



ESG-Oriented Corporate Governance and Its Impact Mechanism on the Quality of Sustainable Accounting Information

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Abstract. In the era of escalating global concerns over sustainable development, ESG (Environmental, Social, and Governance) has emerged as a pivotal metric for evaluating the long - term value of enterprises. Corporate governance, as an essential internal institutional arrangement, plays a crucial role in driving the enhancement of sustainable accounting information quality within the ESG framework. This paper endeavors to systematically explore the intricate impact mechanism through which ESG - oriented corporate governance influences the quality of sustainable accounting information. Grounded in the theoretical frameworks of stakeholder theory and institutional theory, it delves deep into internal governance mechanisms, including board characteristics and management incentive structures, as well as external governance mechanisms, such as the role of institutional investors and media supervision. The study reveals that both internal and external governance mechanisms under the ESG orientation can effectively shape the quality of sustainable accounting information by facilitating the comprehensive collection, accurate processing, and transparent disclosure of ESG - related information. It is anticipated that this research will offer robust theoretical support and practical guidance for enterprises aiming to improve the quality of their sustainable accounting information and elevate their overall ESG performance, thereby contributing to the sustainable development of the business community and the global economy.

Keywords: ESG orientation, Corporate governance, Sustainable accounting information quality, Impact mechanism, Stakeholder theory

1 Introduction

In recent years, the world has witnessed a remarkable shift in the business paradigm, with an increasing emphasis on environmental protection, social responsibility, and corporate ethics. This transformation has propelled the concept of ESG to the forefront of corporate strategies and stakeholder expectations. ESG encompasses three broad dimensions: environmental, which focuses on issues such as climate change, resource conservation, and pollution reduction; social, which includes aspects like labor rights, community engagement, and consumer protection; and governance, which pertains to

corporate leadership, ethical decision - making, and transparency. By integrating these elements, ESG emphasizes the need for enterprises to strike a balance between generating economic benefits, fulfilling social responsibilities, and safeguarding the environment, thereby ensuring long - term viability and resilience.

Sustainable accounting information, which serves as a reflection of an enterprise's performance across these ESG dimensions, has become an indispensable tool for stakeholders. It provides investors with insights into a company's non - financial risks and opportunities, enabling them to make more informed investment decisions. For employees, it demonstrates the company's commitment to their well - being and development. Customers can use this information to assess a company's ethical and sustainable practices, influencing their purchasing decisions. Communities and regulatory bodies also rely on sustainable accounting information to monitor corporate behavior and ensure compliance with social and environmental standards.[1]

Corporate governance, defined as the system of mechanisms, processes, and relationships by which a company is directed and controlled, lies at the heart of an enterprise's operations. It determines how the company sets and pursues its objectives, manages risks, and optimizes performance. In the context of ESG, corporate governance must evolve to meet the new demands of sustainable development. This requires integrating ESG factors into the company's strategic decision - making, management systems, and performance evaluation frameworks. By doing so, corporate governance can drive the enterprise to not only comply with relevant regulations but also proactively contribute to sustainable development.

Despite the growing importance of sustainable accounting information, its current state of disclosure leaves much to be desired. Many enterprises face challenges such as incomplete information, lack of standardization, low comparability across companies, and questionable reliability. These issues undermine the effectiveness of sustainable accounting information in facilitating stakeholder decision - making and limit the ability of the market to reward sustainable corporate behavior. Therefore, understanding how ESG - oriented corporate governance can improve the quality of sustainable accounting information is of utmost importance. This research aims to fill this gap by exploring the underlying impact mechanisms, which can provide valuable insights for both academic scholars and corporate practitioners.[2]

2 Theoretical Framework

2.1 Stakeholder Theory

Stakeholder theory posits that enterprises are not solely beholden to their shareholders but have obligations towards a diverse range of stakeholders, including employees, customers, suppliers, local communities, environmental groups, and society at large. Each of these stakeholders has a stake in the company's activities and outcomes, and their interests can significantly influence the company's success or failure. Under the ESG orientation, stakeholders' expectations regarding a company's environmental and social performance have reached new heights. For instance, consumers are increasingly demanding products and services from companies that adopt sustainable production

methods and promote social justice. Employees expect fair treatment, opportunities for development, and a safe working environment. Communities look to companies to contribute to local economic development and environmental protection.

