

**Institutional investors' distraction and audit fees:
The mediating effect of ESG rating disagreement**

Yilan Chen*

*Master, Postgraduate Student
Australian National University
2601, East Rd., Canberra, Australia
<https://orcid.org/0009-0009-3276-1326>*

Yiyuan Li

*Master, Postgraduate Student
Australian National University
2601, East Rd., Canberra, Australia
<https://orcid.org/0009-0008-1091-6967>*

Abstract. The growing focus on sustainability and responsible corporate behaviour makes the analysis of the impact of institutional investors on audit fees extremely important to ensure the transparency and reliability of non-financial reporting in the current environment. The purpose of the study was to identify the degree of influence of institutional investors on the payment for audit services of Chinese companies based on environmental, social and governance (ESG) ratings. The study was conducted using the methods of sampling, observation, analysis, and description of statistical characteristics. The results indicate a significant relationship between institutional investor distraction and increased audit fees caused by discrepancies in ESG ratings. This highlights the critical role of investor oversight in maintaining audit quality and controlling costs. While divergent ESG ratings provide auditors with more information, thereby reducing audit workloads and fees, this effect is not sufficient to offset the overall increase in audit fees due to investor distraction. The effect is more pronounced for low-tech companies, companies with high environmental impacts, and companies with lower cash flow volatility, making them more vulnerable to increased audit scrutiny and higher fees. The various differences in ESG ratings, including environmental, social and governance aspects, serve as key mediating factors, highlighting the importance of taking these differences into account when assessing audit risk and setting fees. The results obtained in the course of the study can be used to improve the ESG rating methodology, namely to increase transparency and reduce information asymmetry in the stock market

Keywords: corporate governance; risk assessment; corporate governance; investor attention; sustainability

Received: 08.03.2024, Revised: 23.05.2024, Accepted: 28.06.2024

Suggested Citation: Chen, Y., & Li, Y. (2024). Institutional investors' distraction and audit fees: The mediating effect of ESG rating disagreement. *Scientific Bulletin of Mukachevo State University. Series "Economics"*, 11(2), 102-115. doi: 10.52566/msu-econ2.2024.102.



Copyright © The Author(s). This is an open access article distributed under the terms of the Creative Commons Attribution License 4.0 (<https://creativecommons.org/licenses/by/4.0/>)

*Corresponding author

Introduction

As shareholders of the company, institutional investors oversee actions of company executives that are detrimental to shareholders' interests, such as reducing excessive perquisites for management and dismissing chief executive officers with poor management capabilities. X. Ni *et al.* (2020) claim that the distraction of institutional investors leads to a decrease in internal regulatory pressure, resulting in an increased risk of stock price collapse for the company. A. Garel *et al.* (2021) emphasised that institutional investors' distraction can also lead to an increase in earnings management behaviour by the management of companies, resulting in greater financial risks for the enterprise. J. Yang *et al.* (2021) discovered that the diversion of attention by institutional investors results in higher audit fees and delays in audit reporting. Furthermore, it was discovered that the diversion of attention by institutional investors results in a rise in the amount of work for auditors. While previous studies have provided insight into the correlation between institutional investors' distraction and the rise in corporate misconduct, leading to increased operational risks and subsequently higher audit fees, there is limited research examining the influence of institutional investors' distraction on corporate audit fees specifically in relation to ESG rating disagreement. In addition, there is a scarcity of research that use Chinese listed businesses as samples to examine the correlation between institutional investors' diversion and audit fees.

Authors' findings confirm the conclusions of the research of J. Yang *et al.* (2021), which are also applicable to the Chinese financial market, namely, institutional investors' distraction leads to an increase in audit fees. It is increasingly becoming an important investment consideration for investors. D.C. Broadstock *et al.* (2020) argue that due to variations in the standards and weighting of criteria among ESG rating agencies, as well as differences in the information collected, ESG ratings exhibit disagreement. Different ESG ratings provided by various agencies serve as useful information to assist auditors in professional judgment, determining the scope of auditing work. Consequently, the workload for auditors may decrease to some extent, leading to reduced audit fees. Thus, the disagreement in ESG ratings can play a negative mediating role in the process whereby institutional investors' distraction leads to an increase in audit fees (Tkachenko *et al.*, 2023). The calculation method for ESG rating discrepancies follows the approach proposed by D. Avramov *et al.* (2022). The regression results of the authors indicate that the influence of institutional investors' distraction on ESG rating disagreement is both positive and statistically significant.

R. Gibson Brandon *et al.* (2021) argue that ESG rating disagreement creates confusion in market signals for investors, which is detrimental to stakeholders. With the perspective from the benefits of ESG rating disagreement, the authors suggest that ESG rating disagreement is advantageous for auditors to narrow down the scope of auditing, identify the focal points of auditing work, and provide

more information of companies to auditors. Current study supplements the literature on the impact of institutional investors' distraction on audit fees. While previous research such as J. Yang *et al.* (2021) has examined this impact, it has not focused on Chinese financial market and Chinese listed firms. Third, authors contribute to the literature on auditing. Previous studies like D.K. Chan *et al.* (2021) have shown that institutional investors' distraction leads to reduced shareholders' oversight for companies, resulting in increased misconduct, heightened audit risks, and higher audit fees.

The purpose of the study is to investigate the extent to which institutional investors' distraction affects audit fees of Chinese companies, with a particular focus on the mediating role of discrepancies in ESG ratings.

Literature Review

J. Yang *et al.* (2021) have found that institutional investors' distraction could lead to an increase in audit fees. D.K. Chan *et al.* (2021) claim that institutional investors' distraction can also lead to the behaviours of corporate management sacrificing shareholders' interests for their own benefit, resulting in lower audit quality. For the increase in audit fees and the decrease in audit quality caused by institutional investors' distraction, it can be explained by the decrease in regulatory oversight for the company. As shareholders, institutional investors can play a regulatory role in deterring corporate misconduct. A. Garel *et al.* (2021) found that institutional investors' distraction leads to increased earnings management by companies. E. Kempf *et al.* (2017) found that it also leads to value-destructive acquisitions by corporate management. Based on that previous research, authors can conclude that institutional investors' distraction can impact companies' financial behaviours, thereby affecting auditors' workload. In this study, the authors investigate this concept by analysing a sample of Chinese listed firms from 2010 to 2023 in order to ascertain if this notion remains valid.

Researchers such as J.A. Cookson & M. Niessner (2019) and M. Billio *et al.* (2021) suggest that the divergence in ESG ratings arises from disparate data sources and varying interpretations of that data by distinct ESG rating agencies. The information collected by ESG rating agencies varies, and the rating criteria differ. Regarding whether the disagreement in ESG ratings is more advantageous than disadvantageous, different studies have different perspectives. D.C. Broadstock *et al.* (2021), from the view of the differing of ESG rating agencies, believed that the emergence of disagreement in ESG is due to the different focuses and standard of each rating agency. E. Escrig-Olmedo *et al.* (2019) argue that since most investors cannot understand a company's ESG disclosures and rely on ESG rating agencies, the ratings provided by different ESG rating agencies increase the understandability of corporate ESG disclosures. It could enrich the investment information available to investors. D.M. Christensen *et al.* (2021) argued that if companies disclose an increased amount of ESG information,

it will lead to an increase in disagreement in ESG ratings. R. Gibson Brandon *et al.* (2021) conclude that while ESG ratings from various organisations improve the clarity of ESG information disclosure, discrepancies in these ratings due to differing interpretations of the same material can impact the assessments made by professional investors.

