Do Boilerplate Management Reports Necessarily Convey Negative Signals? Evidence from Audit Pricing

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Abstract

Existing literature generally holds that the templated nature of management reports conveys a "negative" signal of managers' risk aversion, inaction, and concealed risks. However, this feature may also transmit a "positive" signal to the market, indicating normal and stable operations without substantive risk. Using the pricing behavior of auditors—critical information intermediaries in capital markets—as an entry point, empirical tests based on data from listed companies during 2010-2021 reveal that higher degrees of templating in management reports correspond to lower audit pricing, as normal and stable operations reduce audit effort and audit risk. Extended analyses demonstrate that: (1) internal control optimization constitutes an important mechanism; (2) the conclusions are supported by other audit outcome measures; (3) the negative relationship is more pronounced in contexts with higher audit fees, weaker auditor industry expertise, and greater auditor independence; and (4) no evidence suggests that templated reports enhance shareholders' demand for high-quality audits. The findings, on one hand, complement the antecedents of management report templating, offering capital market participants a new perspective on textual information disclosure, and on the other hand, provide novel evidence for the cost hypothesis of audit pricing.

Full Text

Do Templated Management Reports Necessarily Convey Negative Signals? Evidence from Audit Pricing

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Abstract

Existing literature generally views the templated nature of management reports as conveying "negative" signals such as risk aversion and inaction by managers. However, this characteristic may also convey "positive" signals to the market, indicating normal and stable operations without actual risks. Using auditor pricing behavior—a crucial information intermediary in capital markets—as the entry point, and employing data from listed companies from 2010-2021, this study empirically finds that higher templating in management reports is associated with lower audit pricing, because normal and stable operations reduce audit input and audit risk. Extended discussions show that: (1) internal control optimization is an important mechanism; (2) the conclusion is supported by other audit behavior outcomes; (3) the negative relationship is more pronounced in scenarios with increased audit fees, weaker auditor industry expertise, and higher auditor independence; (4) there is no evidence that templated reports enhance shareholders' demand for high-quality audits. This study contributes to understanding the causes of management report templating, provides a new perspective for capital market participants to view corporate textual information disclosure, and offers new evidence for the cost hypothesis of audit pricing.

Keywords: Management report templating; Audit pricing; Risk-oriented auditing; Risk concealment; De facto risk-free
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I. Introduction

Information asymmetry exacerbates conflicts between corporate entities and stakeholders, thereby constraining economic operation modes and efficiency [1]. Since Ball and Brown [2] verified the value relevance of accounting information, information disclosure and its quality have remained a key focus of accounting research. Corporate disclosures can be divided into financial and non-financial information. The former is constrained by the measurement limitations of accrual accounting standards, discretionary accounting policy choices, and earnings manipulation issues; monotonous numbers cannot meet the needs of information users. An expanding range of information users increasingly focuses on non-financial information disclosure—for example, employees pay more attention to benefits and training, while governments focus more on environmental protection and social responsibility fulfillment [3]. In auditing practice, the asymmetry between these two types of information is also used to identify fraud risk [4]. How non-financial information transmits information to the market, whether it can transmit information efficiently, and what kind of information it transmits have become important topics for both theoretical researchers and capital market participants.

Management Discussion and Analysis (MD&A) is a critical component of corporate textual disclosure, and its information content has received significant attention from researchers. Brown and Tucker [5] refer to the similarity between current and previous MD&A as "MD&A modifications," finding that investors respond to these changes, initially revealing the information content of MD&A text. Zhao Ziye et al. [6] and You Jiaxing et al. [7], based on the Chinese context, refer to the longitudinal similarity of MD&A as "management report templating," because China has institutional origins for "templated" expressions since ancient times . The mainstream view holds a negative attitude toward management report templating, considering it an active choice by management to avoid disclosure risks [6], an effective tool for management to conceal information [8][9], or a result of passive disclosure and lack of significant operational progress [10], thereby implying lower information content, ineffective disclosure [5][11], conveying negative signals about the enterprise to the market, and even failing to transmit information effectively. However, is this really the case?

Since the disclosure requirement "Content and Format Standards No. 2 for Information Disclosure of Companies Issuing Securities Publicly" was published in 2001, the standards have been revised every few years, adding many specific disclosure requirements. Among them, the 2012 revision first explicitly addressed templating issues: "Expression should be plain and clear, avoiding emptiness and templating." It can be said that templated management reports lack legal legitimacy . If such reports are indeed indicators of negative factors, conveying negative signals about the enterprise to the market, even if regulators and market participants do not impose penalties, market mechanisms will eventually expose management failures, because poor performance cannot be concealed by annual report text alone [12]. Therefore, some studies find that viewing management report templating negatively may be biased: higher similarity in annual report risk information disclosure stems from companies having no new risks, thus reducing audit fees by affecting auditors' risk perception [13]. Zhao Ziye et al. [6] also find that when companies have lower financial risk, templating elicits positive market reactions. So, does higher longitudinal similarity in management reports also stem from the absence of new significant matters worth reporting and the absence of risk, rather than from management's risk aversion, passive disclosure to conceal inaction? Answering this question further explores the motivation behind the "management report templating" phenomenon, which concerns how external information users such as capital market investors utilize non-financial textual information to judge corporate status and future development.

Under the risk-oriented audit model, auditors need to fully identify, assess, and judge risk factors affecting corporate economic activities, and incorporate risk perception into pricing decisions. In other words, under risk orientation, auditors are the market participants most capable of determining whether a company truly has risks. If auditors perceive higher corporate risk, they will demand higher risk premiums on top of fixed cost inputs and normal profits. Following Wang Xiongyuan et al.'s [13] analytical framework of "risk concealment" vs. "de facto risk-free" for high-similarity disclosures, this paper combines the "rent theory" and "cost theory" in audit pricing strategies to construct two competing theoretical hypotheses . Using data from listed companies from 2010-2021, the empirical results show that higher management report templating is associated with lower audit fees. This result implies that templated management reports stem from normal, stable, and routine operations, representing "de facto risk-free" rather than "risk concealment."

