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ESG Information Disclosure and Corporate Financial Restatement

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Abstract: Environmental, Social, and Governance (ESG) factors are closely tied to the sustainable development of corporations and have become an increasingly important indicator for evaluating corporate sustainability, attracting growing attention from society at large. This paper examines the relationship between ESG information disclosure and financial restatement using data from A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2009 to 2021. The empirical results suggest that, to a certain extent, enhanced ESG disclosure can reduce the likelihood of financial restatements. Heterogeneity tests reveal no significant differences between state-owned and non-state-owned enterprises. Further analysis indicates that ESG disclosure can increase investor attention, which in turn helps curb financial restatement behavior. Moreover, institutional investors play a moderating role in the relationship between ESG disclosure and financial restatement. These findings suggest that increasing ESG information disclosure can help listed companies reduce financial restatements and promote sustainable corporate development.

Keywords: ESG information disclosure, financial restatement, financing constraints, investor attention, institutional investors

1. Introduction

With the advancement of China's "dual carbon" goals, establishing an efficient ESG system and promoting high-quality social development have become increasingly important. To achieve carbon neutrality and peak carbon emissions, corporate carbon emissions are subject to stringent regulation. Heavily polluting enterprises that fail to meet emission standards face penalties, while low-emission enterprises can build a positive public image and enhance their reputation [1]. A company's level of sustainable development can be reflected through its ESG performance—demonstrating how well a firm balances operational growth and market expansion with environmental protection. Clearly, placing emphasis on ESG performance is key to advancing high-quality economic development in China.

Financial restatement is typically the result of adjustments to financial information due to pressures or motivations from stakeholders or management [2]. Such restatements not only harm a company's credibility but also disrupt the order of capital markets, posing a significant issue in today's financial environment. ESG, as a form of non-financial information, can help mitigate information asymmetry, strengthen supervision over accounting information quality, reduce the incidence of financial restatements, and improve the overall quality of corporate financial reporting.

From the perspective of financial restatement, this paper explores the relationship between ESG information disclosure and the likelihood of financial restatements, aiming to determine whether ESG disclosure can effectively inhibit such behavior. The contributions of this study are threefold: First, it analyzes the impact of ESG disclosure on financial restatement behavior from the perspective of information transparency, thereby improving the understanding of its underlying mechanisms. Second, it examines the relationship between ESG disclosure and financial restatement from the standpoint of corporate sustainability, deepening comprehension of how ESG practices contribute to reducing restatements. Third, it investigates this relationship through the lens of investors, enriching the existing body of literature by emphasizing the role of investor attention and institutional investor participation.

2. Literature review and theoretical hypotheses

2.1. Literature review

Financial restatement has significant implications for capital markets and has drawn considerable attention from both investors and society. Existing research suggests that financial restatements can interfere with investor decision-making and increase corporate financing constraints. Zhang Duolei and others have pointed out that corporate social responsibility (CSR) can reduce the occurrence of financial restatements [3]. Guo Lingxiu and colleagues believe that financial restatements damage a company’s image and reputation, which in turn affects its sustainable development [4].

ESG information encompasses three areas: Environment, Social, and Governance, and is used to evaluate companies. Studies show that strong ESG performance can enhance a company's social reputation [5]. ESG information disclosure allows for more transparency, reducing the scope for financial manipulation [6]. Companies that disclose more ESG information are subject to greater scrutiny, which can improve governance and ethical standards, helping to reduce financial restatements. However, some scholars have found that implementing ESG practices may increase costs, reduce profits, and negatively impact long-term development [7].

2.2. The impact of ESG disclosure on corporate financial restatement behavior

Information asymmetry is a key cause of financial restatement and can occur between shareholders and management, or between controlling and non-controlling shareholders. Increasing ESG information disclosure helps improve transparency, alleviating information asymmetry, and enhancing shareholders’ understanding of the company, thus reducing the likelihood of financial restatement [8].

