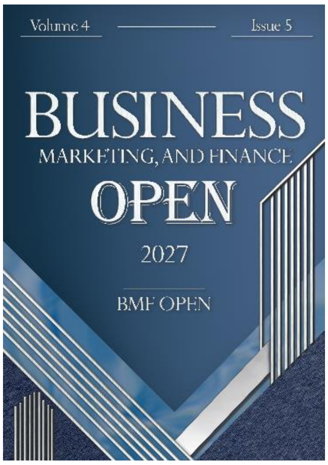
Examining the Effect of Sustainability and Corporate Social Responsibility Disclosure on Reporting Quality and Economic Sustainability in Companies Listed on the Tehran Stock Exchange



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Abstract: This study examines the effect of corporate social responsibility and corporate sustainability disclosure on financial reporting quality among companies listed on the Tehran Stock Exchange. The research sample consisted of 120 companies over the 2019–2024 period. Financial reporting quality was measured using the absolute value of discretionary accruals, and a fixed-effects panel data regression model was employed to test the hypotheses. The results indicated that corporate social responsibility and sustainability disclosure had a negative and statistically significant effect on discretionary accruals, meaning that a higher level of disclosure was associated with improved financial reporting quality. Sales growth, loss status, and firm age also had significant effects on financial reporting quality, whereas firm size, financial leverage, and return on assets were not statistically significant. Overall, the findings indicate that strengthening corporate social responsibility and sustainability disclosure can reduce earnings management and enhance financial reporting transparency.

Keywords: corporate social responsibility and sustainability disclosure, financial reporting quality, discretionary accruals, panel data, Tehran Stock Exchange

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1. Introduction

The scope of corporate reporting has expanded considerably beyond the traditional presentation of financial statements. Investors, creditors, regulators, employees, customers, and other stakeholders increasingly require information about the environmental, social, governance, and economic consequences of corporate activities. Conventional accounting reports remain essential for evaluating profitability, liquidity, solvency, and cash-flow-generating capacity; however, they do not fully reflect many nonfinancial risks, intangible resources, stakeholder relationships, and long-term strategic commitments that influence corporate value. Sustainability and corporate social responsibility disclosure has therefore become an important component of the corporate information environment, enabling firms to communicate how they manage social and environmental effects, respond to stakeholder expectations, and pursue sustainable value creation. Voluntary nonfinancial reporting may also reduce information asymmetry and improve investors' assessment of corporate risk, future cash flows, and the cost of capital [1].

Corporate social responsibility refers to the economic, legal, ethical, social, and environmental obligations of firms toward a broad range of stakeholders. Corporate sustainability similarly emphasizes the capacity of an organization to create economic value while protecting social welfare, environmental resources, institutional legitimacy, and its long-term operational viability. Although corporate social responsibility and sustainability are conceptually distinct, they substantially overlap in corporate reporting practice because both require firms to explain the broader consequences of their decisions. Sustainability disclosure may therefore include information concerning energy consumption, pollution control, waste management, employee welfare, occupational health and safety, customer rights, community engagement, professional ethics, corporate governance, legal compliance, and economic accountability. The extent of such disclosure is influenced by firm characteristics and governance mechanisms because companies differ in their resources, visibility, stakeholder exposure, and managerial incentives [2].

The growing demand for sustainability information is closely connected with the need to improve corporate transparency and accountability. Stakeholders increasingly assess companies not only on the basis of reported earnings but also according to the consistency between their financial performance, social conduct, governance quality, and environmental responsibilities. A company that presents itself as socially responsible is expected to adopt transparent reporting practices and avoid conduct that could mislead capital-market participants. Accordingly, sustainability disclosure may serve as an observable expression of organizational values, managerial integrity, and commitment to long-term accountability. Empirical evidence suggests that firms with stronger corporate social responsibility performance may exhibit higher earnings quality because socially responsible conduct can discourage opportunistic reporting behavior and strengthen the credibility of accounting information [3].

Financial reporting quality refers to the extent to which accounting information faithfully represents a company's underlying economic position and performance and supports informed decision-making. High-quality reporting is expected to be relevant, reliable, timely, comparable, understandable, and relatively free from material error or managerial bias. Nevertheless, accounting standards necessarily permit judgment in areas such as revenue recognition, provisions, asset valuation, impairment, useful-life estimation, and the timing of expenses. Managerial judgment may be used to communicate private information and improve the informativeness of earnings, but it can also be employed opportunistically to alter reported performance. Consequently, the quality of accounting earnings depends not only on formal compliance with accounting standards but also on the incentives, ethical orientation, governance structure, and reporting behavior of managers [4].

Accrual-based earnings management is among the most frequently examined threats to financial reporting quality. Managers may use discretionary accruals to avoid reporting losses, meet earnings forecasts, comply with debt covenants, influence executive compensation, reduce regulatory pressure, or shape investors' perceptions of corporate performance. When such discretion is exercised opportunistically, reported earnings become less representative of the firm's actual economic circumstances. The absolute value of discretionary accruals is therefore widely used as an inverse indicator of financial reporting quality, with larger values generally reflecting greater managerial intervention and lower-quality accounting information. Research on corporate social responsibility has shown that socially responsible behavior may affect both discretionary accruals and real earnings-management practices, although managerial responses may vary according to institutional constraints and economic incentives [4].

Stakeholder theory provides an important theoretical explanation for the expected association between sustainability disclosure and financial reporting quality. Under this theory, companies are accountable not only to shareholders but also to employees, customers, creditors, suppliers, governments, communities, and environmental stakeholders. Firms that recognize the interests of these groups are expected to emphasize fairness, accountability, transparency, and the preservation of long-term relationships. Opportunistic earnings management can harm stakeholders by distorting their evaluation of risk, performance, and corporate value; therefore, companies with a stronger stakeholder orientation may be less willing to manipulate financial information. International evidence indicates that corporate social responsibility can be associated with lower earnings management, although this relationship may depend on investor protection and the broader institutional environment [5, 6].