This paper takes measures to exclude the possibility of "risk concealment": First, in robustness tests, combining ten common indicators from corporate governance and financial accounting research—including insider control risk (management excess perquisite consumption), stock price crash risk, financial risk (financial distress), operational risk (performance volatility), etc.—no evidence is found that management report templating accompanies negative situations. Second, in heterogeneity analysis focusing on the supply side—auditor characteristics—group tests partially exclude the possibility of collusion between management and auditors to achieve low-fee formal contracts. Third, in extended discussions, introducing agency cost analysis, under the premise that shareholders demand high-quality audits, if management report templating represents passive response, risk concealment, or risk aversion behavior, it would simultaneously constitute an agency cost, and we should observe it intensifying shareholders' demand for high-quality audits. However, empirical data does not capture this intensification effect; instead, large shareholders reduce audit fees under the influence of management report templating.

This paper contributes to both perspectives on templated management reports and audit pricing logic: First, existing research generally views management report templating negatively, but this paper argues that templating characteristics originate from routine operations without special matters, where managers have nothing new to report. This not only has information transmission functions but also conveys positive signals of normal and stable operations. This provides a new perspective for understanding corporate non-financial information disclosure. Second, due to the audit contract paradox, different effects on audit fee formation derive from the demand side (enterprise and management) and supply side (audit firms) of audit services , and the causes of abnormally high audit fees remain controversial. Using the nature of management report templating, this paper excludes the "rent theory" of abnormally high audit fees and provides supporting evidence for the "cost theory" of audit fees. Additionally, this paper responds to Cohen et al.'s [11] call to pay attention to text similarity characteristics.

II. Literature Review and Theoretical Analysis

(I) Literature Review

1. Financial Report Longitudinal Similarity and Templated Reports Research on non-financial information disclosure primarily employs text analysis methods, including tone, readability, and similarity. Existing research mainly focuses on tone and readability, with relatively less attention to similarity. Cohen et al. [11] point out that similarity indicators contain important information about companies' future outputs. Similarity can be further divided into horizontal similarity (compared with peer companies) and longitudinal similarity (compared with past reports). Applications of the former include: using similarity in accounting policy descriptions to measure accounting policy consistency [14], technological peer pressure faced by companies in R&D innovation [15], and information content of MD&A [16]. Some studies simultaneously examine both dimensions of similarity. For example, Zhao Ziye et al. [6] find that longitudinal similarity has discretionary selectivity, but horizontal similarity triggers negative market reactions. Zhang et al. [17] find that when companies increase tax avoidance, MD&A reports become more similar to both peers and previous versions.

The templating phenomenon has institutional origins. Zhao Ziye et al. [6] analyze the confidential channel in the Qing Dynasty's national document reporting system as an example: the emperor (user) hoped to obtain timely information about specific regions through confidential channels to understand national conditions while evaluating officials (reporters); officials (reporters), considering that the emperor (user) might issue incorrect instructions due to insufficient expertise or that complete information disclosure might reduce their promotion probability, chose templated reporting methods. The templating phenomenon originates from differences between reporters and users regarding requirements for "information completeness," with consequences varying dramatically depending on the role [6]. For reporters, templated reports bring positive benefits through longitudinal "previous period verification" and horizontal "convergence bundling"; but for users, who desire more information, templated reports lack information contribution and inhibit information transmission capacity, thereby creating negative impacts [6].

Existing research basically follows Brown and Tucker's [5] approach, viewing high longitudinal similarity in report text as an indicator of low information increment. While exploring how to reduce longitudinal similarity to provide more information from the perspective of improving information quality, it reveals the negative effects of high longitudinal similarity. Ge Rui et al. [18] find that after auditor changes, MD&A longitudinal similarity significantly decreases, thereby providing more incremental information. Qian Aimin and Zhu Dapeng [10] find that higher MD&A longitudinal similarity increases the probability of being penalized by regulators for violations. Song Xinbei et al. [19] show that longitudinal similarity increases stock price synchronicity and crash risk, thereby reducing capital market pricing efficiency.

Additionally, the new auditing standards implemented in 2018 require disclosure of "Key Audit Matters" to increase information content in templated reports. Some studies have examined similarity in the Key Audit Matters section. For example: newly appointed firms can provide more informative Key Audit Matters disclosures [20]; corporate litigation risk strengthens auditor-governance communication, manifested as reduced similarity in Key Audit Matters [21]; when Key Audit Matters contain more idiosyncratic information, corporate bond issuance pricing is lower [22].

2. Management Characteristics and Audit Pricing In neoclassical economics theory, rational optimal decisions are unique, and different managers would make homogeneous rational optimal decisions. However, upper echelons theory based on managerial heterogeneity and bounded rationality points out that managers' differentiated cognitive structures and values affect their strategic choices, thereby influencing corporate behavior [23]. These differentiated managers form the management team that determines the corporate control environment, which in turn determines auditors' expected input and risk judgment. Therefore, management characteristics affect audit pricing. For example, stronger managerial ability is associated with lower audit pricing [24]. Existing research examines the relationship between management characteristics and audit pricing from both team and individual perspectives.

Regarding team characteristics: both the average level and heterogeneity level of management background characteristics affect audit pricing [25]; female executives, characterized by rigor and meticulousness, prefer conservative strategies, thereby reducing audit pricing by lowering corporate litigation risk [26]; executive fault lines cause greater operational risks and more severe agency problems, leading to higher audit pricing [27]; team synergy from executive compensation incentives can reduce audit pricing [28]; Directors' and Officers' (D&O) liability insurance, on the one hand, transfers responsibility and risk, induces and exacerbates moral hazard and litigation risk, resulting in higher corporate audit pricing [29][30], and on the other hand, may also be a result of management actively performing duties and pursuing high-quality audits [31]; higher management earnings forecast accuracy implies higher accounting integrity, affecting auditors' risk response through self-discipline and signaling functions, manifested as lower audit pricing [32].

