places has resulted in institutional distance due to different macro environments.

All the time, the research of earnings management is based on the company as a whole, ignoring the gap between parent company and subsidiary company due to the institutional distance. The information asymmetry, agency cost and communication cost of parent subsidiary company due to its diversified development are obvious[2]. These are the important factors of earnings management. In the classification of earnings management, accrual earnings management changes the distribution of corporate earnings in different years, which is easy to be found but has little impact on the subsequent years; because of its concealment and complexity, real earnings management is more difficult to identify through statements but has greater impact on the later period of the enterprise.

First of all, this paper studies the influence of institutional distance on earnings management of listed companies; secondly, it tests whether there is a moderating effect in the relationship between institutional distance and earnings management of parent-subsidiary companies, such as the characteristics of educational background and political background. Taking A-share Manufacturing Listed Companies in China as a sample, the study finds that the greater the institutional distance between parent-subsidiary companies, the greater the degree of earnings management, and the
nature of independent directors quality has a significant negative regulatory effect, which shows that the construction of independent directors is very beneficial to enterprise management.

The possible theoretical contributions of this paper are as follows: first, the existing research on earnings management mainly regards group company as a whole, does not distinguish between parent company and subsidiary company, and ignores the heterogeneity of parent company and subsidiary company. The research of this paper proves the existence of individual heterogeneity of parent company and subsidiary company through the institutional distance between parent company and subsidiary company. Second, the production of subsidiary company is the result of diversified development of listed company, while earnings management is management in order to meet their own opportunistic behavior, is the product of conflict of interest and information asymmetry. The study of this paper confirms that there is a positive correlation between the institutional distance between the parent subsidiary company and the accrual earnings management and the real earnings management, which provides some new theoretical evidence for the "diversification discount". Thirdly, the nature of independent directors plays a significant role in the influence of the institutional distance between the parent subsidiary company and earnings management. The negative regulatory relationship of the board of directors has new enlightenment on the role of the board of directors in the management of listed companies.

2. Theoretical Analysis and Research Hypothesis

2.1. The Institutional Distance between Parent-Subsidiary Company and Earnings Management

China is in the transition period of the real economy, and is gradually developing from the coast to the inland, and from the east to the central and western regions. The different political, economic, cultural and other macro environments in various provinces and cities lead to different business environments [3], This difference changes with the change of policy environment[4].

Scholars pay close attention to the diversified development of listed companies and think that diversification can increase the benefits of listed companies. According to the theory of capital market, diversification makes the internal market of enterprises more "rich", and the internal transaction between parent and subsidiary companies can reduce the transaction costs of the external market and promote the reallocation of enterprise resources[5]. Due to the late start of China's economy and imperfect capital market, some scholars believe that it is difficult for Chinese listed companies to operate across regions in China, because Chinese enterprises have to face multiple problems such as geography, system and market segmentation[6].

The diversified development of manufacturing industry in China's listed companies results in the institutional distance between the parent company and the subsidiary company. The contemporary technological development and network progress can reduce the cost of the geographical distance to some extent, but the information asymmetry caused by the distance problem will not disappear completely. The principal agent structure between the parent company and the subsidiary company makes the management of the subsidiary company pursue personal interests Because the company is located in a different place, the managers may not be able to understand the macro environment and actual situation of the subsidiaries in a different place, and the possibility of information misunderstanding and distortion is also increasing in the communication process[7]. When the objectives of the company's management and the external parties are inconsistent, these information asymmetry, communication friction and contract friction become the hotbeds of earnings management.

The existing research on the influencing factors of earnings management is generally from the perspective of the whole listed company, which ignores the individual differences between the parent company and the subsidiary company[8]. In the process of diversification of listed companies, the difference of business environment in different regions makes the distance between parent company and subsidiary company expand, the problem of principal-agent and the degree of
information asymmetry also increase, so do the accrual earnings management and the real earnings management.