Legitimacy theory offers a complementary perspective by emphasizing the importance of social acceptance for organizational survival. Companies seek to demonstrate that their operations are consistent with prevailing social norms, ethical expectations, and regulatory requirements. Sustainability and corporate social responsibility disclosure can help firms explain their activities, respond to public concerns, and maintain legitimacy. However, this theoretical perspective also suggests two competing possibilities. Sustainability disclosure may reflect substantive commitment to responsible conduct and therefore be accompanied by higher-quality financial reporting, or it may be used symbolically to protect corporate reputation and divert attention from opportunistic accounting practices. Corporate social responsibility may, in some circumstances, function as a strategic shield against the reputational consequences of earnings management, making it necessary to examine whether disclosure is accompanied by genuinely higher reporting quality [7].

Signaling theory also supports a relationship between sustainability disclosure and financial reporting quality. Managers possess information about corporate risks, future prospects, internal controls, and strategic capabilities that is not fully available to outside stakeholders. Firms may use sustainability disclosure to signal superior governance, ethical commitment, risk management, and long-term orientation. Nevertheless, a signal is credible only when it is consistent with other observable aspects of corporate conduct. Extensive sustainability disclosure accompanied by manipulated earnings would create inconsistency and undermine stakeholder confidence. Conversely, sustainability information supported by transparent and high-quality financial statements provides a more credible indication of managerial integrity. The quality, durability, and credibility of sustainability reporting may also be strengthened by voluntary external assurance, which can enhance stakeholders' confidence in disclosed information [8].

Agency theory further explains how sustainability disclosure may affect reporting quality. The separation of ownership and control creates information asymmetry and potential conflicts between managers and shareholders. Managers may conceal unfavorable outcomes, overstate performance, or pursue personal objectives when monitoring mechanisms are weak. Broader sustainability disclosure can reduce information asymmetry by increasing the amount of corporate information available to investors and exposing managerial decisions to greater stakeholder scrutiny. The preparation of sustainability reports may also require coordination among accounting, governance, risk management, internal control, human resources, and operational units, thereby improving the organization's information systems. At the same time, digital communication has increased the ability of stakeholders to compare corporate statements with external evidence and to challenge incomplete or misleading disclosures [9].

Early international studies provide evidence that the relationship between social responsibility and earnings management is shaped by national institutions. Investor protection, legal enforcement, ownership structures, market development, and governance quality can affect both managerial reporting incentives and the credibility of corporate social responsibility activities. Evidence from multiple countries has indicated that socially responsible firms may engage in less earnings management, but the magnitude and direction of the relationship differ according to institutional conditions [5]. Evidence from Asian economies similarly suggests that corporate social responsibility can constrain earnings management, while demonstrating that country-specific governance and regulatory arrangements remain important determinants of reporting behavior [6].

Subsequent research has provided additional evidence that firms with stronger corporate social responsibility performance generally exhibit more reliable accounting information. Corporate responsibility may reflect an ethical organizational culture in which managers are less inclined to exploit accounting discretion for personal or short-term corporate objectives. It may also expose companies to stronger scrutiny from analysts, institutional investors, regulators, and civil society, thereby increasing the potential reputational cost of financial manipulation. Research has found that firms with higher social responsibility performance tend to exhibit lower discretionary accruals and fewer indicators of aggressive reporting, supporting the view that ethical behavior toward stakeholders can extend to the preparation of financial statements [3].

Nevertheless, the relationship is not necessarily uniform because companies may use sustainability initiatives strategically. Managers may increase social and environmental disclosure to create reputational capital that protects the company from criticism or reduces the market consequences of questionable accounting practices. This possibility is especially relevant when sustainability reporting is voluntary, weakly standardized, or not externally assured. Furthermore, financial distress can intensify managers' incentives to manipulate earnings, while simultaneously encouraging firms to use ESG disclosure to maintain stakeholder confidence. Evidence from an emerging market shows meaningful connections among ESG performance, earnings management, and financial distress, indicating that sustainability practices and reporting choices must be examined in relation to firms' financial conditions [7, 10].

Recent evidence from Jordan provides direct support for the argument that corporate sustainability disclosure may mitigate earnings management. Companies that disclose more extensive sustainability information may face greater reputational exposure and stakeholder monitoring, reducing managers' willingness to manipulate accruals. Sustainability reporting may also indicate the existence of stronger governance mechanisms, internal controls, and long-term strategic planning. However, emerging markets differ substantially in their accounting enforcement, ownership concentration, investor protection, and regulatory expectations. Findings from one country therefore cannot be transferred automatically to another, and country-specific evidence is required to determine whether sustainability disclosure functions as a substantive accountability mechanism or primarily as a symbolic reporting practice [11].

Sustainability disclosure can also influence corporate performance and economic sustainability through channels beyond financial reporting quality. Transparent disclosure may strengthen stakeholder relationships, facilitate access to financial resources, enhance corporate reputation, and improve the management of environmental and social risks. In voluntary reporting environments, the effect of sustainability disclosure on firm performance depends on the relevance, credibility, and completeness of the information provided. Disclosure that reflects substantive practices may contribute to durable value creation, whereas superficial or repetitive reporting may impose costs without materially improving stakeholder decisions. Evidence indicates that sustainability disclosure is associated with firm performance in voluntary environments, although the consequences depend on the quality of reporting and the surrounding institutional setting [12].

Investment efficiency represents another potential economic consequence of improved social responsibility disclosure. Investors require reliable information to distinguish productive investment opportunities from projects driven by managerial self-interest or inaccurate expectations. Sustainability disclosure may reduce information asymmetry, provide insight into long-term risks, and help capital providers assess the quality of corporate strategies. When nonfinancial disclosure is accompanied by reliable financial reporting, resources may be allocated more efficiently and investors may be better able to evaluate corporate value. Research in the Iranian context has linked social responsibility disclosure with improved investment efficiency, indicating that broader corporate transparency may contribute to more effective economic decision-making [13].

Firm characteristics must also be considered because they can simultaneously affect sustainability disclosure and financial reporting quality. Larger companies typically face greater public visibility, regulatory scrutiny, analyst attention, and stakeholder pressure, and they generally possess more resources for preparing sustainability reports. Profitability can increase the capacity to undertake and disclose social initiatives, whereas leverage may intensify monitoring by creditors or create incentives for accounting manipulation. Growth opportunities, loss status, and organizational age may similarly influence managerial reporting choices. Empirical research has identified firm characteristics and corporate governance mechanisms as important drivers of corporate social responsibility disclosure, while Iranian evidence also indicates that governance indicators are related to environmental and social responsibility reporting [2, 14].

