DOES AUDIT QUALITY MODERATE THE ESG DISCLOSURE - FIRM PERFORMANCE NEXUS? EVIDENCE FROM LARGE-CAPITALISATION VIETNAMESE LISTED FIRMS

PhD. Nguyen Do Quyen* - Le Thi Hai Yen**

Abstract: ***This study examines the impact of ESG disclosure on firm performance and investigates the moderating role of audit quality in shaping this relationship in an emerging market context. Using panel data from large-capitalisation Vietnamese listed firms, the study employs multiple estimation techniques, including dynamic system Generalized Method of Moments (GMM), to address unobserved heterogeneity, performance persistence, and potential endogeneity concerns. The results provide robust evidence that ESG disclosure is positively related with firm performance, suggesting that greater sustainability transparency enhances the informational environment and supports more efficient resource allocation. More importantly, the findings indicate that audit quality significantly strengthens the performance implications of ESG disclosure. Firms subject to higher-quality external assurance appear to derive greater economic benefits from sustainability reporting, highlighting the importance of governance mechanisms in enhancing the credibility and decision-usefulness of non-financial information. These results contribute to the literature by emphasising the informational and signalling role of ESG disclosure rather than sustainability engagement, and by demonstrating that the financial relevance of ESG transparency is conditional on institutional and governance factors. The study offers practical insights for managers, investors, and policymakers regarding the strategic value of credible sustainability disclosure in emerging capital markets.***

• Keywords: *ESG disclosure, firm performance, audit quality, large-cap firms, emerging market.*

JEL codes: M14, M42, G32, G39

Date of receipt: 25th Jan., 2026
Date of delivery revision: 28th Feb., 2026
Date of receipt revision: 08th Mar, 2026
Date of approval: 29th Apr., 2026
DOI: https://doi.org/10.71374/jfar.v26.i3.15

Introduction

In global capital markets, investors increasingly incorporate ESG information into firm valuation and risk assessment decisions. Beyond traditional accounting indicators, sustainability disclosure is now viewed as a critical component of the corporate information environment that can influence capital allocation, financing conditions, and long-term competitiveness. However, the economic relevance of ESG information depends fundamentally on its credibility, particularly in emerging markets where disclosure standards and assurance mechanisms remain uneven (Fernando et al., 2022).

A growing body of international evidence suggests that ESG engagement can enhance firm performance by improving operational efficiency, strengthening stakeholder relationships, and supporting resilience during periods of market stress (Friede et al., 2015; Liang & Renneboog, 2020). Sustainability-oriented strategies may also foster innovation-driven growth and reinforce firms' strategic positioning in increasingly sustainability-sensitive global markets (Berk & van Binsbergen, 2021). Nevertheless, empirical findings remain mixed, especially in developing economies where ESG measurement challenges and heterogeneous reporting practices may weaken the informational value of sustainability disclosure (Ioannou & Serafeim, 2017; KPMG et al., 2020).

Vietnam provides a particularly relevant setting to examine these issues. As a rapidly integrating emerging economy, Vietnamese firms face rising pressures to enhance transparency and sustainability compliance. However, ESG reporting remains largely voluntary and uneven due to evolving governance structures, limited regulatory enforcement, and constrained technical expertise (IFC, 2020). These institutional characteristics heighten information asymmetry regarding the credibility of disclosed sustainability information.

** Foreign Trade University, email: quyendn@ftu.edu.vn*
*** KPMG Tax and Advisory Limited, email: leyen.work@gmail.com*

In such environments, governance mechanisms that enhance disclosure credibility become critical. Prior research shows that high audit quality improves reporting reliability by constraining opportunistic managerial behaviour and reducing information risk (Hope et al., 2013; Ado et al., 2020). External assurance can therefore strengthen stakeholders' trust in ESG disclosure and increase the decision-usefulness of non-financial information (Simnett et al., 2009; Hummel & Schlick, 2016). At the same time, credible sustainability performance is associated with improved financial outcomes and lower agency costs (Friede et al., 2015; Albuquerque et al., 2019).