Based on the above analysis, the following assumptions are proposed:
Hypothesis 1.1: the greater the institutional distance between manufacturing listed companies, the greater the degree of accrued earnings management.

Hypothesis 1.2: the greater the institutional distance between manufacturing listed companies, the greater the degree of real earnings management.

2.2. The Regulating Function of the Nature of the Independent Directors

Diversification increases the friction and cost of parent and subsidiary companies, and increases the possibility of listed companies to implement earnings management behavior. The market environment of different regions of the company is very different. The senior management of the company lacks the understanding of the local political and legal macro environment of different provinces and cities, which requires more efforts to operate and supervise.

In the social network, if the listed company is regarded as a whole network, then the parent subsidiary company is the node in the network, and the business contacts and personnel flows between companies are the relationship in the network[9], Relationship network can make up for the lack of distance difference[10]. The disadvantages caused by distance can be alleviated by relationship network between parent company and subsidiary company, for example, the communication cost caused by distance can be alleviated by Management Association.

Early scholars confirmed that the good nature of independent directors can supervise the strategic judgment and economic activity decision-making of management[11]. Later research shows that independent directors have the ability to reduce the fraud behavior of enterprises in the financial statements published to the outside world[12], Moreover, the supervision of independent directors can reduce the degree of earnings management of listed companies and improve earnings stability.

Chinese scholars believe that the active governance of accounting directors will improve the earnings quality of enterprises[13]; The famous independent directors are scarce human resources[14]; Whether an independent director is "independent" depends on his professional ability, his voice in the board of directors and the size of the board of directors[15]. Therefore, the article takes five characteristics of the independent director as its nature: financial background, political background, academic background, proportion of independent directors and board size.

Based on the above analysis, hypothesis 2.1 and hypothesis 2.2 are proposed:

Hypothesis 2.1: the nature of independent directors plays a negative role in the influence of institutional distance between parent company and subsidiary company on Earnings Management
Hypothesis 2.2: the nature of independent directors plays a negative role in the influence of institutional distance between parent company and subsidiary company on real earnings management.

3. Research Design
3.1. Samples and Data

This paper verifies the influence of the distribution of subsidiaries in different provinces on earnings management, it requires that the selected samples have the data of the distribution of subsidiaries and subsidiaries. The research range of this paper is 2008-2016, taking the listed A-share manufacturing companies as the samples. The reasons for selecting the listed manufacturing companies as the samples are as follows: first, the resources of manufacturing industry are configurable, unlike Agriculture, forestry, mining industry and other industries are in great need of local resources. Second, manufacturing industry is almost in complete competition, with fierce industry competition and many new entrants and substitutes, The market is broad and independent of local government resources.

This paper needs to first collect the distribution of parent and subsidiary companies of listed companies. The geographical location of the parent company is the province where the company is
registered. Through the data in the annual report of listed companies, first delete the samples with shareholding ratio less than 50% and unknown shareholding information, select the important subsidiaries for the operation of the parent company, and collect the information of 114909 subsidiaries, the names of these subsidiaries Most of them are called "a certain company in a certain province / city". All counties and cities are traced back to the provincial level. A small part of the rest can’t get location information from the company name through network search to get regional distribution. The institutional environment of parent and subsidiary companies uses Fan Gang’s marketization progress report[16]. Finally, the information of these subsidiaries is attributed to the parent company by calculating the standard deviation. The data used in this paper also includes the nature of independent directors, downloading through the CSMAR database, and finding the missing part of the annual report of the company. After excluding ST,ST* and the missing value of the enterprise, a total of 8484 samples are obtained. The data analysis uses stata15.0. The important continuous variables are 1% winsorize above and 1% below tail reduction treatment.

3.2. Definition and Description of Variables

3.2.1. Institutional Distance between Parent Company and Subsidiary Company (IED)

Firstly, Fan Gang’s market-oriented index is used to represent the institutional environment of the province, refers to the institutional environment difference between the i parent company and the j subsidiary of the parent company; secondly, calculate the standard deviation of institutional distance between parent company and subsidiary, make standard deviation for the institutional distance between the parent company and all subsidiaries . The greater the value of institutional distance is, the more decentralized the institutional difference is, and the greater the institutional distance is.