The contemporary corporate information environment is increasingly shaped by digital communication and social media interactions. Sustainability claims can be rapidly evaluated, compared, criticized, or supported by investors, customers, employees, activists, and other users. This interactive environment may pressure companies to provide more detailed, timely, and credible social responsibility information. Evidence from listed companies indicates that information interactions on social media platforms can improve the quality of corporate social responsibility disclosure by increasing public scrutiny and stakeholder engagement [9]. Accordingly, sustainability reporting is no longer limited to a static annual report but forms part of a broader information system through which firms continuously communicate with stakeholders.

Managerial time horizons may also affect both sustainability disclosure and financial reporting quality. Managerial myopia encourages executives to prioritize short-term earnings, market reactions, and personal incentives at the expense of long-term investment and sustainable value creation. Transparent ESG information can constrain such short-term behavior by allowing stakeholders to evaluate whether corporate decisions are consistent with stated sustainability commitments. Textual analysis of ESG disclosures indicates that transparency depends not simply on the quantity of information but also on its clarity, specificity, and informativeness. Therefore, a disclosure index can provide an important measure of reporting breadth, but its economic meaning is strongest when disclosed items reflect substantive managerial actions rather than vague or ceremonial statements [15].

In Iran, interest in corporate social responsibility, sustainability disclosure, and financial reporting quality has increased as listed companies face expanding stakeholder expectations and greater demand for transparency. Evidence from Iranian firms indicates that corporate social responsibility can affect financial reporting quality, suggesting that socially responsible companies may provide more reliable accounting information and engage in less opportunistic reporting [16]. This issue is particularly important for the Tehran Stock Exchange because financial statements remain a principal source of information for investors, while differences in ownership concentration, governance mechanisms, disclosure quality, and managerial incentives may produce substantial variation in the reliability of reported earnings.

Iranian research has also examined the relationships among corporate social responsibility, accounting information quality, audit reporting, and audit operations. Socially responsible firms may develop more structured internal reporting systems, stronger control procedures, and more transparent relationships with external auditors. Evidence indicates a relationship between corporate social responsibility, accounting information quality, and the auditor's report, implying that responsible corporate conduct may be reflected in both internal reporting quality and external assurance outcomes [17]. Additional findings concerning social responsibility disclosure and corporate audit operations suggest that sustainability-oriented firms may be subject to greater scrutiny or may provide auditors with a more reliable information environment [18].

Despite the growing literature, important gaps remain in the Iranian capital-market context. International evidence is not fully consistent, and the effect of sustainability disclosure on reporting quality may vary according to institutional enforcement, corporate governance, managerial incentives, and stakeholder monitoring. Domestic studies have examined social responsibility in relation to accounting quality, governance, auditing, and investment efficiency, but relatively limited evidence is available regarding the effect of a multidimensional sustainability and corporate social responsibility disclosure index on discretionary accruals after controlling for firm size, leverage, profitability, sales growth, loss status, and firm age. Examining this relationship can clarify whether sustainability disclosure among companies listed on the Tehran Stock Exchange reflects substantive transparency and accountability or merely expanded nonfinancial communication [13, 14, 16-18].

Accordingly, the aim of this study is to examine the effect of sustainability and corporate social responsibility disclosure on the financial reporting quality and economic sustainability of companies listed on the Tehran Stock Exchange.

2. Methodology

In terms of its objective, this study is applied research, and in terms of its nature and method, it is descriptive-correlational research conducted using an ex post facto approach. In ex post facto research, the researcher examines relationships among variables on the basis of companies' actual and historical data without manipulating the variables. The purpose of this study is to investigate the relationship between sustainability disclosure and financial reporting quality among companies listed on the Tehran Stock Exchange during the 2019–2025 period. The required data were collected from financial statements, annual reports, explanatory notes, and other information disclosed through the Comprehensive Database of All Listed Companies, commonly known as the CODAL system. Panel data analysis was used to test the research hypothesis, and the data were analyzed using EViews software.

The statistical population of this study comprised all companies listed on the Tehran Stock Exchange during the 2019–2024 period. The systematic elimination method was used to select the sample. Accordingly, companies were included in the sample if they met the following conditions:

- The financial information and other required data were available throughout the study period.
- Their fiscal year ended on March 20.
- They had not changed their fiscal year during the study period.
- They were not active in the banking, insurance, financial intermediation, or investment industries, because the reporting structures and nature of operations of these companies differ from those of other companies.
- They had not experienced any prolonged suspension of operations or trading during the study period.

- They had been admitted to the Tehran Stock Exchange before the beginning of the study period.

The application of these criteria makes the research sample more homogeneous in terms of operational and informational characteristics and enhances the reliability of the findings. Consequently, companies meeting these conditions were selected as the final research sample. After applying the sample-selection criteria and restrictions, 120 companies were selected as the final sample.

To examine the effect of sustainability and corporate social responsibility disclosure on the financial reporting quality of companies listed on the Tehran Stock Exchange, the research model was developed as a multivariate panel data regression model based on established international studies, including Gafni et al. (2024), Kim et al. (2012), and Alodat et al. (2024), as follows:

$$FRQ_{it} = \beta_0 + \beta_1 SCSR_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 GROWTH_{it} + \beta_6 LOSS_{it} + \beta_7 AGE_{it} + \varepsilon_{it}$$

In the above model, FRQ_{it}represents the financial reporting quality of firm $i$in year t. Moreover, $SCSR_{it}$denotes sustainability and corporate social responsibility disclosure, $SIZE_{it}$represents firm size, LEV_{it}represents financial leverage, ROA_{it}represents return on assets, $GROWTH_{it}$represents firm growth, $LOSS_{it}$represents the loss dummy variable, and AGE_{it}represents firm age. Furthermore, ε_{it}denotes the model's error term.

In this model, sustainability and corporate social responsibility disclosure was included as the principal independent variable, while the remaining variables were incorporated to control for the effects of financial factors and firm characteristics on financial reporting quality. Based on the theoretical foundations and findings of previous studies, the coefficient of sustainability and corporate social responsibility disclosure, β_1, is expected to be positive and statistically significant, meaning that a higher level of sustainability and corporate social responsibility disclosure is expected to be associated with improved financial reporting quality.