The moderating role of audit quality is thus likely to be particularly important in emerging markets characterised by fragmented disclosure standards and institutional voids. In Vietnam, disclosure credibility concerns are further shaped by the dominance of individual investors and evolving regulatory frameworks. Moreover, global regulatory developments, such as the European Union's Carbon Border Adjustment Mechanism and Deforestation Regulation, have increased the strategic importance of credible ESG reporting for firms seeking to maintain export competitiveness and attract foreign investment (Nguyen et al., 2023; Tran et al., 2024). Despite these dynamics, empirical evidence on how audit quality conditions the ESG disclosure-performance relationship remains limited both globally and within the Vietnamese context (Velte & Stawinoga, 2024; Ado et al., 2024).

Against this backdrop, this study examines whether audit quality moderates the relationship between ESG disclosure and firm financial performance among Vietnamese large-capitalisation listed firms. By combining a structured ESG disclosure index with dynamic panel estimation techniques, the study contributes to the literature by providing new evidence from an under-researched emerging market and by clarifying how governance mechanisms shape the financial relevance of sustainability transparency.

The remainder of the paper proceeds as follows. Section 2 reviews recent literature. Section 3 describes research methodology. Section 4 presents the empirical findings, and Section 5 concludes with policy implications.

2. Literature review

2.1. ESG disclosure and firm performance

Early research on corporate social responsibility and sustainability established the foundation for contemporary ESG studies by documenting conditions under which non-financial practices generate economic value. Meta-analytical evidence indicates that many empirical studies report a positive relationship between ESG engagement and firm performance (Friede et al., 2015). Subsequent literature has increasingly focused on identifying the mechanisms through which sustainability initiatives influence financial outcomes.

From an agency theory perspective, ESG practices can mitigate managerial-shareholder conflicts by enhancing transparency, strengthening governance structures, and aligning managerial incentives with long-term value creation. Methodological advances, including longitudinal panel designs and more granular ESG metrics, provide evidence that sustainability investments may improve operational efficiency through resource optimisation, quality enhancement, and workforce productivity (Griffin & Mahon, 1997; Margolis et al., 2009; Flammer, 2015). Complementing this view, signalling theory suggests that credible ESG engagement can convey superior managerial capability and risk awareness, thereby strengthen investor confidence and facilitate access to capital. Empirical findings further indicate that ESG-engagement firms tend to exhibit greater resilience during market stress, highlighting the reputational and risk-management functions of sustainability practices (Albuquerque et al., 2019; Broadstock et al., 2021). Disaggregated evidence shows that environmental and governance dimensions often exert stronger financial effects in highly regulated industries, while social initiatives create value through human-capital and stakeholder-relationship channels (Clarkson et al., 2008; Liang & Renneboog, 2017; Hsu et al., 2021).

Nevertheless, a substantial body of research emphasises that ESG initiatives may also impose performance costs. Sustainability programmes frequently require significant upfront investments in compliance systems, environmental technologies, and reporting infrastructure. In institutional contexts where stakeholders place limited value on sustainability, such expenditures may constrain short-term profitability (Manchiraju & Rajgopal, 2017). Capital market responses to ESG information are also asymmetric, with negative sustainability events generating stronger adverse reactions than positive initiatives produce favourable effects (Chen et al., 2018). These outcomes are closely linked to information asymmetry and governance quality. When ESG disclosure is symbolic rather than substantive, firms may incur reputational risks and compliance costs without achieving corresponding financial benefits (Kim & Lyon, 2015). Agency-driven overinvestment in sustainability projects may likewise erode shareholder value when ESG activities are pursued for reputational motives rather than strategic efficiency (Barnea & Rubin, 2010. In capital-intensive or highly regulated industries, ESG commitments may even crowd out innovation investment or slow strategic decision-making (Awaysheh et al., 2020; Albuquerque et al., 2020).

A third strand of literature suggests that the ESG-performance relationship may be neutral. Some studies argue that sustainability-related costs and benefits offset each other, resulting in insignificant financial effects. For instance, ESG screening does not consistently generate abnormal returns across global equity markets (Auer & Schuhmacher, 2016), and socially responsible investment portfolios do not systematically outperform conventional strategies after controlling for market conditions (Revelli & Viviani, 2015). More recent research attributes these mixed findings to methodological challenges, including measurement divergence across ESG rating providers and institutional differences that shape stakeholders' responses to sustainability initiatives.