3.2.2. Earnings Management

(1) accrued earnings management (DA)

A method of modifying Jones model of cross section by Dechow[17], calculate the accrued earnings management by industry and year.

\[
TA_{it} = y_1 \frac{1}{A_{it-1}} + y_2 \frac{\Delta REV_{it}}{A_{it-1}} + y_3 \frac{PPE_{it}}{A_{it-1}} + \mu_{it}
\]

\[
NDA_{it} = \tilde{y}_1 \frac{1}{A_{it-1}} + \tilde{y}_2 \frac{(\Delta REV_{it} - \Delta AR_{it})}{A_{it-1}} + \tilde{y}_3 \frac{PPE_{it}}{A_{it-1}}
\]

\(TA_{it}\) represents the total accrued of enterprise i in year t divided by the total assets at the end of year t-1; \(\Delta REV_{it}\) represents the difference between the income of i enterprise in year t and year t-1; \(PPE_{it}\) represents original value of fixed assets of i enterprise at the end of t-1 year; \(A_{it-1}\) represents total assets of i enterprise at the end of t-1 year; \(\Delta AR_{it}\) represents the added value of receivables in year t of enterprise i. After (1) regression, the estimated values of \(y_1\), \(y_2\), \(y_3\) are brought into (2), can calculate\(NDA_{it}\). Take the absolute value as DA.

(2) Real earnings management (REM)

Real earnings management is calculated from three aspects: Sales control, production control and expense control[18][17], Use formula (3) (4) (5) to calculate the abnormal operation of sales, production and expenses.

\[
CFO_{it} = \alpha_0 \frac{1}{A_{it-1}} + \alpha_1 S_{it} + \alpha_2 \frac{\Delta S_{it}}{A_{it-1}} + \epsilon_{it}
\]

\[
PROD_{it} = \alpha_0 \frac{1}{A_{it-1}} + \alpha_1 S_{it} + \alpha_2 ^* \frac{\Delta S_{it}}{A_{it-1}} + \alpha_3 \frac{\Delta S_{it-1}}{A_{it-1}} + \epsilon_{it}
\]

\[
DISEXP_{it} = \alpha_0 \frac{1}{A_{it-1}} + \alpha_1 S_{it} + \epsilon_{it}
\]

\[
REM_{it} = (-1) \times ACF_{it} + APROD_{it} + (-1) \times AEXP_{it}
\]

\(A_{it-1}\) represents total assets at the end of t-1 year of company i; \(\Delta S_{it}\) represents the difference between the operating income of the i year and the previous year; \(CFO_{it}\) represents cash flow from operating activities of company i in year t, \(PROD_{it}\) represents the sum of operating cost and inventory increase of company i in year t, \(DISEXP_{it}\) represents the sum of sales management expenses in the t year of company i. Considering the impact of different abnormal controls on real earnings management, REM is calculated by equation (6).
3.2.3. Independent Nature (INDE)

Based on the following five aspects, this paper reflects the nature of the independent directors:

① Financial background. If the independent directors are certified public accountants or senior accountants, the financial background value is 1, otherwise 0; ② Academic background. If they teach in Colleges and universities or work in related scientific research institutions, the academic background value is 1, otherwise 0; ③ Political background. The value of the independent directors who work at the central, provincial and municipal levels is 1, otherwise 0; ④ The proportion of independent directors. The value of the proportion of independent directors greater than the sample mean is 1, otherwise it is 0; ⑤ The size of the board of directors. The value of the size of the board of directors greater than the sample mean is 1, otherwise it is 0.

Among them, ①, ②, and ③ are about the characteristics of the independent directors. In the calculation, the average value of the independent directors of the company in that year is taken. ④ and ⑤ are about the overall information of the directors. The overall level of the independent directors of the company is calculated by summarizing the values of the nature of the independent directors in the above five aspects.