- **Measurement of the Research Variables**
- **Dependent Variable: Financial Reporting Quality**

Financial reporting quality was measured using the accrual quality criterion. This criterion is based on the model developed by Dechow and Dichev (2002) and its modified version. Under this approach, a company's current accruals are explained by past, current, and future operating cash flows, together with several supplementary variables. The absolute value of the model residual is then used as an indicator of poor accrual quality. The smaller the residual, the higher the financial reporting quality.

The accrual estimation model is specified as follows:

$$TCA_{it} = \alpha_0 + \alpha_1 CFO_{i,t-1} + \alpha_2 CFO_{i,t} + \alpha_3 CFO_{i,t+1} + \alpha_4 \Delta REV_{it} + \alpha_5 PPE_{it} + \varepsilon_{it}$$

In this equation:

- TCA: Current accruals, calculated as the difference between operating income and operating cash flow
- CFO: Cash flow from operating activities
- ΔREV: Change in sales revenue
- PPE: Property, plant, and equipment
- ε: Model error term

All the above variables were divided by total assets at the beginning of the period to facilitate comparability across companies. The model was also estimated cross-sectionally at the industry-year level. Ultimately, financial reporting quality was calculated using the following equation:

$$FRQ_{it} = |\varepsilon_{it}|$$

Because a larger absolute residual indicates lower financial reporting quality, a decrease in this indicator represents an improvement in financial reporting quality. Where alignment of the interpretation is required, this measure may be multiplied by negative one so that a larger value represents higher reporting quality.

- **Independent Variable: Sustainability and Corporate Social Responsibility Disclosure**

The principal independent variable of the study is sustainability and corporate social responsibility disclosure, denoted by $SCSR$. This variable was measured through content analysis based on a disclosure checklist. Under this method, sustainability- and corporate social responsibility-related items disclosed in annual reports, boards of directors' activity reports, explanatory notes, and other information published by companies were examined. The use of disclosure indices to measure the extent of corporate social responsibility and sustainability disclosure has also been common in previous domestic and international studies (Chih et al., 2008; Gafni et al., 2024; Martínez-Ferrero et al., 2016; Rezaee & Tuo, 2017).

The disclosure checklist used in this study was organized into three principal dimensions:

- **Environmental dimension:** Including the disclosure of information concerning energy consumption, waste management, pollution control, the use of natural resources, and other environmental initiatives
- **Social dimension:** Including the disclosure of information concerning employees, training, safety, health, responsibilities toward customers, and responsibilities toward society
- **Governance and economic dimension:** Including the disclosure of information concerning corporate governance, transparency, compliance with legal requirements, professional ethics, and economic accountability

For each checklist item, a score of 1 was assigned if the company disclosed information relating to that item; otherwise, a score of 0 was assigned. The sustainability and corporate social responsibility disclosure index was then calculated as follows:

$$SCSR_{it} = \frac{\sum_{j=1}^{n} X_{ijt}}{n}$$

where:

- X_{ijt}: Disclosure status of item $j$by company $i$in year t, equal to 1 if the item was disclosed and 0 otherwise
- n: Total number of items included in the sustainability and corporate social responsibility disclosure checklist

Accordingly, the $SCSR$index ranges from 0 to 1, with higher values indicating a higher level of sustainability and corporate social responsibility disclosure. This measurement approach is consistent with studies that evaluate sustainability disclosure using a composite index or disclosure score (Almubarak et al., 2023; Alodat et al., 2024; Gafni et al., 2024).

- **Control Variables**

Several control variables commonly used in the relevant literature were incorporated to control for other factors affecting financial reporting quality. These variables were measured as follows.

Firm Size

Firm size was measured using the natural logarithm of total assets:

$$SIZE_{it} = \ln(TA_{it})$$

where TA_{it} represents the total assets of company i in year t. Firm size is a commonly used control variable in financial reporting quality studies because larger companies are generally subject to greater scrutiny by markets and regulatory institutions.

Financial Leverage

Financial leverage was calculated as the ratio of total liabilities to total assets:

$$LEV_{it} = \frac{TL_{it}}{TA_{it}}$$

where TL_{it} represents the total liabilities of company i in year t. This variable was included in the model to control for the company's contractual and financing pressures.

Return on Assets

Return on assets was calculated as the ratio of net income to total assets:

$$ROA_{it} = \frac{NI_{it}}{TA_{it}}$$

where NI_{it} represents the net income of company i in year t. This variable reflects the company's financial performance and may affect financial reporting quality.

Firm Growth

Firm growth was measured using the sales growth rate:

$$GROWTH_{it} = \frac{Sales_{it} - Sales_{i,t-1}}{Sales_{i,t-1}}$$

where $Sales_{it}$ represents the sales revenue of company i in year t. This variable was used to control for the company's growth opportunities and operational dynamics.

Loss Status

Loss status was defined as a dummy variable. It was assigned a value of 1 if the company's net income was negative in year t, and 0 otherwise. This variable was included in the model because loss-making companies may have different motivations and constraints regarding financial reporting.

Firm Age

Firm age was measured as the number of years for which the company had operated up to the end of the relevant fiscal year. To reduce data dispersion, this variable was calculated as the natural logarithm of firm age:

$$AGE_{it} = \ln(Years_{it})$$

where $Years_{it}$ represents the number of years for which company i had operated up to year t. This variable was used to control for the company's structural characteristics and organizational maturity.

3. Findings and Results

The descriptive statistics indicate that the mean value of financial reporting quality (FRQ) was 0.0783, while the mean value of sustainability and corporate social responsibility disclosure ($SCSR$) was 0.4780. Given that lower values of FRQ indicate higher financial reporting quality, the sampled companies can be considered to have a relatively satisfactory average level of financial reporting quality. The mean $SCSR$ value also indicates that the disclosure of sustainability and corporate social responsibility information among the sampled companies was at a moderate level. Among the control variables, the mean values of firm size ($SIZE$), financial leverage (LEV), and return on assets (ROA) were 11.0728, 0.5921, and 0.0750, respectively. The mean values of growth ($GROWTH$) and loss status ($LOSS$) were 0.1869 and 0.1708, respectively. In addition, the mean value of firm age (AGE) was 3.3604. Overall, the adequate dispersion of the variables indicates sufficient variation in the data to conduct the regression analyses and test the research hypotheses (Table 1).