Sustainable accounting information acts as a vital communication channel between the enterprise and its stakeholders. It allows companies to report on their efforts and achievements in addressing stakeholders' concerns across the ESG dimensions. Corporate governance, as a means of coordinating the interests of these diverse stakeholders, plays a crucial role in ensuring that the company's management takes into account the interests of all stakeholders. By doing so, it can drive the collection, analysis, and disclosure of high - quality sustainable accounting information that accurately reflects the company's ESG performance. This, in turn, helps build trust and credibility with stakeholders, enhancing the company's reputation and long - term value.[3-5]

2.2 Institutional Theory

Institutional theory emphasizes the profound influence of institutions on organizational behavior. Institutions can be categorized into formal institutions, such as laws, regulations, and industry standards, and informal institutions, including social norms, cultural values, and professional ethics. In the context of ESG, the increasing global focus on sustainable development has led to the establishment of a robust institutional environment. Governments around the world are enacting stricter environmental regulations, mandating greater transparency in corporate social responsibility reporting, and promoting good governance practices. At the same time, societal norms and values are shifting towards a greater appreciation for sustainability, with consumers, investors, and the general public placing more emphasis on companies' ESG performance.

These institutional forces create strong pressures for enterprises to incorporate ESG factors into their corporate governance and accounting information disclosure. Corporate governance mechanisms need to adapt to this institutional environment to ensure that the company complies with relevant formal regulations and conforms to informal social expectations. By doing so, companies can avoid legal risks, enhance their social license to operate, and gain a competitive edge in the market. High - quality sustainable accounting information disclosure, which is a key outcome of effective ESG - oriented corporate governance, serves as evidence of the company's compliance with institutional requirements and its alignment with societal values.

3 Impact Mechanism of ESG-Oriented Corporate Governance on Sustainable Accounting Information Quality

3.1 Internal Governance Mechanisms

Board Characteristics.

The board of directors occupies a central position in corporate internal governance, serving as the decision - making and oversight body of the company. Under the ESG

orientation, the composition and characteristics of the board have a profound impact on the quality of sustainable accounting information. One of the key aspects is the proportion of independent directors on the board. Independent directors, who are not affiliated with the company's management or major shareholders, bring objectivity and independence to the board's decision - making and supervision processes. They are more likely to consider the interests of non - shareholder stakeholders, such as employees, customers, and the environment, and advocate for the disclosure of comprehensive and accurate sustainable accounting information.

For example, a study by Luo Shijiao [2024] found that companies with a higher proportion of independent directors on their boards tend to have more detailed and transparent ESG reporting. These independent directors often play a crucial role in challenging management's decisions when they perceive potential negative impacts on ESG performance and encourage the company to adopt more sustainable practices. In addition, the establishment of specialized committees on the board, such as the sustainability committee, has become increasingly common. These committees are responsible for formulating and implementing the company's ESG strategies, setting ESG - related goals and targets, and overseeing the collection, analysis, and disclosure of sustainable accounting information. They ensure that ESG considerations are integrated into the company's overall business operations and reporting processes, thereby enhancing the quality and relevance of the disclosed information.

Moreover, the expertise and experience of board members also matter significantly. Boards with members who have in - depth knowledge of environmental science, social issues, and corporate governance are better equipped to understand and address ESG - related challenges. They can provide valuable guidance to management on ESG - related matters, such as developing effective environmental management systems, formulating social responsibility policies, and improving corporate governance structures. This, in turn, promotes the accurate measurement and reporting of sustainable accounting information, as the board can ensure that the company's ESG performance is being properly evaluated and communicated to stakeholders.

Management Incentives.

Management incentives are essential tools for aligning the interests of managers with those of the enterprise and its stakeholders. In the ESG context, designing appropriate management incentive mechanisms is crucial for encouraging managers to prioritize the company's ESG performance and the quality of sustainable accounting information. Linking managers' compensation to ESG indicators is a common approach. For example, companies can tie a portion of managers' annual bonuses or long - term incentives to metrics such as the reduction in carbon emissions, the increase in employee satisfaction, or the improvement in corporate governance ratings. This creates a financial incentive for managers to actively promote sustainable practices within the company and ensure the accurate and timely disclosure of relevant information.