First, from the perspective of accounting information quality, when a company discloses ESG information, it increases the transparency of its financial data. In order to maintain its corporate image, the company is more likely to focus on improving accounting information quality and reduce the need for financial restatements. Second, from the standpoint of financing constraints, companies facing financing limitations may embellish their profit statements to reduce perceived risks, leading to more frequent financial restatements later on [9]. Disclosing ESG information can lower investment uncertainty, alleviate financing constraints, and reduce the motivation for companies to manipulate profit statements, thus curbing financial restatement behavior. Finally, based on agency theory, management may sacrifice the long-term interests of the company for personal gain, harming shareholder interests, while controlling shareholders may also harm the interests of minority shareholders. Increased ESG disclosure promotes the flow of information and reduces the incentive for management to manipulate financial reports, thereby reducing the likelihood of financial restatement. Based on this, we propose the following hypothesis:

H1: ESG information disclosure can inhibit financial restatement behavior.

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2.3. ESG disclosure and investor attention

First, the disclosure of ESG information, especially on social aspects, attracts widespread attention from investors. Providing more such information helps improve the transparency of a company's operational data, benefiting investor oversight. At the behest of investors, companies are likely to optimize their financial information quality, thereby reducing financial restatements. Second, companies that actively engage in CSR tend to have higher social ethics and, from a moral standpoint, are less likely to disclose erroneous or false information. Therefore, companies that proactively assume social responsibility have a lower likelihood of financial restatement. In order to maintain the integrity of capital markets, companies are more likely to disclose complete and accurate information, take responsibility for their social role, and provide stakeholders with correct accounting information. Based on this analysis, we propose the following hypothesis:

H2: Investor attention acts as a mediating variable between ESG information disclosure and financial restatement.

2.4. ESG disclosure and institutional investors

From the perspective of stakeholders, a company's daily operations depend on the support of its stakeholders. Institutional investors, as a primary source of corporate funding, play an indispensable role in business operations [10]. Institutional investors often focus more on long-term value and risk control, thus compelling companies to pay closer attention to their sustainability. ESG information disclosure increases institutional investors' attention, which in turn strengthens their supervision and oversight of the company. Under the pressure from institutional investors, companies are more likely to prioritize establishing a strong social image to maximize shareholder value. As a result, behaviors such as financial restatements, which negatively affect corporate image, will be suppressed. Based on this analysis, we propose the following hypothesis:

H3: Institutional investors have a positive moderating effect on the relationship between ESG disclosure and the inhibition of financial restatement.

3. Research design

3.1. Data sources and model setup

To ensure consistency in the financial data, this paper uses data from A-share listed companies on the Shanghai and Shenzhen stock exchanges from 2009 to 2021 for empirical analysis. In line with common practices in existing literature, the data for the sample was processed as follows: ①The financial and insurance sectors, which differ significantly from other industries, were excluded from the sample. ②Data from companies categorized as ST and *ST (financially troubled companies) were excluded. ③Companies with severe data missingness were excluded from the sample. After processing, the final sample size consists of 17,576 observations. The financial data and corporate governance data used in this study come from the CSMAR and Wind databases, and the statistical analysis was conducted using Stata 17.0.

To test Hypothesis 1, the following regression model (1) was established:

$$Restate_{i,t} = \alpha_0 + \alpha_1 ESG_{i,t} + \alpha_2 Controls_{i,t} + \sum Industry + \sum Year + \varepsilon_{i,t}$$

To examine the mediating role of financing constraints, Model (2) was established as follows:

$$SA_{i,t} = \alpha_o + \alpha_1 ESG_{i,t} + \alpha_2 Controls_{i,t} + \sum Industry + \sum Year + \varepsilon_{i,t}$$

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$$Restate_{i,t} = \alpha_0 + \alpha_1 ESG_{i,t} + \alpha_2 SA_{i,t} + \alpha_3 Controls_{i,t} + \sum Industry + \sum Year + \varepsilon_{i,t}$$