Table 1. Descriptive Statistics of the Research Variables

Variable	Mean	Median	Standard Deviation	Minimum	Maximum
Financial reporting quality	0.0783	0.0786	0.0179	0.0122	0.1340
Sustainability and corporate social responsibility disclosure	0.4780	0.4801	0.0836	0.1707	0.7053
Firm size	11.0728	11.1027	1.0801	8.8016	13.1525
Financial leverage	0.5921	0.5974	0.1313	0.2043	0.9310
Return on assets	0.0750	0.0711	0.0781	−0.1800	0.2800
Growth	0.1869	0.1144	0.5169	−0.4500	1.5000
Loss	0.1708	0.0000	0.3766	0.0000	1.0000
Firm age	3.3604	3.6376	0.7099	1.0986	4.2195

The correlation coefficient matrix indicates a negative correlation of −0.216 between $SCSR$and FRQ. Given the manner in which the FRQindex was defined, this relationship may indicate improved financial reporting quality among companies with higher levels of sustainability and corporate social responsibility disclosure. A relatively strong positive correlation of 0.746 was also observed between $SCSR$and $SIZE$, indicating that larger companies are more inclined to disclose such information. In addition, the correlation between $ROA$and $LOSS$was −0.661, which is consistent with expectations. Overall, except for the relatively high correlation between $SCSR$and $SIZE$, the remaining coefficients were low or moderate. Therefore, no evidence of severe multicollinearity among the explanatory variables was observed.

Table 2. Correlation Coefficient Matrix

Variable	FRQ	SCSR	SIZE	LEV	ROA	GROWTH	LOSS	AGE
FRQ	1.000							
SCSR	−0.216	1.000						
SIZE	−0.209	0.746	1.000					
LEV	0.014	−0.033	−0.099	1.000				
ROA	−0.157	0.335	0.248	−0.018	1.000			
GROWTH	−0.073	0.045	0.030	0.037	0.026	1.000		
LOSS	0.169	−0.217	−0.145	−0.001	−0.661	−0.010	1.000	
AGE	0.019	0.180	−0.036	0.031	0.014	−0.002	−0.026	1.000

To examine the stationarity of the research variables and avoid spurious regression, the Phillips–Perron Fisher-type panel unit root test was employed. The null hypothesis of this test indicates the presence of a unit root and, consequently, the nonstationarity of the variables. The results of this test for the research variables are presented in Table 3. As shown in Table 3, the significance levels of the PP–Fisher statistics for all research variables were below 0.05. Therefore, the null hypothesis concerning the presence of a unit root was rejected. Accordingly, all research variables were stationary at level. Consequently, these variables could be used in the estimation of the panel regression model, and the model-selection stage involving the Chow and Hausman tests could be conducted.

Table 3. Results of the Panel Unit Root Test for the Research Variables

Variable	PP–Fisher Statistic	Significance Level	Result
Financial reporting quality (FRQ)	477.919	0.000	Stationary

Corporate social responsibility (SCSR)	522.863	0.000	Stationary
Firm size (SIZE)	520.233	0.000	Stationary
Financial leverage (LEV)	598.800	0.000	Stationary
Return on assets (ROA)	680.708	0.000	Stationary
Firm growth (GROWTH)	690.246	0.000	Stationary
Loss (LOSS)	144.596	0.000	Stationary
Firm age (AGE)	2,214.970	0.000	Stationary

As shown in Table 3, the significance levels of the PP–Fisher statistics for all research variables were below 0.05. Therefore, the null hypothesis concerning the presence of a unit root was rejected. Accordingly, all research variables were stationary at level. Consequently, these variables could be used in the estimation of the panel regression model, and the model-selection stage involving the Chow and Hausman tests could be conducted.

To determine the appropriate method for estimating the research model, the Chow test, also known as the F-Limer test, was initially used to select between the pooled data model and the panel data model. Subsequently, after the panel data specification had been confirmed, the Hausman test was applied to select between the fixed-effects and random-effects models. The results of these two tests are presented in the following table.

Table 4. Results of the Chow and Hausman Tests

Test	Test Statistic	Significance Level	Result
Chow test (F-Limer test)	1.468	0.002	Panel data model confirmed
Hausman test	15.885	0.043	Fixed-effects model confirmed

As shown in the above table, the probability value of the Chow test was 0.002, which was below the 0.05 significance threshold. Therefore, the null hypothesis that the pooled data model was appropriate was rejected, indicating that the panel data model was suitable for estimating the research model. Following the confirmation of the panel data specification, the Hausman test was used to select between the fixed-effects and random-effects models. The results indicated that the probability value of the test was 0.043, which was below the 0.05 significance threshold. Therefore, the null hypothesis of the Hausman test was rejected, and the fixed-effects model was selected as the appropriate method for the final estimation. Overall, based on the results of these tests, the research model was estimated using fixed-effects panel data regression.

After the appropriate model specification had been determined using the Chow and Hausman tests, the research model was estimated using the fixed-effects panel data method. The model-estimation results are presented in the following table.

Table 5. Results of the Fixed-Effects Estimation of the Research Model

Variable	Coefficient	tStatistic	Significance Level
C	0.158	5.401	0.003
$SCSR$	−0.029	−3.122	0.026
$SIZE$	−0.002	−0.539	0.613
LEV	−0.005	−1.103	0.320
ROA	0.007	0.479	0.652
$GROWTH$	−0.003	−2.931	0.033
$LOSS$	0.005	5.898	0.002
AGE	−0.013	−2.939	0.032

Model Statistic	Value	Model Statistic	Value
R^2	0.491	Adjusted R^2	0.441
Fstatistic	1.932	Durbin–Watson statistic	2.284