These inconsistencies are particularly salient in emerging markets characterised by institutional voids, weaker regulatory enforcement, and fragmented disclosure standards. Under such conditions, the credibility of ESG information becomes a critical determinant of its economic relevance. Stakeholders may discount sustainability disclosures unless supported by effective governance and assurance mechanisms. Overall, the literature suggests that ESG can enhance firm performance when sustainability initiatives are substantive, strategically aligned, and credibly communicated. Conversely, neutral or negative outcomes are more likely when disclosure quality is weak or institutional support remains underdeveloped. These insights are especially pertinent for emerging economies such as Vietnam, where ESG reporting frameworks continue to evolve. Accordingly, drawing on agency theory, signalling theory, information asymmetry, and institutional perspectives, this study proposes the following hypothesis:

H1: ESG disclosure has a significant positive impact on firm performance.

2.2. The moderating role of audit quality

Recent literature increasingly recognises that the relationship between ESG disclosure and firm performance is shaped by governance and institutional mechanisms that influence the credibility of corporate information. Among these mechanisms, audit quality has emerged as a critical moderating factor because it enhances the reliability, transparency, and decision-usefulness of both financial and non-financial disclosures. This reflects a broader evolution in auditing research, which has moved beyond viewing audit quality solely as a safeguard of financial reporting integrity to acknowledging its role in strengthening the credibility of strategic and sustainability-related disclosures.

From the perspective of information asymmetry theory, high-quality audits reduce investor uncertainty by improving the accuracy and verifiability of disclosed information. Reputable auditors, particularly large international audit firms, possess stronger technical expertise, reputational incentives, and independence standards, thereby enhancing monitoring effectiveness and constraining opportunistic managerial behaviour (Francis, 2011). By increasing transparency and reporting discipline, high audit quality can improve market confidence and facilitate more efficient capital allocation.

Subsequent research extends this governance function to voluntary and non-financial disclosures. ESG reporting often involves qualitative narratives, forward-looking commitments, and non-standardised metrics, making it particularly susceptible to managerial discretion and symbolic signalling. High-quality auditors can mitigate these risks by imposing stronger monitoring pressures and ensuring greater consistency between sustainability disclosure and firms' underlying operational practices. In this respect, audit quality operates as a credibility-enhancing mechanism that strengthens the informational and signalling value of ESG disclosure.

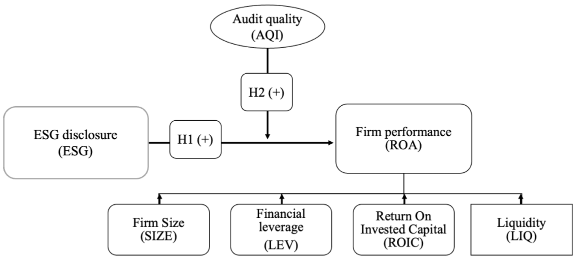
From a signalling theory perspective, firms associated with reputable auditors are more likely to be perceived as transparent and well governed, thereby increasing stakeholders' trust in sustainability reporting. This credibility effect may amplify the reputational and financial benefits of ESG disclosure by encouraging investors to incorporate sustainability information more fully into valuation and risk-assessment processes (Rezaee, 2016). Conversely, weak audit quality may lead stakeholders to discount ESG disclosure due to concerns about greenwashing or incomplete reporting, reducing its potential economic impact.

The moderating role of audit quality is expected to be particularly pronounced in emerging markets characterised by evolving disclosure standards and weaker enforcement mechanisms. In such contexts, external assurance can partially substitute for institutional deficiencies by reducing perceived information risk and enhancing disclosure credibility. In Vietnam, where ESG reporting remains voluntary and heterogeneous, high-quality audit assurance is therefore likely to strengthen stakeholders' confidence in sustainability information and enhance its value relevance. Based on these theoretical arguments, the following hypothesis is proposed:

H2: Audit quality positively moderates the relationship between ESG disclosure and firm performance.

Figure 1 shows the conceptual framework of the study.

Figure 1: Research conceptual framework



Source: Compiled by the authors

3. Research methodology

3.1. Research sample

This study employs secondary data to construct a firm-level panel dataset that integrates publicly disclosed financial information with a researcher-developed ESG measurement framework tailored to the Vietnamese context, where standardized sustainability ratings remain limited. This approach enables the combination of objective financial indicators with context-specific ESG disclosure measures, consistent with empirical sustainability research in emerging markets (Ioannou & Serafeim, 2017). The sample comprises 30 large-capitalisation non-financial firms listed on the Ho Chi Minh Stock Exchange (HOSE) over the period 2020-2024, resulting in a balanced panel of 150 firm-year observations. Financial institutions are excluded due to their distinct regulatory environments, capital structures, and reporting practices, which may systematically influence both ESG disclosure and audit characteristics. ESG-related information is manually extracted from the Annual Reports and Sustainability Reports, while financial performance indicators and control variables are obtained from the FiinPro database, which provides standardized financial statement data for Vietnamese listed firms.