3.2.4. Control Variable

In order to control the impact of other factors on the empirical results, the following control variables are set up (see table 1). The more age a listed company has, the more likely it is to have a brand effect, and the higher its social awareness, the article uses the natural pairs of listed companies to measure; the company's solvency (Lev) is calculated by the asset liability ratio, which is a measure of the company's ability to bear liabilities; and the return on net assets (ROE) is a score by analyzing the financial indicators of capital use efficiency, this paper uses the weighted average return on net assets to judge the company's future profitability, and the total return on assets (TAT) is expressed by the ratio of net sales revenue to total assets; the type of audit opinion (OA) is the symbol of the quality of the enterprise's financial report, and the standard unqualified audit opinion represents that the financial report meets the audit requirements, with a value of 1, Otherwise, it is 0; the company's equity nature (SOE) has been proved that the degree of earnings management of listed companies will be affected by the property rights of enterprises. When listed companies are state-owned enterprises, SOE value is 1, otherwise it is 0; the larger the size of listed companies, the more scale economy they have, the better the internal control of listed companies.

Table 1. Variable definition table.

| Variable type     | Variable name | Economic meaning                      | Calculation method                |
|-------------------|---------------|---------------------------------------|-----------------------------------|
| Explained variable| DA            | Accrued earnings management           | model (1) (2)                     |
|                   | REM           | Real earnings management              | model (6)                         |
| Exploratory variable | IED         | Institutional distance between parent company and subsidiary company | Standard deviation of institutional difference between parent company and subsidiary company |
| Control variable   | AGE           | Listed time of the company            | Natural logarithm of year of listing |
|                   | LEV           | Solvency of the company               | Asset liability ratio             |
|                   | ROE           | Return on equity                      | Net profit/average shareholders' equity |
|                   | TAT           | Turnover rate of total assets         | Net sales revenue/total assets    |
|                   | OA            | Type of audit opinion                 | Standard unqualified opinion is 1, no is 0 |
|                   | SOE           | Ownership nature                      | 1 for SOEs and 0 for non SOEs     |
|                   | SIZE          | scale                                 | Logarithm of total assets of the company |
| Moderator variable | INDE         | Independent director                  | Overall level of independent directors of the company |

3.3. Research Model

In model (7), the independent variables IED represent the institutional distance between parent company and subsidiary company, the dependent variables DA and REM represent accrued earnings management and real earnings management. The model tests hypothesis 1.1 and hypothesis 1.2. In the model (8), INDE represents the independent nature, and the model tests
hypothesis 2.1 and 2.2

$$DA_{it}/REM_{it} = \alpha_0 + \alpha_1 IED_{it} + \alpha_2 AGE_{it} + \alpha_3 LEV_{it} + \alpha_4 ROE_{it} + \alpha_5 TAT_{it} + \alpha_6 OA_{it} + \alpha_7 SOE_{it} + \alpha_8 SIZE_{it} + \alpha_9 INDE_{it} + \varepsilon_{it}$$

(7)

$$DA_{it}/REM_{it} = \gamma_0 + \gamma_1 IED_{it} + \gamma_2 AGE_{it} + \gamma_3 LEV_{it} + \gamma_4 ROE_{it} + \gamma_5 TAT_{it} + \gamma_6 OA_{it} + \gamma_7 SOE_{it} + \gamma_8 SIZE_{it} + \gamma_9 IED_{it} \times INDE_{it} + \varepsilon_{it}$$

(8)

4. Empirical analysis

4.1. Descriptive Statistics

This paper makes descriptive statistics of relevant variables are carried out. The average value of DA is 0.0714, REM is -0.0585, and the average value of IED is 0.859, which indicates that there are some differences in institutional environment between parent and subsidiary companies due to different provinces. In the control variables, the average values of age, Lev and size are 2.151, 0.435 and 21.94, respectively; the average values of company size are 2.151, 0.435 and 21.94. The above tests show that there is no multicollinearity problem between the variables of the selected samples.