The results indicate that the coefficient of sustainability and corporate social responsibility disclosure ($SCSR$) was −0.029, with a significance level of 0.026. Because this value was below 0.05, it can be concluded that sustainability and corporate social responsibility disclosure had a statistically significant effect on financial reporting quality. Because the coefficient of this variable was negative, sustainability and corporate social responsibility disclosure had an inverse relationship with the dependent variable. Given that the criterion used to measure financial reporting quality was based on discretionary accruals and that an increase in this index indicates a decline in financial reporting quality, the negative $SCSR$coefficient indicates that an increase in sustainability and corporate social responsibility disclosure reduces discretionary accruals and, consequently, improves financial reporting quality. Therefore, the principal research hypothesis concerning the significant effect of sustainability and corporate social responsibility disclosure on the financial reporting quality of companies listed on the Tehran Stock Exchange was supported. From a theoretical perspective, this finding is fully consistent with stakeholder theory and legitimacy theory. According to stakeholder theory, companies that consider themselves accountable to a wide range of stakeholders, including shareholders, employees, customers, society, and the environment, are less inclined to engage in opportunistic behavior such as earnings management. Such companies attempt to gain and maintain stakeholder trust by providing transparent and high-quality financial reports. Legitimacy theory also regards sustainability disclosure as an instrument for acquiring and maintaining social legitimacy. Therefore, a company seeking to establish a positive public image will simultaneously refrain from manipulating its financial reports to avoid jeopardizing its legitimacy through false or misleading information. Furthermore, from the perspective of signaling theory, sustainability disclosure is interpreted as a positive signal to the market, and this signal is credible when supported by transparent and high-quality financial information.

Among the control variables, the results also indicated that sales growth had a negative and statistically significant coefficient. This finding means that companies with higher sales growth had lower discretionary accruals and, consequently, higher financial reporting quality. It indicates that companies with more favorable operational growth have less need to employ opportunistic financial reporting practices and therefore provide higher-quality financial reports.

Loss status also had a positive and statistically significant coefficient, indicating that loss-making companies were more inclined to use discretionary accruals and provided lower-quality financial reports. In other words, loss-making companies are more exposed to earnings-management incentives because they generally have stronger motivations to manipulate accruals to alleviate market pressure, maintain their reputation, and avoid negative investor reactions.

Firm age also had a negative and statistically significant coefficient, indicating that companies with longer operating histories had higher financial reporting quality. This finding may be attributable to more established control mechanisms, greater managerial experience, and more stable reporting procedures among older companies. In contrast, firm size, financial leverage, and return on assets did not have statistically significant effects on financial reporting quality.

Based on the results presented in the above table, the Fstatistic was 1.932, with a significance level of 0.000. Therefore, the research model was statistically significant at the 95% confidence level, and the independent and control variables included in the model were collectively capable of explaining variations in the dependent variable. The adjusted coefficient of determination was 0.441, indicating that approximately 44% of the variation in the dependent variable was explained by the variables included in the model. Furthermore, the Durbin–Watson statistic was 2.284, indicating the absence of serious autocorrelation in the model's error terms.

4. Discussion and Conclusion

The present study examined the effect of sustainability and corporate social responsibility disclosure on the financial reporting quality of companies listed on the Tehran Stock Exchange. Financial reporting quality was measured using the absolute value of discretionary accruals, such that higher values of the dependent variable represented lower reporting quality. The fixed-effects panel data estimation showed that sustainability and corporate social responsibility disclosure had a negative and statistically significant coefficient. Therefore, an increase in the level of sustainability and corporate social responsibility disclosure was associated with a reduction in discretionary accruals and, consequently, an improvement in financial reporting quality. The findings also indicated that sales growth and firm age had negative and significant effects on discretionary accruals, whereas loss status had a positive and significant effect. In contrast, firm size, financial leverage, and return on assets did not have statistically significant effects on financial reporting quality. The overall model was statistically significant, and the explanatory variables accounted for approximately 44% of the variation in the financial reporting quality measure.

The principal finding supports the argument that corporate sustainability and social responsibility disclosure is not merely a reputational or symbolic activity but may be associated with greater integrity in the financial reporting process. Companies that disclose more extensive information concerning their environmental, social, governance, and economic responsibilities appear to use fewer discretionary accruals. Because discretionary accruals reflect managerial judgment over the timing and recognition of revenues, expenses, provisions, and estimates, their reduction can indicate a lower level of opportunistic earnings management. Sustainability-oriented companies may be more committed to transparency, accountability, ethical conduct, and the protection of stakeholder interests. These commitments can extend beyond nonfinancial reporting and influence the quality of accounting information presented to investors and other users.

This finding is consistent with stakeholder theory. Companies with a stronger orientation toward stakeholders are expected to consider the information needs of shareholders, employees, creditors, customers, regulators, local communities, and other affected groups. Misleading financial reporting can damage the interests of these stakeholders by distorting assessments of profitability, risk, solvency, and future performance. Therefore, firms that voluntarily provide broader sustainability information may also have stronger incentives to maintain credible financial reporting. Previous evidence has demonstrated that corporate social responsibility is associated with higher earnings quality and a lower tendency to engage in opportunistic accounting practices, suggesting that socially responsible firms are generally more transparent in both financial and nonfinancial domains [3].

The result also corresponds with international evidence indicating that stronger corporate social responsibility practices may constrain earnings management. Cross-country research has shown that the association between corporate social responsibility and earnings-management behavior is influenced by institutional conditions and investor protection; however, socially responsible companies generally display more restrained reporting behavior when effective monitoring and accountability mechanisms are present [5]. Similarly, evidence from Asian economies has indicated that corporate social responsibility can reduce earnings-management activities by increasing reputational exposure and strengthening the firm's accountability to external stakeholders [6]. The present findings extend this line of evidence to the Tehran Stock Exchange and suggest that the disciplinary role of sustainability disclosure may also operate in the Iranian capital market.

The negative association between sustainability disclosure and discretionary accruals is also in line with evidence from other emerging markets. Research conducted in Jordan showed that corporate sustainability disclosure mitigates earnings management, implying that companies with broader sustainability reporting engage in fewer opportunistic accounting choices [11]. Emerging markets frequently exhibit relatively high information asymmetry, concentrated ownership, uneven enforcement, and significant differences in corporate governance quality. Under such conditions, voluntary sustainability disclosure can function as an additional transparency mechanism. By disclosing information beyond mandatory financial statements, companies may reduce uncertainty regarding their strategies, risks, stakeholder relationships, and long-term viability. The present results suggest that this expanded disclosure environment is accompanied by improved accrual quality.