Regarding individual characteristics: executives with audit backgrounds submit financial reports with lower audit quality, causing firms to increase audit pricing [33]; CEO power interferes with the audit quality reduction effect of audit committee expertise [34]; CFO power can reduce excessive audit pricing [35]; vertically interlocked executives play a supervisory role in state-owned enterprises but a tunneling role in non-state enterprises, respectively decreasing and increasing audit pricing [36]; executives with academic experience are more rational and rigorous, while those with military experience internalize military values into organizational culture, both reducing inherent risk and thereby lowering audit pricing [37][38].

(II) Theoretical Analysis and Hypothesis Development

1. Rent Theory: Demand-Side Perspective From the perspective of audit service demanders—enterprises (management)—audit fees have "quasi-rent" attributes. Similar to rent-seeking activities seeking wealth transfer through government protection, management may also purchase audit opinions by paying auditors excess audit fees, i.e., seeking auditors' endorsement of their operating performance or concealing unfavorable matters by paying higher remuneration. When auditors accept high audit fees, they become more tolerant of corporate earnings manipulation [39].

Evidence from the "moral hazard hypothesis" of D&O liability insurance shows that such insurance reduces independent director governance effectiveness, and through a "bottom-line" effect, encourages managerial opportunistic behavior, inducing more risk-taking behavior such as short-term borrowing for long-term investment and aggressive tax strategies [40][41][42]. Based on the "audit insurance" hypothesis, auditing is a risk transfer mechanism for financial statements, and audit behavior can produce a similar "bottom-line" effect as D&O liability insurance. Because auditors endorse corporate conditions, capital market participants can pursue auditors' civil liability after suffering losses. In the Kangmei Pharmaceutical special representative litigation case, the audit institution and signing auditors were both sentenced to bear joint and several liability. In fact, it is difficult to distinguish whether losses suffered by capital market participants result from managerial decision errors, auditor negligence, or collusion between managers and auditors—in the Kangdexin ten-billion fraud case, Ruihua insisted its audit process was compliant, but the fact that years of fraud coexisted with unqualified opinions obviously weakened the credibility of Ruihua's claims.

Furthermore, D&O liability insurance coverage excludes malicious acts, breaches of fiduciary duty, intentional or misleading statements, and illegal activities. However, if auditing can serve an insurance function, it provides an additional risk diversification channel for opportunistic managers. These managers have incentives to "package" and transfer responsibility risks corresponding to these behaviors to auditors, and auditors can obtain more audit commissions as corresponding risk compensation.

Therefore, from the audit service demand side, templated management reports imply that management deliberately conceals or avoids risks. Under the audit insurance hypothesis, these risks are transferred to auditors through higher audit fees.

2. Cost Theory: Supply-Side Perspective From the audit service supply side—audit firms (auditors)—audit fees compensate auditors for fixed inputs, plus reasonable profits and risk premiums [43]. In China's market, excessively high audit fees are mainly composed of costs, representing auditors' behavior of investing more effort, energy, and resources to verify financial statement reliability [44][45]. In other words, once matters arise that require auditors to increase audit input, audit pricing will be pushed higher. Under the condition of positive correlation between input and price, as input decreases, price also decreases.

First, under normal operations, auditors' audit costs are lower. For example, under normal operating conditions, previous data on current assets such as cash and inventory have certain reference value, and auditors can use previous experience or predecessor auditors' working papers to deploy audit arrangements targeted; normal operating conditions do not involve excessive cross-regional M&A or new establishment activities, reducing the necessity for auditors to travel or rely on other auditors' work. Additionally, from the perspective of personnel changes, normal operations accompany stable employment relationships, with lower probabilities of key management member turnover or employee structure changes. Personnel changes can weaken administrative functions and may further reduce internal control process effectiveness, requiring auditors to expend more energy verifying internal control effectiveness or increasing audit fees due to internal control deficiencies [46]. Conversely, when employment relationships are stable under normal operations, internal control processes are effective. Therefore, normal operating conditions reduce audit input by streamlining audit workflows.

Second, under stable corporate operations, auditors demand lower risk premiums. In preliminary business activities, auditors need to conduct preliminary risk assessments of enterprises to estimate potential workload after accepting engagements and for fee negotiations. At this time, auditors will consider corporate risk points as comprehensively as possible and the loss compensation they must bear after accepting engagements if audit failure occurs. When corporate operations are stable, auditors capture fewer risk points, and the possibility of audit failure after accepting engagements is smaller, thereby demanding lower risk premiums.

Thus, from the audit service supply side, templated management reports imply normal and stable operations, reducing overall audit pricing by decreasing auditors' fixed input and lowering auditors' required risk premiums.

3. Hypothesis Development Broadly speaking, audit service demanders also include shareholders, creditors, governments, etc., and audit fee payments are not entirely determined by management. If templated management reports imply managers' passive disclosure, inaction, and risk concealment or avoidance, these behaviors can be detected by other audit service demanders in daily business activities, and they will require auditors to increase input to obtain true audit feedback, resulting in higher audit pricing [31], or actively request increased audit fees to incentivize auditors to perform more audit procedures. From the supply side, auditors adhering to risk-oriented audit models perceive potential risk points from other audit evidence, which may be deliberately concealed in templated management reports, and auditors will demand higher audit fees. Conversely, if templated reports indicate normal and stable operations, stakeholders will not demand more audit input. Especially in continuous audits, as auditors' understanding of enterprises deepens, they can more effectively allocate audit input and more reasonably assess risks, thereby resulting in lower audit pricing.