D.K. Chan *et al.* (2021) in their study stated the distraction of institutional investors can lead to a lack of control over corporate behaviour. If a particular unethical behaviour carries a significant weight in the rating criteria and this information happens to be collected by the ESG rating agency, the ESG rating score from the agency would tend to decrease. Conversely, if the weight in the rating criteria of this behaviour is small or if the information is not collected at all, the rating score from the agency would tend to increase. According to E. Kempf *et al.* (2017), under the influence of reduced regulation, companies may behave more unethically, which increases disagreement in ESG ratings because different rating agencies collect different information and their evaluation standards differ. As a result, the disagreement in ESG ratings will increase. Auditors, as one of the users of ESG rating information, will benefit from the expanded differences in ESG ratings, as it will provide them with more relevant information regarding ESG aspects. Auditors can directly utilize this information for auditing purposes, allowing for a narrower scope of auditing tasks and reduced auditing fees.

The subsequent conjectures are put out concerning corporate attributes. The authors propose that the correlation between institutional investors' diversion and audit fees may be influenced by certain firm attributes. Initially, the authors categorise the sample companies into two groups: high-tech enterprises and non-high-tech companies. Due to financing issues related to research and development funds, high-tech companies prioritize communication and disclosure with external stakeholders (Nakipova *et al.*, 2023). As a result, they receive more attention from external parties compared to non-high-tech companies. Therefore, the distraction of institutional investors does not lead to a significant decrease in external oversight for high-tech companies. Furthermore, due to the substantial proportion of research and development expenses in high-tech companies and the heightened scrutiny from shareholders on this aspect of expenses, the auditing workload and auditing scope of auditors do not undergo significant changes based on the level of distraction from institutional investors. High-tech businesses are more likely to engage in earnings management methods due to the unpredictability surrounding research and development outcomes (Liepert, 2024). As a result, auditors tend to focus more on these organisations. Thus, the anticipated impact of institutional investors' diversion on audit costs is predicted to be less pronounced for high-tech firms.

Authors then examine the extent to which institutional investors' distraction has a significant favourable effect on audit fees, specifically in relation to companies that are heavily-polluted. Heavily-polluted companies face more

public pressure in this current era that emphasizes environmental protection. Moreover, media coverage of environmental pollution incidents brings significant public scrutiny to those companies. Fulfilling social responsibilities by heavily-polluted companies can demonstrate a positive corporate image and significantly improve the financial condition of the company. Those companies often face significant financing pressure due to industry characteristics and the companies with poor environmental performance would experience high financing costs (Novytkova *et al.*, 2023). Because of those pressure, heavily-polluted companies have a greater incentive to engage in earnings management compared to non-heavily polluting companies. Therefore, after a decrease in attention from institutional investors who serve as shareholders, and such misconduct in financial fraud would increase among heavily-polluted companies, it will attract the attention of auditors, resulting in increased audit fees (Horbal & Makarova, 2023).

Finally, authors believe that the company's cash flow volatility would influence the strength of the positive impact of institutional investors' distraction on audit fees. J.L. Campbell *et al.* (2019) argue that large fluctuations in a company's operating cash flow are perceived by investors as volatile earnings. Heightened uncertainty in cash flows leads to a reduction in a company's resilience against risks, hindering its capacity to effectively control unforeseen events and operational risks associated with financial crises. Companies with high cash flow volatility are more likely to face financial distress, which in turn attracts more attention from external stakeholders. Institutional investors serve as shareholders overseeing companies. The distraction of institutional investors does not affect the behaviours of other stakeholders to the company. These companies with high cash flow volatility still receive sufficient attention from various stakeholders to curb misconduct. Therefore, audit fees are unlikely to undergo significant changes. Larger cash flow volatility often leads to companies engaging in earnings management practices. Regardless of whether institutional investors are distracted, these earnings management practices would always attract the attention of auditors.

Materials and Methods

Sample of the study includes all stock of listed companies from the main board of Shanghai and Shenzhen Stock Exchanges. The time frame of the sample data extends over 14 years, spanning from 2010 to 2023. The data related to companies' financial condition, management status, and investors' shareholding comes from the China Stock Market and Accounting Research Database (CSMAR) and the WIND database. The ESG rating data is sourced from six reputable ESG rating agencies with extensive knowledge of the Chinese financial market and Chinese listed firms: Bloomberg, Hexun, Huazheng, FTSE Russell, SynTao Green Finance and Wind. The data from these six ESG rating agencies are also utilized by many papers studying ESG-related aspects of Chinese listed enterprises, such as D.C. Broadstock *et al.* (2020) and H. Shen *et al.* (2023).

Authors use Stata17 for data organization, processing, and conducting regression analysis.

The authors in this study conducted data processing in the following manner: initially, they excluded observations from financial and insurance companies; subsequently, they excluded observations from companies listed under the category of “Special Treatment”. Finally, the authors eliminated observations that had missing values for the variables. This resulted in a total of approximately 16 thousand firm-year observations of panel data. Monitoring activities by institutional shareholders benefit auditors by lowering audit risk. Audit fees can reflect the level of risk and workload faced by auditors. Following J. Yang *et al.* (2021), authors took the natural logarithm of the audit fees for the companies.

Following the approach of E. Kempf *et al.* (2017), authors calculate the variables measuring institutional investors’ distraction. Institutional investors may be attracted by the performance of stocks from other industries in their own investment portfolios. The variable construction of $D_{i,q}$ suggests that distraction occurs when other industries experience extremely high or low returns. This formula suggests that institutional investor p of company i is likely to be distracted if company i does not belong to an industry that experiences extreme high or low returns, and this industry’s stocks are significant in the portfolio of institutional investor p (1):

$$D_{i,q} = \sum_{p \in F_{q-1}} \sum_{IND \neq IND_f} W_{p,i,q-1} * W_{p,q-1}^{IND} * IS_q^{IND}, \quad (1)$$

where p – the investor; i represents the company; q – quarter q ; $p \in F_{q-1}$ – at the end of quarter $q-1$, institutional investor p of company i ; IND – the set of twelve Fama-French industries; IND_f – the industries company i is affiliated to; $w_{p,q-1}^{IND}$ – the importance of industry IND in investor p ’s investment portfolio; IS_q^{IND} – an indicator variable.