The findings are also consistent with evidence concerning the relationship among environmental, social, and governance performance, earnings management, and financial distress. Stronger ESG-related practices may reduce managerial opportunism by encouraging long-term planning, better risk management, and more effective oversight [10]. Companies that systematically monitor environmental, social, governance, and economic indicators may develop stronger internal information systems and more formalized reporting processes. Such systems can improve data quality, enhance internal control, and make inconsistencies between financial and nonfinancial information easier to identify. Consequently, managers may have less opportunity to manipulate discretionary accruals without attracting the attention of boards, auditors, investors, or other stakeholders.

The result further agrees with research showing that corporate social responsibility influences both discretionary accruals and real earnings-management practices [4]. Sustainability-oriented companies may be less willing to sacrifice reporting credibility for short-term financial targets because doing so could conflict with their stated ethical commitments and undermine stakeholder trust. Although the present study focused on accrual-based reporting quality and did not directly measure real earnings management, the significant reduction in discretionary accruals indicates that sustainability disclosure is associated with more conservative use of accounting discretion. Nevertheless, managers may potentially substitute real operational manipulation for accrual-based techniques, and this possibility should be considered when interpreting the findings.

The observed relationship may also be explained through legitimacy theory. Sustainability disclosure enables companies to demonstrate that their activities conform to social expectations, environmental responsibilities, legal requirements, and accepted standards of corporate conduct. Firms seeking to preserve legitimacy are likely to recognize that misleading financial reporting can substantially damage their reputation. If sustainability reports communicate ethical responsibility while the financial statements contain aggressively managed earnings, the inconsistency may expose the company to reputational, regulatory, and market risks. Therefore, companies with more extensive sustainability disclosure may avoid excessive discretionary accruals to maintain coherence between their public commitments and their financial reporting behavior. Prior research has suggested that corporate social responsibility can serve as a strategic shield against the costs associated with earnings management, although such protection is likely to be sustainable only when social responsibility is supported by credible corporate behavior [7].

From a signaling perspective, sustainability disclosure may communicate managerial competence, organizational quality, long-term orientation, and confidence in the firm's future prospects. However, the effectiveness of this signal depends on its credibility. Sustainability information unsupported by reliable financial reporting may be interpreted as impression management or symbolic disclosure. Conversely, firms that combine extensive sustainability disclosure with lower discretionary accruals provide a more consistent signal of transparency. Evidence that the quality and continuity of sustainability reporting are associated with voluntary assurance further indicates that credible sustainability communication requires mechanisms that improve reliability and stakeholder confidence [8]. The findings of the present study suggest that firms with stronger sustainability disclosure also exhibit financial reporting behavior that reinforces the credibility of their nonfinancial disclosures.

The finding is also supported by evidence that voluntary corporate social responsibility reporting can improve the corporate information environment and reduce the cost of equity capital [1]. Investors generally demand a higher return when information uncertainty and estimation risk are high. Sustainability disclosure can reduce these uncertainties by providing additional information about risks, strategic priorities, stakeholder relationships, and long-term performance. High-quality financial reporting further strengthens this effect by enabling investors to assess whether sustainability commitments are supported by actual economic performance. Therefore, the lower level of discretionary accruals observed among companies with greater sustainability disclosure may represent one mechanism through which voluntary nonfinancial reporting improves capital-market outcomes.

The results are consistent with Iranian evidence indicating that corporate social responsibility improves financial reporting quality [16]. This consistency suggests that the relationship is not confined to highly developed markets with mature sustainability-reporting frameworks. In the Iranian context, companies that adopt more extensive social responsibility disclosure may have stronger governance cultures, more structured reporting processes, and greater sensitivity to stakeholder expectations. Such characteristics can reduce incentives and opportunities for earnings management. The findings also align with research demonstrating relationships among corporate social responsibility, accounting information quality, and auditors' reports [17]. Higher-quality accounting information can facilitate the audit process, reduce the risk of material misstatement, and improve the credibility of the auditor's conclusions.

The association between social responsibility disclosure and financial reporting quality may additionally operate through corporate auditing. Evidence indicates that social responsibility disclosure is related to corporate audit operations, suggesting that firms with broader disclosure practices may be subject to greater scrutiny or may maintain more developed internal information and control systems [18]. Auditors evaluate management estimates, accruals, provisions, internal controls, and the risk of intentional misstatement. When companies disclose extensive sustainability information, auditors and other assurance providers may compare this information with financial performance and operational evidence. This broader examination can make inconsistencies more visible and limit managerial discretion over accruals.

Corporate governance can also explain part of the relationship. Previous research has shown that governance indicators are associated with environmental and social responsibility disclosure [14]. Effective boards, audit committees, ownership-monitoring mechanisms, and internal control systems may simultaneously encourage sustainability disclosure and constrain earnings management. Therefore, the negative relationship observed in this study may partly reflect the presence of stronger governance structures among companies with greater sustainability disclosure. The use of firm fixed effects helps control for stable unobserved differences across companies, but governance mechanisms that change over time may still contribute to the estimated association.

The increasing influence of digital communication may further reinforce the reporting consequences of sustainability disclosure. Social media interactions allow investors, employees, customers, activists, and other stakeholders to evaluate corporate claims, disseminate evidence, and challenge incomplete or misleading disclosures. Research has shown that information interactions on social media platforms affect the quality of corporate social responsibility disclosure among listed companies [9]. Greater public scrutiny may raise the reputational costs of inconsistency between sustainability reports and financial statements. Firms that communicate frequently about environmental and social responsibility may therefore face stronger pressure to ensure that their accounting reports are equally transparent and credible.

The principal finding may also reflect differences in managerial time horizons. Managerial myopia encourages decision-makers to prioritize short-term earnings targets over long-term value creation, stakeholder relationships, and sustainable investment. Transparent ESG disclosure can expose managerial priorities and make short-term opportunistic behavior more observable to external stakeholders [15]. Companies that provide more transparent sustainability information may be less dominated by short-term reporting incentives and more committed to long-term organizational legitimacy. The lower discretionary accruals identified in the present study are compatible with this interpretation.