Finally, to test the moderating effect of institutional investors, Model (3) was established as follows:

$$Restate_{i,t} = \alpha_0 + \alpha_1 ESG_{i,t} + \alpha_2 ESG_{i,t} * INST_{i,t} + \alpha_3 INST_{i,t} + \alpha_4 Controls_{i,t} + \sum Industry + \sum Year + \varepsilon_{i,t}$$

3.2. Dependent variable

Financial restatement is the dependent variable (restatement). Following existing methodologies by Dechow et al. and Zhou Ze et al., if a company experiences a financial restatement in the given year, the value of restatement is set to 1; otherwise, it is set to 0.

3.3. Independent variable

The independent variable in this study is the Huazheng ESG rating index, which measures corporate performance in the areas of Environment, Social, and Governance. The Huazheng ESG rating system is one of the more developed ESG rating systems in China. Huazheng's rating framework consists of a three-tier indicator system, categorizing the ESG performance of Chinese companies into nine levels: AAA, AA, A, BBB, BB, B, CCC, CC, and C, from highest to lowest. In the empirical analysis, the ratings from C to AAA are assigned values from 1 to 100, respectively.

3.4. Mediating variable

The mediating variable in this study is financing constraints (SA). The measurement model for financing constraints is as follows:

$$\mathrm{SA} = -0.737 * \mathrm{Size} + 0.043 * \mathrm{Size}^2 - 0.040 * \mathrm{Age}$$

The natural logarithm of company size (in millions of yuan) is represented by Size, and the length of time since the company's establishment is represented by Age.

3.5. Moderating variable

The moderating variable in this study is institutional investors (institution). The data for institutional investors is represented as the ratio of institutional investor holdings to the total shares of the company.

3.6. Control variables

Following the work of Guo Lingxiu and Lü Qian, the following control variables are included: Fixed asset ratio (fix); Cash flow from operating income (cash); Revenue growth rate (revenue growth); Debt-to-asset ratio (lev); Separation of ownership and control (separation); Proportion of shares held by major shareholders; Ownership concentration (concentration); Dual-role management (dual); Management shareholding ratio (management shareholding); Proportion of independent directors (independent). Additionally, dummy variables for year (year) and industry (Industry) are included to control for year and industry effects.

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4. Empirical results and analysis

4.1. Descriptive statistics

The descriptive statistics are shown in the table below. The results indicate that the average ESG rating of Chinese companies in the sample period is 72.92, with a maximum value of 84.05 and a minimum value of 57.12. This suggests that most companies in the sample have an ESG rating of BBB, and there is considerable variation in ESG performance across different listed companies. The median ESG rating is 73.19, which indicates that more than half of the companies have an ESG rating above the average level. The average value for financial restatement is 0.242, meaning that 24.2% of the companies have made financial restatements. The average proportion of shares held by institutional investors is 41.36, with a minimum of 0.346 and a maximum of 90.71, showing a wide range of institutional investor involvement in shareholding among listed companies. The average level of financing constraints is 3.821, with a minimum value of 2.114 and a maximum of 5.847, indicating significant variation in financing constraints across different listed companies.

Table 1: Descriptive statistics of main variables

Variable	Sample Size	Mean	Median	Min	Max	Std. Dev.
ESG	17577	72.92	73.19	57.12	84.05	5.370
restatement	17577	0.242	0	0	1	0.428
fix	17577	0.216	0.187	0.0024	0.708	0.153
cash	17577	0.0963	0.0873	-0.618	0.684	0.168
revenue growth	17577	0.382	0.136	-0.714	8.082	1.040
earnings	17577	-0.0062	0.0155	-0.809	0.613	0.217
lev	17577	0.416	0.405	0.0601	0.895	0.200
separation	17577	4.718	0	0	27.93	7.386
shareholding	17577	35.40	33.55	8.400	74.82	14.58
balance	17577	0.746	0.584	0.0057	4	0.611
institution	17577	41.36	43.03	0.346	90.71	24.64
dual	17577	0.288	0	0	1	0.453
managerial	17577	14.52	1.578	0	66.32	19.63
independent	17577	37.48	33.33	33.33	57.14	5.302
SA	17577	3.821	3.810	2.114	5.847	0.265

