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THE IMPACT FACTOR OF CORPORATE GOVERNANCE ON SPECIAL  
TREATMENT (ST): A CASE STUDY OF CHINESE LISTED COMPANIES

By

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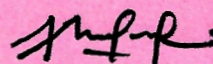
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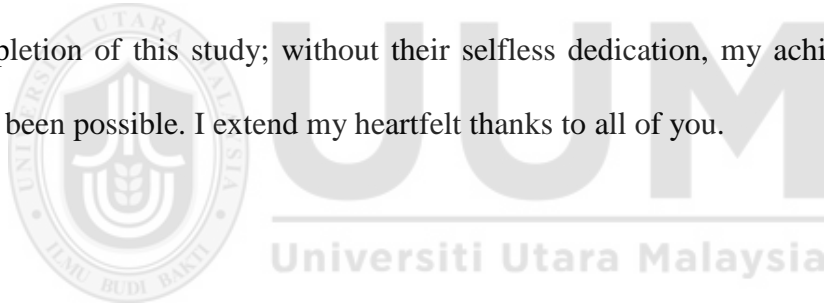
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## ABSTRACT

This study investigates the correlation between corporate governance and special treatment (ST) using data from 5,353 listed companies in A-shares across Beijing, Shanghai, and Shenzhen in 2023. Employing logistic regression models, the study examines the influence of four critical factors of corporate governance: the ratio of independent directors, the percentage of shares owned by major shareholders, the gearing ratio, and audit opinion, on a firm's ST status in China. The results indicate that both the ratio of independent directors and financial leverage positively correlate with a firm's ST status, enhancing its special treatment. In contrast, the proportion of ownership by majority shareholders and audit opinions negatively correlate with the level of special treatment, diminishing its special treatment. Notably, firm size appears unrelated to special treatment, suggesting that larger firms receive less special treatment. The correlation between firm age and special treatment remains ambiguous, preventing a conclusive determination. This study utilized a panel model, and data were analyzed using SPSS software to derive the findings. Future research may explore additional governance variables and assess the influence of ESG factors. Overall, the findings provide practical insights for policymakers, investors, and corporate managers, aimed at enhancing the governance of China's capital market.

**Keywords:** Corporate governance, special treatment, independent directors, ownership structure, gearing ratio, audit opinion

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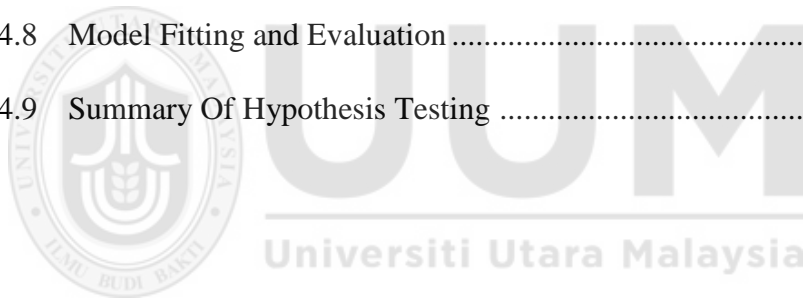
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## LIST OF ABBREVIATIONS

<b>Abbreviation</b>	<b>Description of Abbreviation</b>
CSMAR	China Stock Market Accounting Research
CSRC	China Securities Regulatory Commission
Debratio	Asset-Liability Ratio
Majorshare	Proportion Of Shares Held By Major Shareholders
Indboard	Proportion Of Independent Directors
ST	Special Treatment
RMB	China's Legal Tender



# CHAPTER 1

## INTRODUCTION

### 1.1 Background of study

Corporate governance plays a vital role in enhancing business performance and managing conflicts of interest between principals and agents. China's rapid economic growth and expanding capital market have led to a significant increase in the number and size of listed firms (Habib & Jiang, 2015). However, listed companies face numerous challenges within governance structures, including the separation of ownership rights from managerial control, which often result in Special Treatment.

In recent years, several companies have been designated with 'Special Treatment (ST)' status, an early warning mechanism in the Chinese securities market. As of 2023, over 300 listed-companies in China's capital market have received ST status, primarily due to financial losses, inadequate internal controls, breaches of disclosure obligations.

The ST system in China addresses situations where companies experience significant governance challenges. Failures in internal controls are a primary reason for organizations being designated as ST. As of May 6, 85 of the 93 newly added ST firms were linked to financial and internal control issues, highlighting that internal control failures are a prevalent manifestation of corporate governance deficiencies.

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