When industries excluding the industry which company i belongs to experience the highest or lowest returns in quarter q , it equals 1; it takes the value of 0 when extreme returns are not observed in those other industries. A larger indicates that investor p takes more weight for company i . In this scenario, company i holds a larger portion in investor p ’s investment portfolio, and for company i , investor p is the shareholder with a larger stake. It is calculated as the following equation (2):

$$W_{p,i,q-1} = \frac{QPfweight_{p,i,q-1} + QPercOwn_{p,i,q-1}}{\sum_{p \in F_{q-1}} (QPfweight_{p,i,q-1} + QPercOwn_{p,i,q-1})}, \quad (2)$$

where: $PFweight_{p,i,q-1}$ – the significance of company i to investor p , reflecting the proportion of company i ’s market value in investor p ’s portfolio. $PercOwn_{p,i,q-1}$ – the percentage of stocks of company i owned by investor p . Sort all stocks held by investor p into quintiles by $PFweight_{p,i,q-1}$, labelled $QPfweight_{p,i,q-1}$. Sort company i ’s all shareholders into quintiles by $PercOwn_{p,i,q-1}$ labelled $QPercOwn_{p,i,q-1}$. The denominator is set so that the sum

of $w_{p,i,q-1}$ equals 1. Different rating agencies use different scales. In order to make the data from these different rating agencies comparable and computable, following D.C. Broadstock *et al.* (2020), all ESG rating are scaled from 1 to 10. Then, following the approach of D. Avramov *et al.* (2022), calculate the ESG rating disagreement between pairs of rating agencies with ratings standardized for the same year and company. For the six ESG rating agencies – Bloomberg, Hexun, Huazheng, FTSE Russell, SynTao Green Finance and Wind, a total of up to 15 pairs can be formed (3):

$$ERD_pair_{i,t} = \frac{|ESG_rating_{i,a,t} - ESG_rating_{i,b,t}|}{\sqrt{2}}, \quad (3)$$

where: $ESG_rating_{i,a,t}$ – the standardized ESG score for company i from agency a , and $ESG_rating_{i,b,t}$ is the standardized ESG score for company i from agency b , both agency a and b come from the six ESG rating agencies; ERD – entities with reduced dimension; $ERD_pair_{i,t}$ – the difference in ESG ratings between agency a and b for company i . According to this formula, calculate all $ERD_pair_{i,t}$ between pairs of agencies that conducted ESG ratings for the company i in year t . Finally, calculate the arithmetic mean of all $ERD_pair_{i,t}$ values as variable $ERD_{i,t}$ which represents the ESG rating disagreement of company i in year t .

The authors of this study, based on prior research conducted by D.C. Broadstock *et al.* (2020), have chosen the following control variables to include in their regression model. The BM ratio is a financial metric that represents the ratio of a business’s book value to its market value. It provides insight into the value of the company in the financial market. TOP1 refers to the degree of ownership concentration of the largest shareholder, which is determined by dividing the number of shares held by the largest shareholder by the total number of shares available. The variable Opinion is an indicator variable, which takes the value of 1 when the company’s financial report is issued an unqualified audit opinion. Its calculation involves taking the portion of intangible assets related to digitization as the digitized portion, and then dividing this digitized portion of intangible assets by the total proportion of all intangible assets, resulting in the degree of digitalization for the company. WW is the financial constraint index calculated according to the method of T.M. Whited & G. Wu (2006). It can reflect the level of financial constraint faced by the company. State-Owned Enterprise (SOE) reflects the ownership structure of the company and is also an indicator variable. The SOE of a state-owned enterprise is equal to 1, while the SOE of a private enterprise is equal to 0.

The average value of variable AuditFee is 13.8051, indicating that the average of natural logarithm of the audit fees paid by companies is 13.8051. The average value of D is 0.0064, indicating that on average, the level of distraction faced by a company from institutional investors is 0.0064 (Table 1).

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
AuditFee	16,500	13.8051	0.7192	11.5129	17.6758
D	16,500	0.0064	0.0116	0	0.0695
ERD	16,500	2.4793	0.8161	0	5.8341
BM ratio	16,500	0.6134	0.2597	0.0235	1.5592
TOP1	16,500	35.0007	15.027	2.4307	89.991
Opinion	16,500	0.9833	0.1283	0	1
digital	16,500	0.0003	0.0025	-0.0002	0.1199
WW	16,500	-1.3559	36.8995	-4712.1532	-0.7417
SOE	16,500	0.3864	0.4869	0	1

Source: created by the authors

The average value of ERD is 2.4793, indicating that on average, the standardized ESG rating disagreement received by a company is 2.4793. For other variables, an average company has the BM ratio of 0.6134, TOP1 of 35.0007, Opinion of 0.9833, digital of 0.0003, WW of -1.3559 and SOE of 0.3864.

According to the literature review, authors set the five hypotheses of this paper:

H1: Institutional investors' distraction would lead to an increase in audit fees.

H2: ESG rating disagreement plays a negative mediating role in the process where institutional investors' distraction leads to an increase in audit fees.

H3: The positive relationship between institutional investors' distraction and audit fees will be stronger in the non-high-tech companies.

H4: The positive relationship between institutional investors' distraction and audit fees will be stronger for heavily-polluted companies.

H5: The positive relationship between institutional investors' distraction and audit fees will be stronger in the companies with low cash flow volatility.

Results

This study seeks to investigate if the diversion of attention by institutional investors could influence audit fees. Analyse the panel data using Fixed Effects Model. To test hypothesis H1, the following model is designed. The model's design follows T. Chen *et al.* (2023), as they also employed Fixed Effects Model in their study. The reason for utilizing year fixed effects is to account for all unobservable factors that change over time and could impact audit fees, such as fluctuations in the macroeconomic environment and alterations in regulatory policies. Moreover, employing firm fixed effects enables the control of firm-specific heterogeneity factors like corporate governance structure and industry characteristics (4):

$$\text{AuditFee}_{i,t} = \beta_0 + \beta_1 D_{i,t} + \beta_2 \text{BM}_{\text{ratio}_{i,t}} + \beta_3 \text{TOP1}_{i,t} + \beta_4 \text{Opinion}_{i,t} + \beta_5 \text{digital}_{i,t} + \beta_6 \text{WW}_{i,t} + \beta_7 \text{SOE}_{i,t} + \text{Year}_{\text{FE}} + \text{Firm}_{\text{FE}} + \varepsilon_{i,t} \quad (4)$$

Audit fee is the dependent variable, and D represents institutional investors' distraction which is the core

explanatory variable. Year_{FE} represents time fixed effects, which in this study is represented by years. Firm_{FE} represents firm fixed effects, which in this paper is denoted by stock code of listed firms. In this model, the main focus is on the coefficient of D. According to hypothesis H1, it is expected that this coefficient is statistically significantly positive. Next, this paper investigates the mechanism through which institutional investors distraction affects audit fees. From the perspective of intermediary effects, authors consider ESG rating disagreement as the mediating variable. This model testing hypothesis H2 still incorporates time fixed effects and firm fixed effects (5, 6):

$$\text{ERD}_{i,t} = a_0 + a_1 D_{i,t} + a_2 \text{BM}_{\text{ratio}_{i,t}} + a_3 \text{TOP1}_{i,t} + a_4 \text{Opinion}_{i,t} + a_5 \text{digital}_{i,t} + a_6 \text{WW}_{i,t} + a_7 \text{SOE}_{i,t} + \text{Year}_{\text{FE}} + \text{Firm}_{\text{FE}} + \varepsilon_{i,t} \quad (5)$$

$$\text{AuditFee}_{i,t} = \gamma_0 + \gamma_1 D_{i,t} + \gamma_2 \text{ERD}_{i,t} + \gamma_3 \text{BM}_{\text{ratio}_{i,t}} + \gamma_4 \text{TOP1}_{i,t} + \gamma_5 \text{Opinion}_{i,t} + \gamma_6 \text{digital}_{i,t} + \gamma_7 \text{WW}_{i,t} + \gamma_8 \text{SOE}_{i,t} + \text{Year}_{\text{FE}} + \text{Firm}_{\text{FE}} + \varepsilon_{i,t} \quad (6)$$

Equation (4) serves as the first step in assessing the mediating effect, Equation (5) as the second step, and Equation (6) as the third step. If all coefficients β_1 , a_1 , and γ_2 are significant simultaneously, it indicates the presence of a mediating effect. If coefficient γ_1 is significant, it indicates partial mediating effect, whereas if coefficient γ_1 is not significant, it indicates complete mediating effect.