4.2. Correlation analysis

The correlation regression results show a negative correlation between ESG ratings and financial restatement, with a correlation coefficient of -0.07 at a significance level of 1%. This indicates that ESG information disclosure can effectively suppress financial restatement behaviors.

4.3. Regression results of ESG disclosure and financial restatement

After conducting the Hausman test, this paper uses the fixed-effects model for regression analysis. From Model (1) in the table, it is evident that ESG disclosure is negatively correlated with financial restatement. The regression coefficient is -0.0062, significant at the 1% level, suggesting that increasing ESG disclosure can effectively suppress financial restatements. After adding financial variables, ESG disclosure remains negatively correlated with financial restatement, with a regression coefficient of -0.0055, significant at the 1% level. This indicates that after controlling for financial variables, the negative correlation between ESG disclosure and financial restatement is strengthened.

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After adding corporate governance variables, ESG disclosure remains negatively correlated with financial restatement, with a regression coefficient of -0.0048, significant at the 1% level, showing that ESG disclosure can still suppress financial restatement even after controlling for financial and corporate governance variables. This supports the validity of Hypothesis 1 (H1).

Table 2: ESG disclosure and financial restatement

	(1)	(2)	(3)
	restatement	restatement	restatement
ESG	-0.0062***	-0.0055***	-0.0048***
	(-7.8614)	(-7.0389)	(-6.0920)
fix		-0.0162	-0.0232
		(-0.4438)	(-0.6384)
cash		-0.1215***	-0.1088***
		(-5.1316)	(-4.6059)
revenue growth growth		0.0055	0.0062
		(1.2840)	(1.4599)
lev		0.1026***	0.0974***
		(4.1308)	(3.8719)
separation			0.0002
			(0.3358)
shareholding			-0.0003
			(-0.9369)
balance			-0.0023
			(-0.2994)
institution			-0.0013***
			(-4.6664)
dual			0.0007
			(0.0784)
managerial			-0.0012***
			(-3.5688)
independent			0.0014*
			(1.7240)
Year	Control	Control	Control
Industry	Control	Control	Control
_cons	0.6957***	0.6129***	0.5986***
	(11.9110)	(10.2775)	(9.3282)
N	17577	17577	17576
r2_a	0.1157	0.1203	0.1235

4.4. Mediating role of financing constraints

To further explore the relationship between ESG disclosure and financial restatement, this study introduces financing constraints as a mediating variable and tests its mediating effect using a stepwise regression approach. From Model (1), it is evident that ESG disclosure is negatively correlated with financing constraints at the 5% significance level. This indicates that increasing ESG disclosure can effectively reduce a company's financing obstacles. From Model (2), it is clear that ESG disclosure is negatively correlated with financial restatement at the 10% significance level. This suggests that alleviating financing constraints leads to fewer instances of financial restatements, and the results indicate that financing constraints play a mediating role in the relationship between ESG disclosure and financial restatement.