4.2. Correlation Analysis

In the Pearson test (see table 2), the correlation coefficients of the variables DA and IED, age and LEV are 0.403, 0.057 and 0.097, and the correlation coefficients of the variables REM and IED, LEV, AGE and SIZE are 0.485, 0.066 and 0.159, which are significant at the level of 1%. In the test of the two correlation coefficients, the absolute value of the coefficients is relatively small, not more than 0.8 coefficient, and in the calculation of the variance expansion factor, the coefficients are all between 1 to 2. The above tests show that there is no multicollinearity problem between the variables of the selected samples.

| Table 2. Correlation Analysis (a). |
|-----------------------------------|
| **DA** | **REM** | **IED** | **AGE** | **LEV** |
| DA | 1 | 0.323*** | 0.403*** | 0.057*** | 0.097*** |
| REM | 0.257*** | 1 | 0.485*** | 0.066*** | 0.159*** |
| IED | 0.391*** | 0.363*** | 1 | 0.055*** | 0.906*** |
| AGE | 0.057*** | 0.050*** | 0.059*** | 1 | 0.363*** |
| LEV | 0.074*** | 0.087*** | 0.047*** | 0.259*** | 1 |
| ROE | -0.001 | -0.185*** | -0.017 | -0.072*** | -0.131*** |
| TAT | 0.012 | 0.129*** | -0.003 | 0.137*** | 0.166*** |
| OA | -0.046*** | -0.026** | 0.004 | -0.080*** | -0.237*** |
| SOE | -0.022** | 0.000 | -0.030*** | -0.082*** | 0.014 |
| SIZE | 0.061*** | 0.057*** | 0.165*** | 0.323*** | 0.223*** |
| INDE | -0.003 | -0.015 | 0.001 | 0.007 | 0.012 |

| Table 2. Correlation Analysis (b). |
|-----------------------------------|
| **ROE** | **TAT** | **OA** | **SOE** | **SIZE** | **INDE** |
| DA | 0.021* | -0.015 | -0.020* | -0.005 | 0.111*** | -0.003 |
| REM | -0.180*** | 0.077*** | -0.026** | 0.018* | 0.074*** | -0.003 |
| IED | 0.011 | -0.019* | 0.014 | -0.028*** | 0.207*** | 0.005 |
| AGE | -0.093*** | 0.127*** | -0.084*** | -0.080*** | 0.341*** | 0.007 |
| LEV | -0.127*** | 0.223*** | -0.148*** | 0.060*** | 0.436*** | -0.000 |
| ROE | 1 | 0.317*** | 0.135*** | 0.093*** | 0.131*** | -0.007 |
| TAT | 0.239*** | 1 | 0.072*** | 0.163*** | 0.147*** | -0.003 |
| OA | 0.199*** | 0.041*** | 1 | 0.066*** | 0.097*** | -0.003 |
| SOE | 0.088*** | 0.157*** | 0.067*** | 1 | 0.154*** | -0.007 |
| SIZE | 0.113*** | 0.144*** | 0.106*** | 0.204*** | 1 | 0.002 |
| INDE | -0.006 | -0.001 | -0.003 | -0.008 | -0.006 | 1 |
4.3. Regression Analysis

4.3.1. Regression Analysis of Distance between Parent Company and Subsidiary Company and Real Earnings Management.

Based on the model (7), we use multiple regression to test the relationship between the institutional distance of the parent subsidiary company and the accrued earnings management, and reflect the results in table 3 columns 1 and 2. The first column in the table describes the influence of the institutional distance of the parent subsidiary company on the accrued earnings management, and the regression coefficient of the institutional distance (IED) is 0.0333, which is significant at the level of 1%. From this result, we can see that the influence of other factors is controlled, the more the institutional distance of the parent subsidiary company is Large, the higher the degree of accrued earnings management, showing a significant positive correlation. Hypothesis 1.1 is verified.

