



**RESOURCE**

# Water disclosure and financial reporting quality for social changes: Empirical evidence from China

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**Description / Abstract**

Although water information disclosure has become a hot topic in recent years, the correlation between enterprise water information disclosure and financial reporting quality (FRQ) remains in the black box stage. Using stakeholder theory and signalling theory, this study discusses the correlation between water information disclosure and FRQ, and determines whether financing constraints mediate the correlation. Based on panel data of 781 listed companies in China during 2010–2018, the results reveal that water information disclosure significantly promotes FRQ. Moreover, corporate water information disclosure indirectly affects FRQ via financing constraints. A series of robustness tests, including instrumental variables, variable substitution, and sample reduction, validate these conclusions. Further research suggests that non-state-owned enterprises' water information disclosure more likely increases FRQ through financing constraints, highlighting their more crucial role. This study specifies the internal mechanism of financing constraints on the correlation between water information disclosure and FRQ by establishing a water information disclosure index and regression models; expands the theoretical research of environmental disclosure; reduces the cost of information screening for investors and regulatory authorities; helps investors to make better investment decisions; and improves regulatory efficiency, thereby improving the financing environment, establishing management strategy, and promoting the green change of society.

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