Table 3: ESG disclosure, financing constraints, and financial restatement

	(1)	(2)
	SA	restatement
ESG	-0.0014**	-0.0048***
	(-2.4365)	(-6.0292)
fix	-0.0216	-0.0223
	(-0.7721)	(-0.6160)
cash	-0.0133	-0.1083***
	(-0.9722)	(-4.5994)
revenue	0.0027	0.0061
	(1.3279)	(1.4394)
AC	0.0276	0.0963***
	(1.4088)	(3.8336)
separation	0.0001	0.0002
	(0.2179)	(0.3286)
shareholding	-0.0008**	-0.0003
	(-2.2797)	(-0.8609)
balance	-0.0090	-0.0020
	(-1.4303)	(-0.2534)
institution	-0.0011***	-0.0012***
	(-4.8503)	(-4.4760)
duality	-0.0222***	0.0016
	(-3.1403)	(0.1804)
managerial	-0.0026***	-0.0011***
	(-9.4605)	(-3.2089)
independent	-0.0015**	0.0014*
	(-2.3289)	(1.8026)
SA		0.0403*
		(1.8985)
_cons	4.0812***	0.4342***
	(78.8330)	(4.1053)
Industry	Control	Control
Year	Control	Control
N	17576	17576
r2_a	0.2942	0.1237

4.5. Investor attention as a mediator

To further explore the negative relationship between ESG disclosure and financial restatements, this study introduces investor attention as a mediator variable. The mediating effect is tested using stepwise regression. Model (1) shows that investor attention is positively correlated with ESG

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disclosure, with a significance level of 1%. This suggests that the more a company discloses ESG information, the higher its investor attention. Model (2) confirms that ESG disclosure is negatively correlated with financial restatements, with a significance level of 1%. Additionally, investor attention is negatively correlated with financial restatements, indicating that higher investor attention leads to fewer financial restatements. The regression results suggest that investor attention plays a mediating role in the relationship between ESG disclosure and financial restatements.

Table 4: ESG disclosure, investor attention, and financial restatements

	(1)	(2)
	SVI_All	Restatement
ESG	0.0038***	-0.0049***
	(5.0357)	(-5.9935)
fix	-0.0470	-0.0312
	(–1.4526)	(–0.8077)
cash	0.0790***	-0.1113***
	(3.8464)	(-4.5539)
revenue	-0.0065**	0.0085*
	(-2.1395)	(1.8628)
AC	0.2149***	0.1019***
	(9.1130)	(3.8392)
separation	-0.0004	0.0007
	(-0.6675)	(1.1339)
shareholding	-0.0022***	-0.0003
	(-5.1128)	(-0.8403)
balance	-0.0399***	-0.0026
	(-4.2509)	(-0.3242)
institution	-0.0008***	-0.0013***
	(-2.8558)	(-4.6809)
duality	-0.0206**	0.0024
	(-2.1072)	(0.2618)
managerial	-0.0032***	-0.0013***
	(-8.5947)	(-3.4957)
independent	-0.0005	0.0012
	(-0.5702)	(1.4870)
SVI_All		-0.0217*
		(-1.7714)
_cons	12.1455***	0.8852***
	(189.7921)	(5.4913)
Year	Control	Control
Industry	Control	Control
N	16016	16016
r2_a	0.2252	0.1264

4.6. The moderating effect of institutional investor ownership

In Model (2), an interaction term between institutional investor ownership and ESG disclosure is introduced. The empirical results show that ESG disclosure and financial restatements are negatively correlated, with a coefficient of -0.0018. The interaction term between institutional investor ownership and ESG disclosure is also negatively correlated with financial restatements, with a coefficient of -0.0071 and a significance level of 5%. This suggests that as institutional investor ownership increases, their ability to oversee corporate behavior strengthens, enhancing the impact of ESG disclosure in reducing financial restatements. This supports Hypothesis 3.

Table 5: ESG disclosure, institutional investor ownership, and financial restatements