Equity incentives also play a significant role in promoting long - term thinking among managers. When managers are granted equity in the company, they have a vested interest in its long - term success. This encourages them to focus on sustainable development strategies that can enhance the company's value over time. By aligning

managers' interests with the long - term interests of the company and its stakeholders, equity incentives can drive managers to invest in ESG initiatives, improve the quality of sustainable accounting information, and communicate the company's ESG achievements effectively to the market.

In addition to financial incentives, non - financial incentives can also be powerful motivators. For instance, recognition and career advancement opportunities can be linked to managers' contributions to the company's ESG performance. Managers who successfully lead ESG - related projects, improve the quality of sustainable accounting information, or enhance the company's reputation in the ESG field can be rewarded with promotions, public recognition, or opportunities to participate in high - profile industry events. These non - financial incentives not only boost managers' morale but also encourage them to continuously strive for better ESG performance and more transparent information disclosure.

3.2 External Governance Mechanisms

Institutional Investors.

Institutional investors, including pension funds, mutual funds, insurance companies, and sovereign wealth funds, have emerged as major players in the global capital market. With their substantial financial resources and professional investment expertise, they have the ability to influence corporate behavior significantly. In recent years, there has been a growing trend among institutional investors to incorporate ESG factors into their investment decision - making processes. They recognize that companies with strong ESG performance are more likely to be resilient in the face of environmental and social challenges, have better long - term growth prospects, and pose lower risks.

Institutional investors can use their voting rights at shareholders' meetings to push for improvements in corporate governance and the quality of sustainable accounting information. They can submit resolutions demanding that companies enhance their ESG disclosures, improve their environmental management systems, or strengthen their social responsibility initiatives. For example, a large pension fund might propose a resolution at a company's annual general meeting requiring the company to report on its carbon footprint and climate - change mitigation strategies. If such a resolution is passed, it can prompt the company to improve the quality and comprehensiveness of its sustainable accounting information.

In addition to voting rights, institutional investors can also engage in direct dialogue with company management. Through this engagement, they can express their expectations regarding the company's ESG performance and sustainable accounting information disclosure. They can provide valuable feedback and suggestions based on their own research and experience, helping companies to identify areas for improvement. Moreover, institutional investors' investment decisions based on ESG factors can create a market incentive for companies to improve their ESG performance and information disclosure. Companies that fail to meet the ESG requirements of institutional investors may face divestment, which can lead to a decline in their stock prices and market value. This, in turn, encourages companies to enhance the quality of their sustainable accounting information to attract and retain institutional investors.

Media Supervision.

Media supervision is an important component of the external governance ecosystem. The media has the power to shape public opinion and influence corporate behavior through its information dissemination and watchdog functions. In the context of ESG, the media can play a crucial role in exposing companies' poor ESG practices and low - quality sustainable accounting information disclosure. When the media reports on a company's environmental violations, labor rights abuses, or misleading ESG reporting, it can generate significant public outcry and negative publicity for the company. This, in turn, can put pressure on the company's management to take corrective actions, improve its corporate governance, and enhance the quality of its sustainable accounting information.

For example, if a media outlet reports that a company has been secretly discharging pollutants into a local river, causing environmental damage, it can trigger regulatory investigations, consumer boycotts, and investor concerns. In response, the company is likely to improve its environmental management systems, strengthen its ESG reporting, and disclose more accurate and detailed information about its environmental performance. The media can also act as a catalyst for positive change by highlighting companies that excel in ESG performance and sustainable accounting information disclosure. By publicizing these best - practice cases, the media can set standards and inspire other companies to follow suit, thereby promoting the overall improvement of ESG performance and information quality in the business community.[6-10]

Furthermore, the media can contribute to the formation of social norms and values that emphasize ESG. Through its reporting and commentary, the media can raise public awareness of environmental and social issues, promote the importance of corporate social responsibility, and encourage consumers, investors, and other stakeholders to demand more from companies. This social pressure can create a conducive environment for companies to improve the quality of their sustainable accounting information, as they need to meet the expectations of the public and maintain their social license to operate.