In summary, this paper proposes a set of competing hypotheses to be tested:

Hypothesis 1a: If templating represents managers "concealing or avoiding risks," they will be willing to pay higher audit fees; higher management report templating is associated with higher audit pricing.

Hypothesis 1b: If templating represents enterprises' "de facto risk-free" status, auditors will reduce audit input, judge risks as lower, and charge lower audit fees; higher management report templating is associated with lower audit pricing.

III. Research Design

(I) Sample Description

This paper uses annual data from Shanghai and Shenzhen A-share listed companies from 2010-2021. After conventional data processing including removing samples with missing data, special treatment samples, and financial industry samples, and conducting winsorization at the 1% level for extreme values, the final sample comprises 29,974 firm-year observations. Data sources are various sub-databases of the CSMAR database.

(II) Variable Definitions

1. Dependent Variable The dependent variable in this paper is audit fees, measured by the natural logarithm of current period audit fees. In subsequent tests, we further employ audit fees standardized by total assets and risk premiums purer after excluding audit costs.

2. Independent Variable The independent variable is management report templating, measured by the longitudinal similarity of Management Discussion and Analysis (MD&A). Higher longitudinal similarity indicates greater templating in management reports. Data are obtained from the "Management Information Disclosure Sentiment Analysis" sub-database in CSMAR's "Chinese Listed Companies Operating Distress Research Database," specifically using the Latent Semantic Indexing (LSI) method to calculate cosine similarity.

3. Control Variables Following Simunic's [43] classic audit pricing model and domestic follow-up studies on audit pricing influencing factors [47][48][49], this paper selects variables from four dimensions: firm size, firm risk, business complexity, and auditor characteristics, and considers institutional environmental factors to construct the test model. Specifically: Firm size, which largely determines audit input and is thus the dominant factor in audit pricing; Firm risk, including financial risk and operational risk, with indicators selected as asset-liability ratio (long-term), current ratio (short-term), and loss status (operational), where risk levels determine auditors' risk compensation levels, thereby affecting pricing; Business complexity, including the ratio of "two monetary items" to assets, whether issuing B(H) shares, and number of subsidiaries, where complexity also leads to higher pricing through increased input; Auditor characteristics, including whether the audit unit is Big 4 (or domestic Big 8) and whether the audit unit was changed, where generally Big 4 (or domestic Big 8) represent higher audit quality and thus have a "scarcity premium" effect, while auditor changes involve "low-balling" and opinion shopping suspicions, accompanied by relatively lower pricing; Institutional environment, in addition to commonly controlled industry and annual differences due to industrial policies and macroeconomic levels, this paper follows Duan Teqi et al. [50] and Guo Yingwen [51] by incorporating two unique Chinese institutional environmental factors—listed company location and enterprise nature—into the model.

Variable Definitions

Variable Type	Variable Name	Symbol	Definition
Dependent Variable	Audit Pricing	LnFee	Natural logarithm of annual audit fees
Independent Variable	Management Report Templating	Similarity	Longitudinal similarity of management reports
Control Variables	Firm Size	LnAsset	Natural logarithm of ending total assets
	Financial Risk	Lev	Asset-liability ratio
		Loss	Equals 1 if losses in recent two years, otherwise 0
	Liquidity	Liquid	Current ratio
Business Complexity		InvRec	(Accounts receivable + inventory) / ending total assets

Variable Type	Variable Name	Symbol	Definition
		ABH	Equals 1 if company simultaneously issues B and H shares, otherwise 0
		Subsidy	Square root of total number of subsidiaries
Auditor Characteristics		BigN	Equals 1 if audited by Big 4 or domestic Big 8, otherwise 0
		Switch	Equals 1 if new auditor in current year, otherwise 0
Institutional Environment		Industry	Dummy variable, assigned according to CSRC 2012 industry classification
		Year	Dummy variable, assigned by different years
		SOE	Equals 1 if state-owned, otherwise 0
		East	Equals 1 if registered in more developed regions, otherwise 0

(III) Model Specification

This paper uses audit pricing as the economic consequence and employs a high-dimensional fixed effects model to verify the motivation behind management report templating, as specified in Model (1). FE represents fixed effects. Since the four selected institutional environment variables include not only individual firm characteristics but also some group characteristics , they are all controlled as fixed effects; CVs are control variables other than institutional environment. When $ $1 is significantly positive, it indicates that higher templating is associated with higher audit fees, supporting Hypothesis 1a from the demand-side rent theory perspective; when $ $1 is significantly negative, it indicates that higher templating is associated with lower audit fees, supporting Hypothesis 1b from the supply-side cost theory perspective.

$$LnFee_{i,t} = \beta_0 + \beta_1 Similarity_{i,t} + CVs_{i,t} + FE + \varepsilon_{i,t}$$

IV. Empirical Analysis

(I) Descriptive Statistics

Descriptive statistics for the empirical data are shown in Table 2. The minimum value of management report templating is 0.751, the 25th percentile is 0.921. Since firm fundamentals do not change dramatically in short periods, MD&A longitudinal similarity is generally above 90%, which is an acceptable range. If following existing literature that lower values of this indicator are better—indicating significant differences between current and previous MD&A content—this clearly implies major corporate transformation behavior, whether active or passive, adding uncertainty to future development. Therefore, this paper attempts to provide evidence that higher values are better. Binary dummy variable results show that 13.9% of samples experienced losses in the previous period, 5% simultaneously issued ABH shares, 69% were audited by Big 4 or domestic Big 8, 11.2% changed accounting firms, 35.3% are state-owned enterprises, and 69.7% are located in eastern regions. Continuous variable results are generally consistent with existing research without significant differences.