	(1)	(2)
	Restatement	Restatement
ESG	-0.0052***	-0.0018
	(-6.6881)	(-1.2254)
ESG_INST		-0.0071**
		(-2.4273)
institution		0.0040*
		(1.8400)
fix	-0.0239	-0.0260
	(-0.6556)	(-0.7195)
cash	-0.0847***	-0.0811***
	(-3.2878)	(-3.1511)
revenue growth growth	0.0060	0.0058
	(1.3941)	(1.3415)
earnings	0.0603***	0.0510**
	(2.8813)	(2.4268)
lev	0.0876***	0.0948***
	(3.4563)	(3.7873)
separation	-0.0002	0.0002
	(-0.4129)	(0.2923)
shareholding	-0.0012***	-0.0004
	(-3.7612)	(-0.9736)
balance	-0.0101	-0.0028
	(-1.2900)	(-0.3520)
dual	0.0015	0.0013
	(0.1749)	(0.1494)
managerial	-0.0001	-0.0012***
	(-0.3492)	(-3.4300)
independent	0.0015*	0.0014*
	(1.9539)	(1.7573)
_cons	0.5928***	0.3720***
	(9.2401)	(3.4104)
Year	Control	Control
Industry	Control	Control
N	17576	17576
r2_a	0.1224	0.1243

4.7. Heterogeneity analysis based on ownership structure

Ownership structure has a significant impact on a company's development, as it determines its strategic direction and development approach. This study divides the sample into state-owned and non-state-owned enterprises based on ownership structure and conducts a coefficient difference test between the two groups. The results indicate a significant difference at the 1% level (p-value < 0.01). The correlation coefficient between ESG disclosure and financial restatements for state-owned enterprises is -0.0033, while for non-state-owned enterprises it is -0.0034. This suggests that the inhibitory effect of ESG disclosure on financial restatements is more pronounced in state-owned enterprises, particularly those with higher ownership concentration.

4.8. Robustness test

4.8.1. Sub-item regression of ESG ratings

To further examine the robustness of the model, the sub-items of the ESG rating, namely E, S, and G, were analyzed separately. The results show that the E rating has a negative association with financial restatement, with a regression coefficient of -0.0014 at a significance level of 1%. Similarly, the S rating and financial restatement also show a negative association with a regression coefficient of -0.0014 at a 1% significance level. The governance (G) rating has a regression coefficient of -0.0039, significant at the 1% level. The sub-item regression analysis of the ESG rating supports the conclusion that each sub-item significantly suppresses financial restatement, enhancing the robustness of Model 1.

Table 6: ESG sub-item regression

	(1)	(2)	(3)
	restatement	restatement	restatement
E	-0.0014***		
	(-2.6166)		
S		-0.0014***	
		(-3.2155)	
G			-0.0040***
			(-6.4432)
fix	-0.0159	-0.0233	-0.0156
	(-0.4333)	(-0.6334)	(-0.4293)
cash	-0.1272***	-0.1261***	-0.1169***
	(-5.3366)	(-5.2794)	(-4.9483)
revenue growth	0.0064	0.0063	0.0065
	(1.4726)	(1.4557)	(1.5157)
lev	0.1120***	0.1078***	0.0689***
	(4.3769)	(4.2432)	(2.6920)
separation	-0.0002	-0.0002	-0.0003
	(-0.4065)	(-0.4091)	(-0.5184)
shareholding	-0.0014***	-0.0014***	-0.0012***
	(-4.3247)	(-4.2656)	(-3.6650)
balance	-0.0106	-0.0100	-0.0119
	(-1.3427)	(-1.2601)	(-1.5335)
dual	0.0026	0.0033	0.0016

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Table 6: (continued)

	(0.2932)	(0.3754)	(0.1764)
managerial	-0.0002	-0.0001	-0.0002
	(-0.7856)	(-0.4546)	(-0.7951)
independent	0.0011	0.0012	0.0018**
	(1.4294)	(1.4737)	(2.3059)
_cons	0.3099***	0.3283***	0.5254***
	(6.7508)	(6.9803)	(9.3788)
year	control	control	control
industry	control	control	control
N	17576	17576	17576
r2_a	0.1183	0.1187	0.1218

4.8.2. Impact of sample lag

As ESG information disclosure may have a lagged effect on financial restatement, the analysis was extended to include lagged ESG variables for one, two, and three periods. The results show that after one period of lag, ESG disclosure still negatively correlates with financial restatement with a regression coefficient of -0.0037 at the 1% significance level. After two periods, the negative correlation remains significant at the 1% level, with a coefficient of -0.0034. After three periods, the regression coefficient is -0.0026, significant at the 5% level. This confirms that the conclusion of H1 is robust.