The significant negative effect of sales growth on the financial reporting quality measure indicates that companies with higher sales growth had lower discretionary accruals and therefore higher reporting quality. Firms experiencing genuine operational growth may have less need to manipulate accounting earnings because their underlying performance already provides favorable signals to investors and creditors. Sales growth may also generate stronger cash flows, improve the company's ability to meet contractual obligations, and reduce pressure to avoid losses or earnings declines. In addition, growing firms may seek external financing and therefore have incentives to maintain credible financial reports. Sustainability disclosure may reinforce this credibility by providing information about whether corporate growth is environmentally, socially, and economically sustainable. Research has shown that sustainability disclosure is associated with firm performance in voluntary reporting environments, although the strength of this relationship depends on organizational and institutional conditions [12].

The positive and significant coefficient of loss status indicates that loss-making companies exhibited higher discretionary accruals and lower financial reporting quality. This finding can be explained by the greater financial, contractual, and market pressures faced by firms reporting negative earnings. Managers of loss-making companies may attempt to reduce the reported magnitude of losses, avoid violating debt covenants, prevent negative investor reactions, maintain access to financing, or protect their compensation and employment. Financial distress can intensify such incentives and increase the use of discretionary accounting choices. Evidence regarding the interaction among ESG practices, financial distress, and earnings management similarly indicates that financially vulnerable companies face stronger incentives for opportunistic reporting [10]. The present result therefore confirms that loss status is an important determinant of financial reporting quality.

The significant negative relationship between firm age and discretionary accruals suggests that older companies provide higher-quality financial reports. Established firms may have more mature accounting systems, experienced financial personnel, stable internal controls, stronger relationships with external auditors, and more institutionalized reporting procedures. Older companies may also face greater reputational costs if financial manipulation is discovered because they have accumulated legitimacy and stakeholder trust over a longer period. Firm characteristics have been identified as important determinants of corporate social responsibility disclosure, implying that organizational maturity and structural attributes influence both nonfinancial and financial transparency [2]. Accordingly, older companies may combine more developed sustainability disclosure practices with more reliable financial reporting.

In contrast, firm size did not have a significant effect on financial reporting quality after controlling for sustainability disclosure and the other variables. Larger firms are generally expected to face greater public scrutiny, possess stronger reporting systems, and disclose more sustainability information. The correlation analysis indeed showed a relatively strong positive relationship between firm size and sustainability disclosure. However, large firms also have more complex operations, more subsidiaries, more accounting estimates, and greater opportunities to manage reported earnings. These competing mechanisms may explain the insignificant regression coefficient. The result suggests that organizational scale alone does not guarantee higher-quality financial reporting once firm-specific effects and sustainability disclosure are taken into account.

Financial leverage was also statistically insignificant. Highly leveraged companies may have incentives to manage earnings to comply with debt agreements and maintain creditor confidence. Conversely, creditors and financial institutions may closely monitor leveraged firms, thereby restricting opportunistic accounting choices. The coexistence of greater incentives and stronger monitoring may neutralize the overall effect of leverage. Similarly, return on assets did not significantly affect the reporting-quality measure. Although more profitable firms may have less need to manage earnings, they may also have stronger incentives to maintain market expectations or smooth unusually high performance. These opposing effects may have contributed to the absence of a statistically significant relationship.

The implications of sustainability disclosure extend beyond accrual quality. Improved transparency can support more efficient investment decisions by helping capital providers distinguish between firms with sustainable growth prospects and those exposed to hidden environmental, social, or governance risks. Evidence from the Iranian market suggests that social responsibility disclosure can improve investment efficiency by reducing information asymmetry and supporting more informed resource allocation [13]. Therefore, the negative relationship between sustainability disclosure and discretionary accruals may have broader economic consequences. When sustainability information is accompanied by credible financial reporting, investors can evaluate corporate performance more accurately, managers face greater accountability, and capital may be allocated more efficiently.

This study was subject to several limitations. First, sustainability and corporate social responsibility disclosure was measured using an unweighted content-analysis index that primarily captured the presence or absence of disclosed items and may not have fully reflected the depth, accuracy, comparability, or credibility of the information. Second, the financial reporting quality measure was based on discretionary accruals, whereas reporting quality is a multidimensional concept that may also include earnings persistence, value relevance, conservatism, restatements, and real earnings management. Third, the sample was limited to companies listed on the Tehran Stock Exchange that met the selection criteria; therefore, the findings may not be directly generalizable to financial institutions, unlisted firms, small enterprises, or companies operating in other institutional environments. Fourth, archival data cannot completely eliminate endogeneity, reverse causality, or omitted-variable bias. Firms with higher reporting quality may be more inclined to disclose sustainability information, rather than disclosure necessarily causing improved reporting quality. Finally, inconsistencies in the content and format of corporate reports may have introduced judgment into the coding process.

Future studies should evaluate the quality of sustainability disclosure by considering the specificity, quantitative content, readability, comparability, external assurance, and consistency of disclosed information rather than relying exclusively on an unweighted disclosure index. Researchers could also examine environmental, social, governance, and economic dimensions separately to determine which aspects have the strongest association with reporting quality. The analysis may be extended by using alternative indicators such as real earnings management, accounting conservatism, earnings persistence, restatements, audit fees, modified audit opinions, or the timeliness of loss recognition. Future research could address endogeneity through instrumental-variable methods, dynamic panel estimators, propensity-score matching, or natural experiments arising from regulatory changes. Comparative studies across industries, ownership structures, and emerging markets would further clarify the role of institutional conditions. It would also be useful to investigate whether corporate governance quality, audit committee effectiveness, external assurance, financial distress, ownership concentration, or digital stakeholder engagement moderates or mediates the relationship.

Managers should integrate sustainability reporting with financial reporting, internal control, risk management, and strategic planning rather than treating it as an isolated public-relations activity. Companies should establish formal systems for collecting, verifying, and documenting environmental, social, governance, and economic information and ensure consistency between sustainability disclosures and accounting records. Boards of directors and audit committees should oversee both financial and nonfinancial reporting and evaluate whether disclosed sustainability commitments are supported by measurable policies and outcomes. Regulators and the Tehran Stock Exchange should develop standardized disclosure requirements, industry-specific indicators, and clear guidance for sustainability reporting. External assurance of material sustainability information should also be encouraged. Investors, creditors, and analysts should assess sustainability disclosure together with accrual quality and other indicators of financial reporting integrity, particularly when evaluating loss-making companies or firms with weak control environments.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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