Descriptive Statistics

(II) Regression Results Analysis

Table 3 presents the simple regression, simple regression with fixed effects, and full model results for Model (1). The independent variable is significant at the 1% level in all specifications, with coefficients of -0.295, -0.678, and -0.156, respectively. The economic implication of this statistical result is that higher templating in management disclosure is associated with lower audit fees. The results in Table 3 reject Hypothesis 1a and support Hypothesis 1b. That is, templated management reports imply that the enterprise is de facto risk-free, with no special matters requiring disclosure, operating in a normal and stable state, resulting in lower audit pricing.

Management Report Templating and Audit Pricing Decisions

(III) Robustness Tests

1. Exclusive Explanations Wang Xiongyuan et al. [13] use grouping tests based on information quality and explicit risk to support that higher similarity in risk information disclosure stems from no new risks rather than risk concealment. This paper takes another angle—reverse exclusion of the foundation for Hypothesis 1a reasoning—for robustness testing.

If high-similarity, templated reports symbolize management's passive response, lack of significant operational progress, or other inaction, or manipulative disclosure to avoid risk, and high audit fees are rents paid by management to conceal their inaction, then report templating should be accompanied by other negative phenomena—because "paper cannot wrap fire," and facts cannot be completely concealed. This paper selects ten common corporate governance and financial characteristic variables: executive excess perquisite consumption (Unperks), agency costs (Mfee), large shareholder fund occupation (Occupy), stock price crash risk (NCSKEW), investment inefficiency (Inefficiency), financial distress (OScore), gross profit margin (Profit), performance volatility (Risk), accrual earnings (DA), and accounting conservatism (CScore) , using them as dependent variables regressed on management report templating.

For example, stock price crash risk stems from management self-interest-motivated bad news concealment behavior (Jin and Myers, 2006; Hutton et al., 2009; Liang Shangkun et al., 2020). UnPerks is calculated following Quan Xiaofeng et al. (2010), Mfee is measured using management expense ratio, Occupy is the proportion of other receivables to total assets, Risk is calculated following Yu Minggui et al. (2013), and other data are obtained directly from or indirectly calculated using CSMAR sub-databases, hence sample sizes vary slightly.

Results in Table 4 show: At the corporate governance level (Panel A), higher management report templating is significantly associated with lower executive excess perquisite consumption, less large shareholder fund occupation, and lower investment inefficiency, reducing agency costs to some extent and not significantly triggering stock price crashes ; at the financial and operational level (Panel B), higher management report templating is associated with lower likelihood of financial distress, higher gross profit margins, smaller performance volatility, lower accrual earnings management, and higher accounting conservatism .

Stock price crash risk is measured using the comprehensive market total value weighted average method. Results remain unchanged when using DUVOL and Crash measures. Coefficient directions are consistent with Song Xinbei et al. (2022) but do not pass significance tests in this paper's sample.

Performance volatility is calculated over the period [-1,1]. This paper also calculates periods [-2,2], [0,2], and [-4,0], with consistently significant negative results.

Table 4 results indicate that when management produces templated reports, negative phenomena significantly decrease—executive excess perquisite consumption, large shareholder fund occupation, investment inefficiency, financial distress risk, performance volatility, and accrual earnings management—while positive phenomena significantly increase—gross profit margin and accounting conservatism. Templated reports are not accompanied by other negative phenomena but rather by positive governance effects. Therefore, there is insufficient evidence that management needs to pay rents for their inaction or that templated reports originate from management's passive response and operational inaction.

Exclusive Explanations

2. Endogeneity Issues This paper considers various endogeneity issues that may interfere with conclusion validity, with statistical results presented in Table 5. Specific testing strategies and analyses are as follows:

(1) **Instrumental Variable.** This paper selects the number of Confucian academies and schools in the province where listed companies are located (LnConfucius) as the instrumental variable. In terms of relevance, templated reporting behavior has deep institutional origins, and in the formal bureaucratic system, reporters are talents selected through imperial examinations and educated by the "Three Cardinal Guides and Five Constant Virtues," most of whom came from Confucian academies and schools. In terms of exogeneity, existing research has verified the influence of Confucian culture on corporate governance and accounting auditing [52][53][54][55], but these studies focus on cultural internal factors from an "informal institution" perspective, while the long-standing templated reporting behavior leans more toward formal institutions . Therefore, research based on the informal institution perspective does not support the hypothesis that the historical number of Confucian academies and schools in provinces affects current audit pricing. Results in the first two columns of Table 5 show that more Confucian academies and schools in a firm's location are associated with higher management report templating, and after instrumental variable correction, the significantly negative relationship between templating and audit pricing remains unchanged .

This paper also conducts instrumental variable tests separating academies and schools, with unchanged results.

(2) **PSM Matching.** Using the annual industry median of the independent variable as the matching variable, propensity score matching (PSM) is applied to the matched sample for regression. Results in the third column of Table 5 show that the significantly negative result for the independent variable remains unchanged.

(3) **New Audit Standards Shock.** The new audit reporting standards formally implemented in 2017 added Key Audit Matters disclosure, which

significantly increases listed companies' audit fees [56]. To exclude this exogenous shock's influence, this paper controls for the interaction term between report templating and the shock. Results in the fourth column of Table 5 show that the negative relationship between report templating and audit pricing is stronger than in the baseline model and remains significant.

(4) **Reverse Causality.** If understanding report templating negatively, its negative relationship with audit pricing could also be explained as: higher audit pricing implies stronger external supervision, thereby reducing report templating and increasing information content in management reports. This paper reverses their positions in the model and staggers periods. Results in the fifth column of Table 5 show that LnFee's coefficient approaches 0 and is not significant, indicating that period t audit pricing cannot affect period t+1 management report templating.

(5) **Omitted Variables.** Audit pricing has multiple influencing factors, such as auditor risk tolerance. To mitigate endogeneity issues from omitted auditor characteristic variables, this paper groups the sample by BigN for regression. Results in the last two columns of Table 5 show that the independent variable is significantly negative in both groups, with no significant coefficient difference between groups (p-value = 0.240).