Table 7: Lagged ESG disclosure

	Lag 1	Lag 2	Lag 3
	restatement	restatement	restatement
lagESG	-0.0037***	-0.0034***	-0.0026**
	(-5.3331)	(-3.9386)	(-2.4053)
fix	-0.0464	-0.0524	-0.0660
	(-1.3730)	(-1.3493)	(-1.4642)
cash	-0.0927***	-0.1255***	-0.1532***
	(-3.9136)	(-4.8136)	(-5.0470)
revenue growth	0.0036	0.0069	0.0082
	(0.8292)	(1.3719)	(1.3848)
lev	0.0914***	0.0935***	0.1066***
	(3.9534)	(3.6611)	(3.4777)
separation	-0.0004	-0.0000	-0.0000
	(-0.7001)	(-0.0244)	(-0.0601)
shareholding	-0.0011***	-0.0009***	-0.0011***
	(-3.4074)	(-2.6247)	(-2.6714)
balance	-0.0106	-0.0090	-0.0186*
	(-1.4489)	(-1.0594)	(-1.8495)
dual	0.0004	0.0037	0.0009
	(0.0541)	(0.3880)	(0.0758)
managerial	-0.0002	-0.0003	-0.0005
	(-0.7811)	(-1.0507)	(-1.3259)

Table 7: (continued)

independent	0.0015**	0.0014	0.0015
	(2.0616)	(1.6411)	(1.5678)
_cons	0.4393***	0.4285***	0.4063***
	(7.4568)	(5.9841)	(4.6387)
year	control	control	control
industry	control	control	control
N	13297	10502	8201
r2_a	0.0981	0.1020	0.1039

5. Conclusion and recommendations

This study, based on a sample of A-share listed companies from the Shanghai and Shenzhen stock exchanges between 2009 and 2021, investigates the relationship between corporate ESG (Environmental, Social, and Governance) disclosure and financial restatement. The findings suggest that ESG disclosure can suppress financial restatements, viewed through the lenses of accounting information quality, financing constraints, and agency theory. Further analysis reveals that financing constraints act as a mediator in the relationship between ESG disclosure and financial restatement, while institutional investors serve as a moderating variable. The robustness of these conclusions was verified through sub-item regression and sample lag regression tests.

Based on the research findings, the following recommendations can be made: Government Action: The government should place greater emphasis on corporate ESG disclosure, improve related mechanisms, and standardize disclosure practices to mitigate financial restatements; Industry-specific Approach: In industries with notable financial restatements, it is crucial to increase ESG disclosure to enhance company transparency. This will enable public oversight and curb financial restatements; Banking Sector Recommendations: Banks should consider relaxing financing conditions for non-polluting enterprises with high levels of ESG disclosure. This could reduce the financing constraints faced by such companies; Corporate Recommendations: Companies should increase their ESG disclosures to provide investors with better decision-making information and alleviate financing constraints. Transparent ESG reporting not only supports investment decisions but also helps build investor trust; Role of Institutional Investors: Attention should be given to the role of institutional investors in moderating the impact of ESG disclosure on financial restatement. Their positive moderating effect should be fully leveraged to maximize the benefits of ESG reporting; Heterogeneity Analysis: The findings indicate that both state-owned enterprises (SOEs) and private enterprises (PEs) can effectively suppress financial restatements through ESG disclosure. Both types of enterprises should strengthen their ESG reporting to improve corporate image and credibility. In summary, promoting ESG information disclosure is crucial in curbing financial restatements and enhancing corporate transparency. Strengthening ESG practices in both state-owned and private enterprises, supported by both government and financial institutions, will contribute to the overall improvement of the corporate governance landscape.

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