Given the limited methodological transparency of major global ESG rating agencies, including MSCI, S&P Global, FTSE Russell, Sustainalytics, and RepRisk, this study develops a customized ESG disclosure index based on publicly available and replicable reporting guidelines. Environmental and social indicators are derived from disclosure guidance issued by the State Securities Commission of Vietnam (SSC) and the International Finance Corporation (IFC), conceptually aligned with the Global Reporting Initiative (GRI) framework, while governance indicators are incorporated from relevant GRI economic standards. The composite ESG score is calculated as the standardized aggregation of environmental, social, and governance components coded consistently across firms and years.

To capture governance credibility, the study further introduces an Audit Quality Index (AQI) as a moderating variable, proxied by a Big Four auditor indicator and audit reporting lag measured as the number of days between fiscal year-end and the release of audited financial statements (Habib & Bhuiyan, 2011). This methodological design follows established research advocating context-adapted ESG measurement in settings lacking nationally standardized sustainability ratings (Buallay, 2022), thereby enhancing both theoretical relevance and empirical robustness.

3.2. Reseach model and variable specification

To examine the moderating role of audit quality in the ESG disclosure - firm performance nexus, this study employed the following model:

$$ROA_{it} = \gamma + \delta_1 ESG_{it} + \delta_2 AQI_{it} + \delta_3 ESG_{it} \times AQI_{it} + \delta' Z_{it} + \varphi_{it}$$

In which:

ROA represents firm performance; *ESG* represents ESG disclosure through the composite sustainability score constructed from the E, S & G dimensions; proxies external assurance strength using Big4 auditor engagement and audit reporting timeliness; measures the moderating role of audit quality in ESG disclosure - firm performance nexus; is a vector of control variables including financial leverage (LEV), liquidity (LIQ), firm size (SIZE), return on invested capital (ROIC), and; *i* represents firm; *t* represents year; is the model error term.

Table 1 summarises the variable constructions of the models.

Table 1: Research variables specification

Code	Variables	Formulas	Hypotheses
ROA	Firm performance	Net income/ Total assets	-
ESG	ESG disclosure	Self-constructed composite ESG score	+
ESG × AQI	Moderating role of audit quality	ESG × AQI	+
LEV	Financial leverage	Total debt/Total assets	
LIQ	Liquidity	(Current assets - Inventory)/ Current liabilities	-
SIZE	Firm size	Ln (Total assets)	+
ROIC	Return on invested capital	Net operating after tax/ Invested Capital	-
AQI	Audit quality index	AQI = (Big4) + (Audit report lag)	+

Source: Compiled by the authors

4. Empirical results analysis

4.1. Descriptive statistics

Table 2 reports the summary statistics for the variables used in the study. ROA averages 6.5%, indicating moderate firm performance with substantial cross-firm variation. ESG scores display wide dispersion, reflecting heterogeneous sustainability disclosure and engagement across Vietnamese large-cap listed firms. Financial characteristics also vary considerably. Large-cap firms rely relatively heavily on debt financing on average, while liquidity exhibits pronounced volatility, suggesting uneven short-term financial flexibility. Firm size spans a broad range, among large-capitalisation listed firms. Returns on invested capital remain modest overall, indicating limited efficiency in capital utilisation.

Table 2: Descriptive statistics

Variables	Obs	Mean	SD.	Min	Max
ROA	150	0.065	0.066	-0.104	0.329
ESG	150	9.390	3.894	20	192.86
LEV	150	0.532	0.196	0.198	0.869
LIQ	150	-197.58	7.918	-5,238.3	3,712.5
SIZE	150	92,574	139,968	9,834	836,603
ROIC	150	0.023	0.026	-0.146	0.119
AQI	150	-0.059	1.571	-3.566	1.038

Note: ROA represents the firm performane; ESG represents ESG disclosure proxied by the composite sustainability score capturing environmental, social, and governance performance; LEV denotes financial leverage; LIQ reflects the firm's liquidity; SIZE represents firm size; ROIC is the return on invested capital; AQI represents audit quality.