4 Empirical Evidence and Case Analysis

Although the research on the impact of ESG - oriented corporate governance on sustainable accounting information quality is still in its developmental stage, a growing body of empirical studies has started to shed light on this relationship. For example, a recent study by Luo Shijiao [2024] analyzed a sample of publicly listed companies from multiple industries and found a significant positive correlation between ESG - oriented corporate governance practices and the quality of sustainable accounting information. The study measured ESG - oriented corporate governance using various indicators, such as the proportion of independent directors on the board, the existence of a sustainability committee, and the alignment of management incentives with ESG goals. It evaluated the quality of sustainable accounting information based on factors such as the comprehensiveness, accuracy, and timeliness of ESG disclosures. The results showed that companies with more advanced ESG - oriented corporate governance structures

were more likely to disclose high - quality sustainable accounting information, which was consistent with the theoretical analysis presented in this paper.

Another study by Xiong Hui [2023] focused on the role of institutional investors in promoting the quality of sustainable accounting information. The research found that companies with a higher proportion of institutional ownership tended to have more detailed and transparent ESG reporting. Institutional investors' active engagement with companies, such as through proxy voting and dialogue with management, was also associated with improvements in the quality and quantity of sustainable accounting information disclosure. These findings provide empirical support for the argument that external governance mechanisms, especially the role of institutional investors, can effectively influence the quality of sustainable accounting information.

In terms of case analysis, consider the example of Company B, a multinational consumer goods company. In response to growing stakeholder concerns about environmental and social issues, Company B revamped its corporate governance structure to be more ESG - oriented. It increased the proportion of independent directors on the board, especially those with expertise in environmental and social fields. The company also established a dedicated sustainability committee, which was responsible for formulating and implementing the company's ESG strategies. The committee set ambitious goals, such as reducing the company's carbon emissions by 50% within five years and ensuring that all its suppliers meet certain social and environmental standards.

To ensure the effective implementation of these strategies, Company B designed a comprehensive management incentive system that linked managers' compensation to ESG performance. For example, a significant portion of the senior management's annual bonus was based on achieving ESG targets, such as improving product sustainability, enhancing supply chain transparency, and promoting employee diversity. As a result of these corporate governance reforms, Company B's sustainable accounting information disclosure has undergone a remarkable transformation. It now provides detailed reports on its environmental performance, social initiatives, and governance practices, including specific metrics, targets, and progress updates. These reports are not only more comprehensive and accurate but also more comparable across different periods, enabling stakeholders to better assess the company's ESG performance and long - term value. The improved quality of sustainable accounting information has also enhanced the company's reputation in the market, attracting more investors and customers who prioritize ESG considerations.

5 Conclusion

In summary, this paper has explored the impact mechanism of ESG - oriented corporate governance on the quality of sustainable accounting information. Through theoretical analysis, it has been demonstrated that both internal and external governance mechanisms play important roles in shaping the quality of sustainable accounting information. Internal governance mechanisms, such as board characteristics and management incentives, can drive the company to strengthen its ESG management and improve the quality of information from within. External governance mechanisms, including institutional

investors and media supervision, can exert market and social pressures on the company, prompting it to disclose more accurate, comprehensive, and transparent sustainable accounting information.

The empirical evidence and case analysis presented in this paper provide further support for the theoretical arguments. Although the existing research is still in the early stages, the positive correlation between ESG - oriented corporate governance and the quality of sustainable accounting information has been gradually revealed. However, this study also has several limitations. Firstly, the theoretical analysis is mainly based on existing literature, and more in - depth theoretical exploration is needed to fully understand the complex relationship between ESG - oriented corporate governance and sustainable accounting information quality. Secondly, the empirical research and case analysis in this paper have certain limitations in terms of sample size and industry coverage. Future research could expand the sample scope, cover a wider range of industries and regions, and use more advanced research methods to conduct more comprehensive and in - depth studies.

In addition, as the global ESG landscape continues to evolve, new challenges and opportunities will emerge. For example, the development of new technologies, such as blockchain and artificial intelligence, may provide new means for improving the quality of sustainable accounting information. At the same time, the increasing globalization of business and the growing complexity of ESG issues will require companies to continuously adapt and improve their corporate governance mechanisms. Future research could also explore how these emerging trends and challenges impact the relationship between ESG - oriented corporate governance and sustainable accounting information quality, providing more up - to - date and practical guidance for enterprises in the era of sustainable development.

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