Table 2 displays the primary findings. The audit fees are the dependent variable in both columns. Column (1) incorporates year fixed effects and firm fixed effects, while excluding any control variables. Control variables are included in column (2). The coefficient estimates that are of greatest interest are those of variable D. According to hypothesis 1, it is expected that the coefficient of D will be both statistically significant and positive. The regression analysis supports hypothesis 1, which states that the distraction of institutional investors leads to a rise in audit fees. Prior to the incorporation of control variables, the impact of institutional investors' diversion on audit fees is positive but lacks statistical significance. In addition, when control variables are taken into account, the coefficient of D is 0.4167, and it is statistically significant at the 5% level. This suggests that the overall impact of institutional investors' distraction on audit fees is

favourable. By incorporating control variables, the model for audit fees becomes more powerful in explaining the phenomenon. This is evident from the increase in the Adjusted R-squared value, which rises from 87.17% to 87.44%.

Table 2. Main results

	(1) AuditFee	(2) AuditFee
D	0.297 (0.2078)	0.4167** (0.2059)
BMratio		0.2269*** (0.0172)
TOP1		-0.0016*** (0.0004)
Opinion		-0.0912*** (0.0188)
digital		17.1255*** (2.8559)
WW		-0.0001 (0.0001)
SOE		0.1075*** (0.0191)
_cons	13.8113*** (0.0025)	13.769*** (0.0264)
Year _{FE} -s	YES	YES
Firm _{FE} -s	YES	YES
Observations	15925	15925
Adj.R-squared	0.8717	0.8744

Note: ***p < 0.01; **p < 0.05; *p < 0.1

Source: created by the authors

A study was done to examine the impact of investors' distraction on audit fees, as presented in Table 3. The mechanism by which the impact occurs is through the mediating effect of ESG rating dispute, specifically in relation to hypothesis H2. Since H2 consists of two equations, the intermediate variable ERD serves as the dependent variable for

both Columns (1) and (2), while audit fees serve as the dependent variables for Columns (3) and (4). Columns (1) and (3) depict regressions conducted without control variables, while Columns (2) and (4) depict regressions conducted with control variables. The regressions in the last four columns incorporate year fixed effects and firm fixed effects.

Table 3. Mechanism analyses

	(1) ERD	(2) ERD	(3) AuditFee	(4) AuditFee
D	1.1412** (0.5119)	1.1158** (0.5123)	0.306 (0.2078)	0.4252** (0.2059)
ERD	-	-	-0.0079** (0.0035)	-0.0077** (0.0035)
BMratio		-0.0238 (0.0428)		0.2267*** (0.0172)
TOP1		-0.0005 (0.001)		-0.0016*** (0.0004)
Opinion		-0.0952** (0.0468)		-0.0919*** (0.0188)
digital		-18.765*** (7.1059)		16.9817*** (2.8562)
WW		0.0002 (0.0001)		-0.0001 (0.0001)
SOE		0.0402 (0.0476)		0.1078*** (0.0191)
_cons	2.4564*** (0.006)	2.5718*** (0.0656)	13.8307*** (0.009)	13.7887*** (0.0279)
Year _{FE} -s	YES	YES	YES	YES

Table 3, Continued

	(1) ERD	(2) ERD	(3) AuditFee	(4) AuditFee
Firm _{FE} -s	YES	YES	YES	YES
Observations	15,925	15,925	15,925	15,925
Adj. R-squared	0.3858	0.3862	0.8717	0.8744

Note: ***p < 0.01; **p < 0.05; *p < 0.1

Source: created by the authors

The writers primarily concentrate on the coefficient of D in Columns (1) and (2). The authors primarily concentrate on the coefficients of both D and ERD for Columns (3) and (4). The distraction of institutional investors has a statistically significant and beneficial impact on the level of disagreement in ESG ratings. This effect is statistically significant at a significance level of 5%. Upon introducing control variables in Column (4), the coefficient representing the direct influence of D on audit fees is 0.4252. This coefficient is statistically significant at the 5% level of significance. The regression coefficient for the effect of ERD on audit fees is -0.0077, which is statistically significant at the 5% level of significance. In addition, based on the previously described primary results, the overall effect coefficient of variable D on audit fees is 0.4167, and it is statistically significant at the 5% level of significance. The distraction of institutional investors directly increases audit fees, but their distraction, mediated via ESG rating disagreement, decreases audit fees. Nevertheless, the mediating effect is insufficient to fully counterbalance the direct favourable influence of institutional investors' preoccupation on audit fees. Hence, the overall impact is favourable, and the difference in ESG ratings partially mediates the relationship between institutional investors' attention and the increase in audit fees. The regression analysis confirms hypothesis H2, demonstrating the validity of the mediating role of ESG rating disagreement as an intermediate variable.

The following are a set of rigorous tests conducted to verify that the authors' primary findings remain valid while altering the model's parameters. Initially, authors modify

the control variables of the model. The authors' objective is to verify that, following the manipulation of the control variables, the coefficient of the primary explanatory variable, institutional investors' distraction, stays positive and statistically significant. The new control variables are defined in the following manner. The acronym SA stands for the financial constraints index. TOBINQ_A is a financial metric that calculates a company's market value by dividing it by the entire value of its assets. Indep represents the ratio of independent directors, which is determined by dividing the number of independent directors by the total number of board members. DUVOL is a variable introduced by T. Cen (2023) to quantify the danger of a stock price drop. The variable "Employee" represents the natural logarithm of the total number of employees in the company. PV, short for-profit volatility, is a metric that can assess a company's ability to withstand and adapt to risks. Column (1) displays the regression outcome for the previous model, whereas Column (2) presents the regression outcome for the model that modifies the control variables (Table 4).

Upon modifying the control variables, the coefficient of the primary explanatory variable D is determined to be 0.3721, exhibiting statistical significance at the 5% level of significance. The ERD coefficient continues to be negative, but the significance level has now changed to 10%. This suggests that the statistically significant favourable impact of institutional investors' distraction on audit fees is unchanged after the adjustment of control variables. This implies that the main finding of this study is reliable and resistant to changes.

Table 4. Altering control variables

	Former Eq. (1) AuditFee		Altered Eq. (2) AuditFee
D	0.4252** (0.2059)	D	0.3721** (0.1877)
ERD	-0.0077** (0.0035)	ERD	-0.0062* (0.0032)
BM-ratio	0.2267*** (0.0172)	SA	-0.0132 (0.0376)
TOP1	-0.0016*** (0.0004)	TOBINQ_A	-0.016*** (0.0021)
Opinion	-0.0919*** (0.0188)	Indep	-0.0023*** (0.0006)
digital	16.9817*** (2.8562)	DUVOL	-0.0065 (0.0044)
WW	-0.0001 (0.0001)	Employee	0.2668*** (0.0051)

Table 4, Continued

	Former Eq. (1) AuditFee		Altered Eq. (2) AuditFee
SOE	0.1078*** (0.0191)	PV	0.4803*** (0.0625)
_cons	13.7887*** (0.0279)	_cons	11.7347*** (0.1516)
Year _{FE} -s	YES	Year FEs	YES
Firm _{FE} -s	YES	Firm FEs	YES
Observations	15,925	Observations	15,922
Adj. R-squared	0.8744	Adj. R-squared	0.8956

Note: ***p < 0.01; **p < 0.05; *p < 0.1

Source: created by the authors

Considering the endogeneity issue arising from the bidirectional causal relationship between distraction and audit fees, i.e., whether institutional investors' distraction leads to increased misconduct, resulting in increased audit fees, or increased audit fees lead institutional investors to perceive increased audit quality, increased auditor attention, thus reducing their focus on the company (Rachwal-Mueller *et al.*, 2023). Therefore, lagging institutional investors' distraction is considered. The first column represents institutional investors' distraction without lag, the second column represents institutional investors' distraction lagged by one period, and the third

column represents institutional investors' distraction lagged by two periods.