Table 3. Multiple linear regression results.

|      | (1) DA | (2) REM | (3) DA | (4) REM |
|------|-------|--------|-------|--------|
| IED  | 0.0333*** | 0.121*** | 0.0347*** | 0.134*** |
|      | (33.14)   | (41.62)  | (22.31) | (13.96) |
| AGE  | 0.00231*** | 0.00211** | -0.0121*** | 0.000572 |
|      | (2.03)   | (0.51)  | (-4.13) | (0.10)  |
| LEV  | 0.00844*** | 0.0363*** | 0.00617** | 0.0427** |
|      | (2.31) | (1.98) | (0.89) | (2.29) |
| ROE  | 0.00000477*** | -0.0000936** | 0.0000548** | -0.00264*** |
|      | (2.40) | (-1.15) | (0.71) | (-8.42) |
| TAT  | 0.00171** | 0.0733*** | 0.00328** | 0.0681*** |
|      | (0.96) | (9.09) | (0.92) | (5.67) |
| OA   | -0.0134** | -0.0207** | -0.00566** | 0.00258 |
|      | (-2.56) | (-1.39) | (-1.14) | (0.20) |
| SOE  | -0.00206** | -0.00253** | -0.00439** | -0.0189 |
|      | (-0.48) | (-1.3) | (-0.37) | (-0.71) |
| SIZE | -0.000968** | -0.00648*** | 0.00522*** | 0.00685* |
|      | (-1.34) | (-2.57) | (2.96) | (1.85) |
| INDE | -0.000534* | -0.00875* | -0.00144 | 0.00214 |
|      | (-0.39) | (-1.68) | (-0.82) | (0.75) |
| IED*INDE | -0.0539* | -0.0539* | -0.0539* | -0.0604* |
| _cons | 0.0684*** | -0.0114 | -0.0442 | -0.318*** |
|      | (4.65) | (-0.23) | (-1.25) | (-4.30) |

The second column verifies the impact of institutional distance on real earnings management. The regression coefficient of institutional distance (IED) is 0.121, which is significant at the level of 1%. The regression results show that the greater the institutional distance between parent company and subsidiary company, the higher the overall degree of real earnings management. The two show a significant positive correlation, which verifies hypothesis 1.2.

4.3.2. The Regulating Function of the Nature of the Independent Directors

Based on hypothesis 1.1 and hypothesis 1.2, the model (8) tests the moderating effect of the nature of independent directors on the relationship between institutional distance and earnings management of parent subsidiary companies. The results in the third column show that the regression coefficient of the parent subsidiary institutional distance and IED × INDE is -0.0539, and
the significant level is 10%. This moderating effect is not so obvious, but it can still partially reflect the nature of independent directors in the institutional distance of parent subsidiary companies. Column 4 shows that the regression coefficient of $\text{IED} \times \text{INDE}$ is -0.00604, which shows that the nature of independent director has a significant negative regulatory effect in the positive relationship between the system distance of parent subsidiary and real earnings management, indicating that the nature of independent director has a significant negative regulatory effect in the positive relationship between the system distance of parent subsidiary and real earnings management. In the company with better independent directors, the positive relationship between the institutional distance between the parent company and the subsidiary company and the real earnings management will be weakened.

5. Further Test

(1) Variable substitution method. First, the distance between parent company and subsidiary company. In the process of calculating the distance between parent company and subsidiary company, this paper uses the standard deviation, that is, the distribution of subsidiary company, to express the distance between parent company and subsidiary company;

(2) Endogenous problems. The two-stage least square method and instrumental variable method are used to test the potential endogenous problems of institutional distance and earnings management of parent subsidiary companies. In the case of large institutional distance between parent subsidiary companies, in order to ensure the management of subsidiaries in different places, the communication with subsidiaries will increase, and the management cost will increase accordingly. The ratio of management cost to main business income is tested as a tool variable and the conclusion remains unchanged.