Endogeneity Issues

3. Other Robustness Tests Other robustness tests include:

(1) **Measurement Error.** Firm size is the main basis for audit pricing. To exclude size influence, this paper remeasures audit pricing using the value of "audit fees/ending total assets*10000" (RateFee).

(2) **Additional Fixed Effects.** Models are regressed by gradually adding individual-level cluster processing, controlling individual fixed effects, and adding provincial fixed effects. Results show no change.

(3) **Changed Model Specification.** To further exclude firm size influence on audit pricing, this paper follows the specification approach of compensation-performance sensitivity models and value relevance models, incorporating the interaction term between the independent variable and firm size into the model specification, considering conclusions from a marginal utility perspective.

$$LnFee_{i,t} = \beta_0 + \beta_1 Similarity_{i,t} + \beta_2 Similarity \times LnAsset_{i,t} + CVs_{i,t} + FE + \varepsilon_{i,t}$$

Table 6, column 5 shows that the independent variable is significantly negative, firm size is significantly positive, and the interaction term is significantly positive. This result's economic meaning is that as management report templating intensifies, audit fees are more determined by firm size. This result also supports the "de facto risk-free" hypothesis of management report templating; otherwise, we should capture that the dependence of audit fees on firm size weakens due to templating, i.e., the interaction term would be statistically significantly negative.

(4) **Special Cross-Sectional Samples.** First, compared with non-state enterprises, state-owned enterprises usually have larger operating scales and broader operating regions, bringing lower management report templating characteristics and higher audit fees, creating noise in their relationship. Second, compared with traditional industries, service industries in tertiary industry upgrading, pharmaceutical manufacturing with high innovation emphasis, and software technology and computers relied upon by digital economic development play important roles in economic transformation periods, also possessing characteristics of low templating and high audit fees . This paper separately regresses cross-sectional data for non-state enterprises and traditional industries. Results in the last two columns of Table 6 show that the independent variable remains significantly negative.

Larger operating scale and region lead state-owned enterprises to have more disclosure content, bringing lower templating characteristics, while simultaneously bringing higher audit fees due to increased audit costs or risk premiums. Traditional vs. non-traditional industry comparisons are similar. Univariate tests of independent and dependent variables by property rights nature and industry classification support this judgment.

Other Robustness Tests

V. Extended Discussion

(I) Mechanism Testing: Internal Control Optimization

The previous analysis based on the supply-side cost theory mentioned that if management report templating represents normal operations, internal control effectiveness is stronger at this time, and effective internal controls reduce auditors' cost input. This paper selects internal control for mechanism testing, measured using the Dibo Internal Control Index (IC), and employs the three-step mediation effect method and moderation effect model for mechanism testing.

Table 7 results show: First, when management report templating occurs, corporate internal control evaluation indices are significantly higher, further supporting the "de facto risk-free" explanation of management report templating; second, the internal control index is significantly negatively correlated with audit fees, supporting Li Yuedong et al.'s [46] finding of a substitutive relationship between internal control and external auditing, while also indicating that good internal control is the mechanism through which management report templating reduces audit fees; third, both management report templating and internal control quality are negatively correlated with audit fees, while the interaction term is significantly positive at the 10% level, indicating that from the audit service supply side perspective, management report templating and internal control are substitutive, and management report templating partially represents good internal control, thereby providing further evidence for "de facto risk-free."

Internal Control Mechanism Testing

(II) Supplementary Explanation: Other Audit Evidence

Is the cost theory hypothesis supported by other audit behaviors? This paper selects four conventional audit behavior variables—abnormal audit fees (AbFee), audit delay (LnDelay), audit efficiency (AuditEff), audit opinion (Opinion), and audit fee change (FeeDelta)—for supplementary explanation. Abnormal audit fees under the residual method exclude known determinants of audit costs, helping extract audit fees determined by risk premiums based on expected losses, with the estimation model referencing Li Minghui and Shen Zhenzhen [57].

Results in Table 8 show that higher management report templating is associated with significantly lower abnormal audit fees (i.e., auditors' required risk premiums), reduced audit input lowers audit delay, but does not sacrifice audit efficiency; meanwhile, templated reports are accompanied by cleaner audit opinions. This result supports the theoretical analysis path that de facto risk-free templated disclosure reduces audit pricing by decreasing audit input and auditors' required risk premiums. Higher templating may lead auditors to reduce audit fees in the future, although the coefficient is not significant.

Table 8 results further support the audit pricing "cost theory" hypothesis and also indicate that templated management reports do not stem from management's risk concealment or avoidance behavior but indeed represent enterprises' "de facto risk-free" status.

Supplementary Explanation

(III) Heterogeneity Analysis: Evidence from the Supply Side

The previous hypothesis testing supports the "cost theory" of audit fees, implying that in audit pricing games, as audit service suppliers, auditors may have stronger pricing power. This raises a question: Does the "de facto risk-free" explanation of management report templating have supply-side heterogeneity or constraints? This paper conducts heterogeneity analysis from three perspectives: audit fee changes, auditor expertise, and auditor independence, with results shown in Table 9.

First, heterogeneity analysis of audit fee changes shows that in scenarios where current audit fees have already increased compared to the previous period, the negative relationship between management report templating and audit fees remains significant and consistent with the baseline. This result provides supporting evidence for the main conclusion: if templated reports represented negative aspects of enterprises, we should not observe the main variable remaining significantly negative when auditors increase audit fees—otherwise, this relationship would more likely be observed in scenarios of reduced audit fees.

Second, following Liu Wenjun et al. [58] in using industry market share method to measure auditor industry expertise and grouping by annual median, heterogeneity analysis of auditor industry expertise shows that the main variable relationship is more significant in scenarios where auditors relatively lack industry expertise. The possible reason is that auditors with industry expertise, besides having experience advantages, also have extensive social networks in the industry, and they rely on informal channels to gather information when judging corporate risks, causing their pricing not to depend on management information disclosure behavior; while auditors with weaker industry expertise will more prudently judge corporate risks under "risk-oriented auditing" requirements, thus better revealing the "de facto risk-free" nature of management report templating when they relatively lack industry expertise11.