According to Table 5, as the lag order of D increases, the coefficient of the main explanatory variable D changes from 0.4252 to 0.4855, and subsequently to 0.595. Furthermore, all of them are statistically significant at the 5% level. The coefficient of ERD maintains a negative value, however, as the lag order of D increases, the coefficient of ERD gradually transitions from being statistically significant to statistically insignificant. This suggests that the primary research results of this study remain strong even after accounting for the problem of bidirectional causality.

Table 5. Changing the lag order of D

	(1) AuditFee	(2) AuditFee	(3) AuditFee
D	0.4252** (0.2059)		
D lagged one period		0.4855** (0.2226)	
D lagged two period			0.595*** (0.2178)
ERD	-0.0077** (0.0035)	-0.0063* (0.0037)	-0.0007 (0.0037)
BM-ratio	0.2267*** (0.0172)	0.1926*** (0.0193)	0.19*** (0.02)
TOP1	-0.0016*** (0.0004)	-0.0024*** (0.0005)	-0.0006 (0.0005)
Opinion	-0.0919*** (0.0188)	-0.0927*** (0.0211)	-0.0934*** (0.0212)
Digital	16.9817*** (2.8562)	12.0936*** (2.7678)	4.6393* (2.792)
WW	-0.0001 (0.0001)	0.0009* (0.0005)	0.0009* (0.0005)
SOE	0.1078*** (0.0191)	0.1394*** (0.0214)	0.1323*** (0.0215)
_cons	13.7887*** (0.0279)	13.9048*** (0.0313)	13.8757*** (0.0322)
Year _{FE} -s	YES	YES	YES
Firm _{FE} -s	YES	YES	YES
Observations	15,925	12,491	11,066
Adj. R-squared	0.8744	0.8930	0.9002

Note: ***p < 0.01; **p < 0.05; *p < 0.1

Source: created by the authors

To assess the potential influence of the duration and specific years of the sample period on the primary outcome of this study, the authors performed regression analyses examining variations in the temporal span of the sample. The findings of the regression analysis are displayed in Table 6. The study's sample period covers a duration of 14 years, specifically from 2010 to 2023, as indicated in Column (1) of the regression results. The time span of column (2) is 8 years, ranging from 2010 to 2017. Column (3) represents a time period of 9 years, specifically from 2011 to 2019. Column (4) covers a duration of 5 years,

specifically from 2014 to 2018. According to the results, when the time period is altered, all coefficients of D are positive and have a statistically significant impact at the 5% level. The coefficients of ERD exhibit a consistently negative trend throughout all time periods, with statistical significance observed in certain time spans while lacking statistical significance in others. Considering the differences between high-tech and non-high-tech companies, this study classifies the firms in the sample according to the method of Q. Shi *et al.* (2020). Regression results are shown in Column (1) and Column (2) of Table 7.

Table 6. Altering the time interval

	2010-2023 (1) AuditFee	2010-2017 (2) AuditFee	2011-2019 (3) AuditFee	2014-2018 (4) AuditFee
D	0.4252** (0.2059)	0.6576*** (0.2187)	0.4405** (.2226)	0.5024** (0.2532)
ERD	-0.0077** (0.0035)	-0.0063 (0.0039)	-0.0085** (0.0037)	-0.0027 (0.0041)
BM-ratio	0.2267*** (0.0172)	0.2693*** (0.022)	0.2772*** (0.0203)	0.3241*** (0.0269)
TOP1	-0.0016*** (0.0004)	-0.0027*** (0.0005)	-0.0016*** (0.0005)	0.0005 (0.0006)
Opinion	-0.0919*** (0.0188)	-0.0175 (0.0253)	-0.0841*** (0.0204)	-0.0359 (0.0242)
Digital	16.9817*** (2.8562)	12.0637*** (4.0879)	15.1938*** (3.4592)	18.2345*** (6.0091)
WW	-0.0001 (0.0001)	0 (0.0001)	-0.0001 (0.0001)	-0.0792*** (0.0203)
SOE	0.1078*** (0.0191)	-0.0099 (0.0304)	0.0912*** (0.0248)	0.1289*** (0.0352)
_cons	13.7887*** (0.0279)	13.6272*** (0.0376)	13.7116*** (0.0319)	13.4886*** (0.0434)
Year _{FE} -s	YES	YES	YES	YES
Firm _{FE} -s	YES	YES	YES	YES
Observations	15,925	10,080	12,124	7,487
Adj. R-squared	0.8744	0.8920	0.8876	0.9190

Note: ***p < 0.01; **p < 0.05; *p < 0.1

Source: created by the authors

Table 7. Further research

	Non-High-Tech (1) AuditFee	High-Tech (2) AuditFee	Heavily-polluted (3) AuditFee	Non-heavily-polluted (4) AuditFee	Low-CFV (5) AuditFee	High-CFV (6) AuditFee
D	0.5076** (0.2558)	0.1438 (0.3154)	0.7842** (0.3132)	0.1887 (0.2614)	0.9597*** (0.308)	0.0952 (0.3049)
ERD	-0.0019 (0.0044)	-0.0134** (0.0052)	-0.0041 (0.0054)	-0.0073* (0.0044)	-0.0111** (0.0052)	-0.0058 (0.0052)
BM-ratio	0.1661*** (0.0221)	0.2774*** (0.026)	0.1619*** (0.0284)	0.2145*** (0.0213)	0.2072*** (0.0257)	0.2125*** (0.0265)
TOP1	-0.0019*** (0.0005)	-0.0017*** (0.0006)	0.0018*** (0.0007)	-0.0038*** (0.0005)	-0.003*** (0.0007)	0.0002 (0.0006)
Opinion	-0.0761*** (0.0244)	-0.1132*** (0.0281)	-0.0811*** (0.0306)	-0.105*** (0.0233)	-0.0707** (0.0327)	-0.0727*** (0.0255)
Digital	36.9642*** (5.0792)	-0.6694 (3.276)	32.7162*** (9.0408)	10.6926*** (2.9932)	3.898 (3.0141)	51.7648*** (8.6298)
WW	0 (0.0001)	-0.6716*** (0.0611)	-0.4871*** (0.0507)	-0.0001 (0.0001)	-0.0001 (0.0001)	0.0008 (0.0005)

Table 7, Continued

	Non-High-Tech (1) AuditFee	High-Tech (2) AuditFee	Heavily-polluted (3) AuditFee	Non-heavily-polluted (4) AuditFee	Low-CFV (5) AuditFee	High-CFV (6) AuditFee
SOE	0.0232 (0.0252)	0.2401*** (0.0285)	0.2235*** (0.0357)	0.0548** (0.0224)	0.1033*** (0.0285)	0.1016*** (0.0293)
_cons	13.9092*** (0.0374)	12.9893*** (0.0713)	13.1029*** (0.0665)	13.9169*** (0.0346)	13.9135*** (0.047)	13.6623*** (0.039)
Year FEs	YES	YES	YES	YES	YES	YES
Firm FEs	YES	YES	YES	YES	YES	YES
Observations	9,106	6,701	5,341	10,500	7,357	7,630
Adj. R-squared	0.8929	0.8654	0.8831	0.8800	0.9068	0.8535