6. Conclusion

This paper verifies the relationship between parent subsidiary company system distance and accrued earnings management and real earnings management, as well as the moderating effect of the independent director's nature. The research shows that the larger the distance between parent subsidiary company system and accrued earnings management, the higher degree of accruals earnings management and real earnings management of listed companies. The influence of macro policies bring opportunities and challenges to enterprises. The distance between parent company and subsidiary company makes the business environment more complex. The geographical distance caused by diversification may be reduced due to the development of communication tools such as the Internet, but the difference of system environment is inevitable for irrational diversification. If enterprises expand all the time, this kind of irrational diversification will bring the enterprise into the trap of diversification and eventually lead to discount. In the process of enterprise operation, as a director who is independent of the company's shareholders and makes independent judgments on the company's affairs, the independent director has a certain guiding role in the development of the enterprise, increases the proportion of the independent director. It is beneficial to the development of the company to increase the proportion of independent directors, improve the quality of independent directors and build a good team of independent directors.

References

[1] Khanna T, Yafeh Y. Business Groups in Emerging Markets: Paragons or Parasites?[J]. Social Science Electronic Publishing, 2007, 45(2):331-372.

[2] Kang J K, Kim J M. The Geography of Block Acquisitions[J]. The Journal of Finance, 2008, 63(6):2817-2858

[3] Fan Gang, Wang Xiaolu. Report on the relative process of marketization in various regions of China [J]. Economic Research, 2003(03):9-18.
[4] Li Yan xi, Chen kejing. A study on the relationship between external governance environment and earnings management based on the perspective of regional differences[J]. Nankai business review 2012,15(4):89-100.

[5] Pavel Sevcik. Financial frictions, internal capital markets, and the organization of production[J]. Review of Economic Dynamics, 2015, 18(3).

[6] Song Yuanyang, Huang Liwei. Why are Chinese enterprises difficult to operate across regions in China? [J]. Managing the world, 2014(12):115-133.

[7] Cao Chunfang, Xia Changyuan. Interregional trust and group development in different places: An Empirical Test Based on the theory of enterprise boundary [J]. Management world, 2019, 35(01):179-191.

[8] Healy P M. The effect of bonus schemes on accounting decisions[J]. Journal of Accounting & Economics, 1985, 7(1-3):0-107.

[9] Zhao Yuejiao. Research on the influence mechanism of the embedded characteristics of the group's network subsidiaries on technological innovation [D].2017.

[10] Chen Zhijun, Zheng Li. Research on the relationship between autonomy and performance of uncertain subsidiaries [J]. Nankai management review, 2016, 19(06):91-100.

[11] Fama E F, Jensen M C. Separation of Ownership and Control[J]. The Journal of Law and Economics, 1983, 26(2):301-325.

[12] Beasley M S. An Empirical Analysis of the Relation Between Board of Director Composition and Financial Statement Fraud[J]. Accounting Review, 1996, 71(4):443-465.

[13] Huang Haijie, LV Changjiang. Reputation and earnings quality of independent directors—the perspective of accounting professional independent directors [J]. Management world, 2016(3):128-143.

[14] Knyazeva A, Knyazeva D, Masulis R W. The Supply of Corporate Directors and Board Independence[J]. Review of Financial Studies, 2013, 26(6):1561-16

[15] Liu Chun, Li Shanmin, Sun Liang. Does independent director have consulting function?— Empirical Study on the function of independent directors in cross region M & A [J]. Management world, 2015(03):124-136.

[16] Fan Gang, Wang Xiaolu. Market index report of China's provinces [M].2018.

[17] Dechow P M, Sloan R G, Hutton A P. Detecting Earnings Management[J]. The Accounting Review, 1994, 70(2).

[18] Rojchowdhury S. Earnings management through real activities manipulation[J]. Journal of Accounting and Economics, 2006, 42(3):0-370.