11 It must be acknowledged that this cannot exclude the possibility that auditors without industry expertise cannot demand higher audit fees, nor the possibility that management uses its own industry expertise to deceive auditors.

Finally, based on the annual Top 100 accounting firms list disclosed by the Chinese Institute of Certified Public Accountants, matching corporate annual audit fees to obtain the proportion of corporate audit fees in the firm's annual income to measure auditor independence. When the proportion is larger, the client is more important and auditor independence is weaker. Heterogeneity analysis based on auditor independence shows that the main variable relationship is more significant in scenarios where auditors have higher independence. This result also provides supporting evidence for the main conclusion: auditors with higher independence can more autonomously determine audit processes, with lower probability of being "captured" by management for collusion, and the main negative relationship revealed at this time better explains the "de facto risk-free" nature of management report templating.

In summary, the three heterogeneity analyses provide not only heterogeneous scenarios for the main variable relationship but also partially exclude a possible demand-side explanation—managers with passive performance who hide risks and save audit costs collude with auditors. From the demand side, on the one hand, managers cannot save audit costs in scenarios of increased audit fees; on the other hand, in Chinese guanxi-based society, strong industry expertise, while representing rich experience, also means auditors and managers are in the same "circle," which like low independence can lead to auditors being captured by management, thus capturing the same supporting evidence when industry expertise is weak and independence is high.

Supply-Side Heterogeneity Analysis

(IV) Management Templated Reports and Shareholder Audit Demand

Is templated reporting an agency cost? Auditing is an institutional arrangement to mitigate moral hazard and thereby reduce agency costs. Demand for audit services stems from Type I agency problems: principals need to hire third-party verification agencies to supervise agents' work outcomes. However, agency problems in Chinese listed companies are more Type II agency problems among shareholders. Existing research suggests that paying more audit fees reflects demand for high-quality auditing, which is an important mechanism for multiple large shareholders to exert governance functions [59]. If templated management reports represent management's passive response, inaction, or risk avoidance, then templated reports are an agency cost and should enhance shareholders' demand for high-quality auditing, whether for solving Type I or Type II agency problems.

This paper sets three shareholder-level indicators: multiple large shareholders, equity balance degree, and equity concentration, using Share to represent them in models. The first two indicators comprehensively reflect the balance of ownership structure12. We examine the effect of ownership structure on audit pricing, on management report templating, and the interactive effect of ownership structure and management report templating on audit pricing.

12 Multiple large shareholders follow Jiang Fuxiu et al. (2018), equity balance degree is the ratio of the second largest shareholder's stake to the largest shareholder's stake, and equity concentration is the largest shareholder's stake.

First, columns 1, 4, and 7 show that multiple large shareholders, equity balance, and equity concentration all have significantly positive effects on audit fees, consistent with Qiu Jinping and Cheng Feilong [60] and Cai Chun et al. [59]. Whether for Type I agency problem needs of controlling shareholders supervising management or Type II agency problem needs of mutual supervision among shareholders, shareholder groups are willing to pay higher audit fees, and their demand for high-quality auditing is consistent.

Second, columns 2, 5, and 8 show that the existence of multiple large shareholders and equity balance degree have no significant effect on management report templating, while equity concentration is significantly negative at the 10% level. This result generally indicates that shareholder supervision does not significantly affect management report templating degree, partially supporting the "de facto risk-free" explanation of templated reports. Meanwhile, this result also indicates that the judgment that "high templating reports cannot provide high-quality information" is incomplete; otherwise, we should observe that under the joint supervision of multiple large shareholders or intervention of controlling shareholders, templating degree would be significantly reduced to provide higher-quality information.

Finally, columns 3, 6, and 9 show that in ownership structures with multiple large shareholders and balanced, dispersed equity, ownership structure does not affect the relationship between management report templating and audit pricing, but concentrated ownership structure has a significant moderating effect: the interaction term is significantly positive, indicating that concentrated ownership structure weakens the negative relationship between management report templating and audit pricing. Correspondingly, the moderating effect of equity balance degree is not significantly negative. The three interaction term results indicate that risks inherent in concentrated ownership structure, such as more rampant large shareholder tunneling behavior, may damage the "de facto risk-free" explanation of management templated reports. Controlling shareholders can manipulate management report content, and at this time, the second largest shareholder alone cannot play a balancing role. The existence of multiple large shareholders may also indicate collusion and conflict among large shareholder groups, failing to produce effective supervision of management disclosure behavior.

Notably, columns 7 and 9 show that equity concentration itself is significantly positive for audit fees but becomes significantly negative after considering the interaction effect of management report templating. This result indicates that templated management reports distort the relationship between controlling shareholders and audit pricing. Originally, controlling shareholders need higher-quality auditing, but because management's templated reports reflect the enterprise's "de facto risk-free" status, controlling shareholders no longer have the necessity to pay higher audit fees.

Table 10 results show no evidence that templated reports enhance shareholders' demand for high-quality auditing, so management report templating is not a behavior of passive disclosure response or risk concealment.

Considering Shareholders' High-Quality Audit Demand

VI. Conclusion

(I) Main Conclusions

The traditional view holds that management's motivation for templated disclosure lies in concealing or avoiding risks that actually exist, or indicating management's passive performance, so templated management reports convey "negative" signals about corporate malfeasance to the capital market. This paper re-examines the motivation behind management templated disclosure by combining auditors' pricing decisions under the risk-oriented model. Empirical data show that templated management reports are accompanied by lower audit pricing. The study demonstrates that templated management reports result from normal and stable operations that leave no excessive matters to report, in fact conveying "positive" signals to the capital market that the enterprise is operating smoothly and sustainably.