Note: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$; CFV – compression force variation

Source: created by the authors

The influence of D on audit fees is both statistically significant and favourable for non-high-tech organisations. On the other hand, although ERD has a negative impact on audit fees, it is not statistically significant. The influence of ERD on audit fees for high-tech enterprises is both statistically significant and negative, whereas the influence of D on audit fees is not statistically significant but positive. High-tech firms, with their increased scrutiny from auditors and external stakeholders, as well as their high level of financial transparency, are not greatly influenced by the distraction of institutional investors. Therefore, the coefficient of D is not statistically significant. For enterprises that are not in the high-tech industry, the situation is quite different. This outcome validates hypothesis H3.

Table 8 displays the regression outcomes for enterprises that are heavily-polluted and non-heavily-polluted in columns (3) and (4) accordingly. The regressions were performed to evaluate hypothesis H4. The companies in the sample are categorised into heavily-polluted and non-heavily-polluted groups. Both heavily-polluted and non-heavily-polluted enterprises exhibit a negative coefficient of ERD, however there are variations in the significance levels. The effect of variable D on audit fees for heavy industry companies is 0.7842, and this effect is statistically significant at a significance level of 5%. This outcome validates hypothesis H4. The statement suggests that when institutional investors are preoccupied with heavily-polluted enterprises, it results in higher audit fees. This phenomenon may occur in companies that are extensively contaminated, as a result of the specific characteristics of the industry. In such cases, the attention of investors plays a crucial role in overseeing and influencing the decision-making and behaviour of these companies. When the level of supervision falls, individuals are more prone to engaging in unethical activities such as earning management and value-destructive acquisitions. This, in turn, results in higher audit costs.

The calculation of cash flow volatility allows for the assessment of a company's level of risk resilience. Cash flow volatility refers to the fluctuation in cash flow throughout a certain time period. It is measured by the three-year volatility of the ratio of operating net cash flow to total assets. Cash flow volatility is characterised as a dynamic standard

deviation. The authors' sample has a median CFV value of 0.03212. Authors utilise this method to partition the observations in the sample into distinct categories. A corporation is classified as part of the High-CFV group if its CFV exceeds 0.03212. Conversely, a company is classified as part of the Low-CFV group if its CFV does not exceed 0.03212. Column (5) displays the regression outcomes for the Low-CFV group, while Column (6) exhibits the results for the High-CFV group. Regardless of whether it is the High-CFV group or the Low-CFV group, the coefficient of D is positive and the coefficient of ERD is negative. In the low-CFV group, the main explanatory variable D has a coefficient of 0.9597 on audit fees. This coefficient is statistically significant at the 1% level of significance. This proves that hypothesis H5 is valid. Institutional investors typically act as shareholders to supervise and ensure the normal financial condition of companies. For companies with high CFV, they already attract more attention from investors and auditors due to greater operational uncertainty. Therefore, whether institutional investors' attention decreases or not may not significantly impact the companies' behaviours.

However, for companies with low CFV, the low cash flow volatility may create an illusion of good corporate performance for investors. If institutional investors' attention decreases and certain actions taken by the company lead to increased operational risks, auditors may need to increase audit workload to oversee these additional risks.

Discussion

In the scientific doctrine, there are different approaches and positions regarding the study of the activity of institutional investors, including taking into account the ESG rating. For example, in their study, R.A. Zahid *et al.* (2022) clarified the importance of audit quality in the correlation between ESG indicators. Therefore, this study also examined the mentioned indicators and determined the correlation between them. The researchers conducted the study by analysing the actions of companies in Western Europe, which revealed significant characteristics in the data obtained. The research confirmed a direct correlation between ESG indicators and financial performance of organizations. This is because organizations with better ESG indicators show

higher profitability, efficiency and market capitalization. Thus, this finding is prevalent in both studies. In addition, it was emphasized that audit quality enhances the favourable impact of ESG performance on organizations' financial performance. Taking this into account, it was found that high audit quality contributes to greater credibility and transparency of non-financial reporting, which helps investors better assess the company's risks and prospects (Berest & Sablina, 2024). Common between the findings in both studies is the evidence of the priority role of audit quality for large companies and companies with high institutional ownership, since the need for high-quality independent control is more critical in these entities. It was separately emphasized that among the various elements of audit quality, the specific industry expertise of the audit firm has the greatest impact on strengthening the ESG-finance connection. Thus, the results in both studies highlight the importance of engaging high-quality audit firms to ensure proper verification and validation of ESG reporting, which will help investors make more informed decisions.

In a study conducted by P. Velte (2023), it was discovered that various categories of institutional investors exert distinct influences on the sustainable progress of organisations. It is worth noting that this result is similar to what was obtained during the conduct of this study. In this case, it should be noted that the main drivers of institutional investors to promote corporate sustainability are financial considerations, compliance with regulatory requirements and pressure from the investors' beneficiaries/clients. Comparing the results of this study and the conclusions of the researcher, it can be established that the influence of institutional investors on the sustainability of companies occurs through various mechanisms, such as voting at shareholder meetings, direct dialogue with management, and threats of divestment. Based on this, the strength of influence of institutional investors on corporate sustainability depends on their size, concentration of ownership and investment horizon. The findings of both studies reveal gaps in the performance of some types of institutional investors, especially hedge funds, in their impact on environmental and social aspects of sustainable development. This indicates the need to improve relationships between such entities and specific practices of corporate sustainability.

J.M. Asamoah *et al.* (2022) examined how institutional investors' distractions impact the capital structure decisions of enterprises in Great Britain. The researchers discovered a direct correlation between the diversion of institutional investors and the amount of debt held by enterprises. In particular, if institutional investors pay less attention to monitoring companies due to other events in their portfolio, then managers are more inclined to accumulate debt. This conclusion is common to both studies. In particular, this study highlighted that the distraction effect of institutional investors is more pronounced for companies with weaker corporate governance mechanisms, such as fewer independent boards of directors and lower audit quality. Based on this, the distraction of institutional

investors leads to the growth of both secured and unsecured debt of companies, which indicates the abuse of various types of debt instruments by managers. Both studies found no evidence that displacing institutional investors encourages companies to accumulate debt to finance future growth or investment. Thus, the common findings are that higher levels of debt during investor distraction are likely to be the result of weaker monitoring and opportunistic behaviour by managers seeking private control benefits.

A. Afzali *et al.* (2024) examined the influence of auditors' diversions on their audit efforts and the accuracy of accounting data in organisations. As a result, a negative relationship between auditor distraction (when they are involved in several important tasks at the same time) and audit effort invested in a specific audit was revealed. This was also mentioned during the conduct of this study, in particular, it was established that the reduction of audit efforts due to the distraction of auditors leads to the deterioration of the quality of accounting data, which is manifested in the increase of discretionary charges. A common finding among the studies is that the effect of auditor distraction is particularly pronounced for clients with a high degree of risk, such as companies with financial difficulties, high business uncertainty or complex transactions.

According to S. El Ghouli *et al.* (2023), the presence of specialized industry knowledge in the audit team also helps to reduce the negative effects of auditor distraction. Thus, the results of both studies allow us to emphasize the importance of the proper allocation of audit resources and attention, as well as the need for industry expertise to ensure a quality audit. It should be noted that the common conclusion is that the distraction of auditors can threaten the quality of the audit and the reliability of the financial statements of companies, especially for high-risk clients. That is why special attention was paid to revealing the importance of intelligent management of audit resources and focusing the activities of auditors on the risks of individual clients.

Y. Liu *et al.* (2023) investigated the impact of mutual fund diversion as institutional investors on the gap between companies' ESG performance claims and actual ESG performance in China. It is worth emphasizing that the experience of China was also used during this study, which caused similar results to be obtained. In particular, both studies revealed a positive relationship between mutual fund diversion and the ESG gap (the difference between stated and actual ESG performance) in portfolio companies. It has been found that when mutual funds are distracted by important events in other portfolio companies, this weakens their monitoring of ESG practices, allowing companies to overstate ESG claims relative to actual performance. Common among studies is the conclusion that such an effect is most pronounced in companies with weaker corporate governance, less transparency, and lower audit quality. Thus, excessive discrepancies in ESG reporting during periods of investor distraction are associated with worse long-term financial performance for companies.

The results of the aforementioned study emphasize the importance of active surveillance and institutional investor engagement to ensure that companies' non-financial reporting is transparent and credible. In addition, they emphasize that distracting mutual funds from scrutinizing ESG practices can lead corporations to falsely boost sustainability performance, deceive investors, and potentially undermine market confidence.

Conclusions

Institutional investors' distraction often leads to activities that may result in value destruction behaviours of companies, increasing the scrutiny task for auditors and consequently raising audit fees. As ESG ratings increasingly become one of the crucial factors for investors in assessing the investment value of companies, the ESG rating disagreement due to different rating agency standards have also garnered considerable attention. This paper focus on the advantages of ESG rating disagreement, which indicates the differing standards among rating companies and the varying information collected from corporate disclosures. Companies graded by different ESG rating agencies experience an improvement in financial transparency to some extent. The main exploration of this paper is about whether the disagreement in ESG rating can play an intermediary role in the pathway leading from institutional investors' distraction to increased audit fees.

The findings of the study can be summarized in the following areas. First, institutional investor distraction leads to higher audit fees. Moreover, disagreement in ESG estimates negatively mediates the relationship between institutional investor distraction and subsequent increases in audit fees. In organizations that are not high-tech, do not pollute the environment to a large extent, and have low cash flow volatility, the impact of institutional investor

concerns on audit fee increases is more pronounced. The primary result of this study remains statistically significant after a number of rigorous checks to ensure its reliability.

This paper contends that the ESG rating disagreement indicates that different ESG rating agencies can evaluate companies from various perspectives. Moreover, through the rating process, they provide a certain level of oversight on a company's commitment to environmental protection and social responsibility. Therefore, the increase in auditor workload due to institutional investors' distraction would be mitigated by the mediating effect of ESG rating disagreement. The study concludes that ESG rating disagreement helps to provide auditors with ESG-related information, which is beneficial in reducing auditing workload and lowering audit fees of companies.

Future research can examine the long-term effects of institutional investor distraction on various financial and operational aspects of firms other than audit fees, such as corporate governance practices and overall financial performance. In addition, studying the role of different types of institutional investors such as hedge funds and pension funds in moderating the effect of distraction can provide deeper insights. Comparative studies across different markets and regions can also shed light on how cultural and regulatory environments influence these dynamics. Examining the effectiveness of specific ESG rating methodologies in different contexts can deepen understanding of their role in corporate transparency and accountability.

Acknowledgements

None.

Conflict of Interest

None.

References

- [1] Afzali, A., Afzali, M., & Ittonen, K. (2024). Distracted auditors, audit effort, and earnings quality. *Accounting Forum*, 1-30. [doi: 10.1080/01559982.2024.2329350](https://doi.org/10.1080/01559982.2024.2329350).
- [2] Asamoah, J.M., Dak-Adzaklo, C.S.P., & Oforu, E. (2022). Institutional investors distraction and debt choice. *Managerial Finance*, 48(5), 706-719. [doi: 10.1108/MF-12-2021-0601](https://doi.org/10.1108/MF-12-2021-0601).
- [3] Avramov, D., Cheng, S., Lioui, A., & Tarelli, A. (2022). Sustainable investing with ESG rating uncertainty. *Journal of Financial Economics*, 145(2), 642-664. [doi: 10.1016/j.jfineco.2021.09.009](https://doi.org/10.1016/j.jfineco.2021.09.009).
- [4] Berest, M., & Sablina, N. (2024). Evaluation of the effectiveness of strategic and tactical controlling based on the analysis of the company's financial reports. *Development Management*, 23(1), 8-18. [doi: 10.57111/devt/1.2024.08](https://doi.org/10.57111/devt/1.2024.08).
- [5] Billio, M., Costola, M., Hristova, I., Latino, C., & Pelizzon, L. (2021). Inside the ESG ratings: (Dis)agreement and performance. *Corporate Social Responsibility and Environmental Management*, 28(5), 1426-1445. [doi: 10.1002/csr.2177](https://doi.org/10.1002/csr.2177).
- [6] Broadstock, D.C., Chan, K., Cheng, L.T., & Wang, X. (2020). The role of ESG performance during times of financial crisis: Evidence from COVID-19 in China. *Finance Research Letters*, 38, article number 101716. [doi: 10.1016/j.frl.2020.101716](https://doi.org/10.1016/j.frl.2020.101716).
- [7] Campbell, J.L., Mauler, L.M., & Pierce, S.R. (2019). A review of derivatives research in accounting and suggestions for future work. *Journal of Accounting Literature*, 42(1), 44-60. [doi: 10.1016/j.acclit.2019.02.001](https://doi.org/10.1016/j.acclit.2019.02.001).
- [8] Cen, T. (2023). Green finance reform and stock price crash risk: Evidence from Chinese heavily polluting companies. *Finance Research Letters*, 56, article number 104133. [doi: 10.1016/j.frl.2023.104133](https://doi.org/10.1016/j.frl.2023.104133).
- [9] Chan, D.K., Li, X., & Xin, Q. (2021). Institutional investor inattention and audit quality. *Journal of Accounting and Public Policy*, 40(3), article number 106857. [doi: 10.1016/j.jaccpubpol.2021.106857](https://doi.org/10.1016/j.jaccpubpol.2021.106857).