(II) Research Implications

First, for information disclosure regulators. To facilitate information comparison and increase reporting efficiency for non-professional users, regulators have always emphasized the standardization and normalization of financial and non-financial information reporting. However, standardization and normalization bring templating results, which may further evolve into "empty templates" with no information content. How to balance standardization and templating is key to ensuring non-financial information disclosure quality. Although templated reports do not imply low information quality, information reporters may overly rely on templated expressions, and information users inevitably question managers' work enthusiasm when receiving information similar to the previous period. Therefore, disclosure regulatory measures need to control templating tendencies on the basis of standardization and normalization.

Second, for external financial information users. Lower longitudinal similarity in management reports clearly indicates that management provides reports with more information, but this negative relationship cannot be simply reversed—higher longitudinal similarity in management reports does not necessarily represent lower information content. Because when management reports show templated expressions, they may simultaneously imply routine stable operations. More importantly, "having more information $\neq$ the additional information being valuable"—management may also manipulate disclosure, deliberately reducing report longitudinal similarity to mislead investors. Therefore, at least for small and medium investors whose purpose is capital preservation, templated management reports can be considered as one criterion for selecting investment objects.

Third, for scholars continuing research on text longitudinal similarity. Future research directions should explore "how to reduce management report templating" to enable corporate disclosure to provide more and higher-quality information, thereby helping alleviate information asymmetry and improve capital market information efficiency and pricing efficiency. It should be noted that when using the longitudinal similarity indicator, one cannot directly presuppose the position that "high templating = low information quality." Unique research designs are needed to exclude high similarity scenarios caused by normal operations with "nothing to say," such as considering the consistency between actual changes in firm fundamentals and management disclosure information.

(III) Limitations and Future Directions

This paper's main argument is that templated management reports do not necessarily imply lower information content; in normal and stable operations, templated reports may be the positive information conveyed. However, this research process still has some limitations to be improved in the future. First, it needs to consider the influence of firms' own information transparency, information disclosure quality, and selective disclosure behavior, which may affect the "de facto risk-free" hypothesis of management report templating. Second, this paper does not consider the relationship between management and auditors, whose social relationships may simultaneously produce higher management report templating and lower audit pricing, creating a spurious negative relationship.

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Footnotes

Zhao Ziye et al. (2019) believe that historically templated reports were driven by two motivations: information concealment and maintaining normal organizational operations, but overall reflected reporters' desire to avoid risk.

"Standardization," "templating," and "templatization" are a group of synonyms with different meanings. Regulatory measures encourage "standardization" and avoid "templatization." This paper believes that "templating" is a neutral term of intermediate degree between the two. It originates from standardized information disclosure incremental requirements but may eventually evolve into templated disclosure with no information content.

It should be noted that risk does not exist as "presence or absence," only as degrees of high and low risk. This paper's use of the expression "de facto risk-free" draws on Gan Shengdao (2019) and Gan Shengdao et al. (2020)'s introduction of the "actual no borrowing" financial slack model existing in Japan's capital market. It attempts to use a rhetorical expression with reference to indicate lower risk situations—for example, under five ascending risk levels, if an enterprise is considered level 2 and an investor can accept up to level 3, then the enterprise is de facto risk-free for that investor.

Broadly speaking, audit service demanders include multiple stakeholder groups such as shareholders, creditors, and governments. Theoretically, audit services are hired by these interest groups to examine management performance, but in reality, audit fee pricing and payment are mainly determined by management, active managers hope for auditors' endorsement, and passive managers hope to collude with auditors. This paper mainly discusses management as the audit service demander.

For example, regarding property rights nature: state audit institutions have conducted audits of state-owned enterprises (state-owned capital) since 1983, experiencing development from asset-liability-profit audits, economic responsibility audits, to safeguarding state-owned asset security. Compared with private enterprises, state-owned enterprises face multiple audit supervision in auditing and have decision-making requirements such as "Party committee prepositioning" in governance. Such institutional environmental differences may affect this paper's main relationship.

For example, stock price crash risk stems from management self-interest-motivated bad news concealment behavior (Jin and Myers, 2006; Hutton et al., 2009; Liang Shangkun et al., 2020). UnPerks is calculated following Quan Xiaofeng et al. (2010), Mfee is measured using management expense ratio, Occupy is the proportion of other receivables to total assets, Risk is calculated following Yu Minggui et al. (2013), and other data are obtained directly from or indirectly calculated using CSMAR sub-databases, hence sample sizes vary slightly.

Stock price crash risk is measured using the comprehensive market total value weighted average method. Results remain unchanged when using DUVOL and Crash measures. Coefficient directions are consistent with Song Xinbei et al. (2022) but do not pass significance tests in this paper's sample.

Performance volatility is calculated over the period [-1,1]. This paper also calculates periods [-2,2], [0,2], and [-4,0], with consistently significant negative results.

This paper also conducts instrumental variable tests separating academies and schools, with unchanged results.

Larger operating scale and region lead state-owned enterprises to have more disclosure content, bringing lower templating characteristics, while simultaneously bringing higher audit fees due to increased audit costs or risk premiums. Traditional vs. non-traditional industry comparisons are similar. Univariate tests of independent and dependent variables by property rights nature and industry classification support this judgment.

11 It must be acknowledged that this cannot exclude the possibility that auditors without industry expertise cannot demand higher audit fees, nor the possibility that management uses its own industry expertise to deceive auditors.

12 Multiple large shareholders follow Jiang Fuxiu et al. (2018), equity balance degree is the ratio of the second largest shareholder's stake to the largest shareholder's stake, and equity concentration is the largest shareholder's stake.

Note: Figure translations are in progress. See original paper for figures.

Source: ChinaXiv — Machine translation. Verify with original.