- [10] Chen, T., Kamiya, S., Lou, P., & Milidonis, A. (2023). *Analyst coverage, executive compensation and corporate risk-taking: evidence from property-casualty insurance firms*. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3778633.
- [11] Christensen, D.M., Serafeim, G., & Sikochi, A. (2021). *Why is corporate virtue in the eye of the beholder? The case of ESG ratings*. Retrieved from https://www.hbs.edu/ris/Publication%20Files/20-084_6c5b0248-d117-4049-baad-c0e1877eb537.pdf.
- [12] Cookson, J.A., & Niessner, M. (2019). Why don't we agree? Evidence from a social network of investors. *The Journal of Finance*, 75(1), 173-228. doi: 10.1111/jofi.12852.
- [13] El Ghouli, S., Guedhami, O., Mansi, S.A., & Yoon, H.J. (2023). Institutional investor attention, agency conflicts, and the cost of debt. *Management Science*, 69(9), 5596-5617. doi: 10.1287/mnsc.2022.4593.
- [14] Escrig-Olmedo, E., Fernández-Izquierdo, M.Á., Ferrero-Ferrero, I., Rivera-Lirio, J.M., & Muñoz-Torres, M.J. (2019). Rating the raters: Evaluating how ESG rating agencies integrate sustainability principles. *Sustainability*, 11(3), article number 915. doi: 10.3390/su11030915.
- [15] Garel, A., Martin-Flores, J.M., Petit-Romec, A., & Scott, A. (2021). Institutional investor distraction and earnings management. *Journal of Corporate Finance*, 66, article number 101801. doi: 10.1016/j.jcorpfin.2020.101801.
- [16] Gibson Brandon, R., Krueger, P., & Schmidt, P.S. (2021). ESG rating disagreement and stock returns. *Financial Analyst Journal*, 77(4), 104-127. doi: 10.1080/0015198X.2021.1963186.
- [17] Horbal, N., & Makarova, Yu. (2023). Eco-innovations for sustainable development of Ukrainian enterprises. *Economics, Entrepreneurship, Management*, 10(1), 30-39. doi: 10.56318/eem2023.01.030.
- [18] Kempf, E., Manconi, A., & Spalt, O. (2017). Distracted shareholders and corporate actions. *The Review of Financial Studies*, 30(5), 1660-1695. doi: 10.1093/rfs/hhw082.
- [19] Liepert, M. (2024). Increasing the EBITDA of private equity portfolio company through digital enablement. *Economics of Development*, 23(1), 70-77. doi: 10.57111/econ/1.2024.70.
- [20] Liu, Y., Li, W., & Meng, Q. (2023). Influence of distracted mutual fund investors on corporate ESG decoupling: Evidence from China. *Sustainability Accounting, Management and Policy Journal*, 14(1), 184-215. doi: 10.1108/SAMPJ-10-2021-0401.
- [21] Nakipova, G., Mazhitova, S., Gelmanova, Z., Kudaibergenova, S., Saparova, B., & Kuvatova, A. (2023). Competitiveness of the regional economy on the example of ESG Technologies and their impact on the tourism industry. *Montenegrin Journal of Economics*, 19(4), 199-210. doi: 10.14254/1800-5845/2023.19-4.17.
- [22] Ni, X., Peng, Q., Yin, S., & Zhang, T. (2020). Attention! Distracted institutional investors and stock price crash. *Journal of Corporate Finance*, 64, article number 101701. doi: 10.1016/j.jcorpfin.2020.101701.
- [23] Novytkova, I., Chorny, R., Chorna, N., Malik, M., & Rybak, A. (2023). Ensuring of financial stability of the enterprise by financial management tools. *Lecture Notes in Networks and Systems*, 487, 783-792. doi: 10.1007/978-3-031-08084-5_56.
- [24] Rachwal-Mueller, A., Fedotova, I., Bocharova, N., & Azarenkov, G. (2023). ESPEG model and corporate governance system for ensuring sustainable development of enterprises. *Development Management*, 22(3), 8-20. doi: 10.57111/devt/3.2023.08.
- [25] Shen, H., Lin, H., Han, W., & Wu, H. (2023). ESG in China: A review of practice and research, and future research avenues. *China Journal of Accounting Research*, 16(4), article number 100325. doi: 10.1016/j.cjar.2023.100325.
- [26] Shi, Q., Xiao, S., Chang, K., & Wu, J. (2021). Stock option, contract elements design and corporate innovation output – An analyse based on risk-taking and performance-based incentives. *Nankai Business Review International*, 12(4), 574-598. doi: 10.1108/NBRI-09-2020-0045.
- [27] Tkachenko, A., Levchenko, N., Pozhueva, T., Sevastyanov, R., & Levchenko, S. (2023). Modified assessment methodology ESG competitiveness of enterprises to a new generation of investors. *IOP Conference Series: Earth and Environmental Science*, 1254(1), article number 012126. doi: 10.1088/1755-1315/1254/1/012126.
- [28] Velte, P. (2023). Which institutional investors drive corporate sustainability? A systematic literature review. *Business Strategy and the Environment*, 32(1), 42-71. doi: 10.1002/bse.3117.
- [29] Whited, T.M., & Wu, G. (2006). Financial constraints risk. *The Review of Financial Studies*, 19(2), 531-559. doi: 10.1093/rfs/hhj012.
- [30] Yang, J., Wu, H., & Yu, Y. (2021). Distracted institutional investors and audit risk. *Accounting & Finance*, 61(3), 3855-3881. doi: 10.1111/acfi.12718.
- [31] Zahid, R.A., Khan, M.K., Anwar, W., & Maqsood, U.S. (2022). The role of audit quality in the ESG-corporate financial performance nexus: Empirical evidence from Western European companies. *Borsa Istanbul Review*, 22, 200-212. doi: 10.1016/j.bir.2022.08.011.

Відволікання уваги інституційних інвесторів та витрати на аудит: посередницький ефект розбіжностей в ESG-рейтингах

Ілань Чен

Магістр, аспірант

*Австралійський національний університет
2601, Східна дорога, м. Канберра, Австралія
<https://orcid.org/0009-0009-3276-1326>*

Юань Лі

Магістр, аспірант

*Австралійський національний університет
2601, Східна дорога, м. Канберра, Австралія
<https://orcid.org/0009-0008-1091-6967>*

Анотація. Зростаюча увага до питань сталого розвитку та відповідальної корпоративної поведінки робить аналіз впливу інституційних інвесторів на оплату аудиторських послуг надзвичайно важливим для забезпечення прозорості та достовірності нефінансової звітності компаній у сучасних умовах. Метою дослідження було виявити ступінь впливу інституційних інвесторів на оплату аудиторських послуг китайських компаній на основі екологічних, соціальних та управлінських (ESG) рейтингів. Для проведення дослідження було використано метод вибірки, спостереження, аналізу, опису статистичних характеристик. Результати свідчать про значний зв'язок між відволіканням уваги інституційних інвесторів та збільшенням плати за аудит, спричиненим розбіжностями в ESG-рейтингах. Це підкреслює критичну роль нагляду з боку інвесторів у підтримці якості аудиту та контролі витрат. Хоча розбіжності в ESG-рейтингах надають аудиторам більше інформації, тим самим зменшуючи аудиторське навантаження та гонорари, цього ефекту недостатньо, щоб компенсувати загальне зростання гонорарів за аудит через відволікання уваги інвесторів. Ефект є більш вираженим для низькотехнологічних компаній, компаній, що сильно забруднюють довкілля, та компаній з меншою волатильністю грошових потоків, що робить їх більш вразливими до посиленої аудиторської перевірки та вищих гонорарів. Різні відмінності в ESG-рейтингах, включаючи екологічні, соціальні та управлінські аспекти, слугують ключовими факторами-посередниками, що підкреслює важливість врахування цих відмінностей при оцінці аудиторського ризику та визначенні гонорарів. Результати, отримані в ході роботи, можуть бути використані для вдосконалення методології ESG-рейтингу, а саме для підвищення прозорості та зменшення інформаційної асиметрії на фондовому ринку

Ключові слова: корпоративне управління; оцінка ризиків; корпоративне управління; увага інвесторів; сталий розвиток