Source: Compiled by the authors

Audit quality shows substantial heterogeneity, consistent with differences in external monitoring intensity and reporting environments. The observed variation across performance, ESG disclosure, and financial structure provides a suitable empirical setting for testing the study's hypotheses.

Table 3 reports the pairwise correlation matrix for the key variables. ESG performance is positively associated with ROA (0.419), providing preliminary evidence that stronger sustainability engagement coincides with higher operating performance. Similarly, audit quality (AQI) shows a positive correlation with ROA (0.415), suggesting that firms subject to stronger external assurance tend to exhibit better profitability.

Table 3: Correlation matrix

	ROA	ESG	LEV	LIQ	SIZE	ROIC	AQI
ROA	1						
ESG	0.419	1					
LEV	-0.321	-0.241	1				
LIQ	-0.275	0.012	-0.080	1			
SIZE	0.331	0.075	0.003	-0.276	1		
ROIC	-0.260	-0.082	0.165	-0.030	0.047	1	
AQI	0.415	-0.021	-0.021	-0.316	0.202	-0.084	1

Note: ROA represents the firm performane; ESG represents ESG disclosure proxied by the composite sustainability score capturing environmental, social, and governance performance; LEV denotes financial leverage; LIQ reflects the firm's liquidity; SIZE represents firm size; ROIC is the return on invested capital; AQI represents audit quality.

Source: Compiled by the authors

The correlation between ESG and AQI is negligible (-0.021), indicating that the two variables capture distinct firm attributes. Moreover, the correlations among explanatory variables remain well below conventional thresholds, alleviating concerns regarding multicollinearity. This inference is consistent with the formal diagnostic tests reported in the following Section 4.2.

4.2. Post-estimation diagnostic tests

To ensure the reliability of statistical inference, a series of post-estimation diagnostic tests were performed. Distributional properties were evaluated using skewness and kurtosis statistics, and variables exhibiting non-normal distributions were winsorised at the 5% level to reduce the impact of outliers. Multicollinearity among explanatory variables was examined using both pairwise correlation analysis and the Variance Inflation Factor (VIF). The reported correlation coefficients and VIF values remained below the commonly accepted thresholds of ±0.85 and 5, respectively (Table 3), indicating that multicollinearity is unlikely to distort the estimated coefficients.

Heteroskedasticity was tested using the Breusch-Pagan/Cook-Weisberg procedure, and heteroskedasticity-robust standard errors were employed where necessary. Model specification was further evaluated using the Ramsey RESET test to detect potential functional form misspecification or omitted variable bias.

Given the panel structure of the dataset, serial correlation was assessed using the Wooldridge (2002) test for autocorrelation. In addition, potential endogeneity associated with key explanatory variables was examined through the Durbin-Wu-Hausman test within a two-stage least squares framework. Where endogeneity concerns were indicated, the empirical analysis was extended using the two-step System Generalized Method of Moments (S-GMM) estimator to obtain consistent parameter estimates. Overall, the diagnostic evidence supports the adequacy of the model specification and confirms the robustness of the empirical results.

4.3. Regression results

Table 4 reports the estimation results for the main empirical specification examining the conditional effect of ESG disclosure on firm performance. The model is estimated using pooled OLS, fixed-effects, GLS, and two-step system GMM estimators to ensure the robustness of the findings under alternative assumptions regarding firm heterogeneity, error structure, and endogeneity. While static estimators provide preliminary evidence, the dynamic system GMM specification is particularly important in this setting because firm performance is inherently persistent and ESG disclosure may be jointly determined with financial outcomes. The consistency of the key coefficients across estimators therefore strengthens confidence in the validity of the empirical conclusions.

Across most specifications, ESG disclosure exhibits a positive and statistically significant relationship with firm performance, indicating that firms providing more transparent sustainability information tend to achieve stronger operating outcomes. This finding is consistent with agency theory, which suggests that enhanced disclosure reduces information asymmetry between managers and stakeholders, thereby improving monitoring efficiency and resource allocation (Griffin & Mahon, 1997; Margolis et al., 2009; Flammer, 2015). It also supports the signalling perspective, whereby credible sustainability reporting conveys information regarding managerial competence, risk awareness, and long-term strategic orientation (Albuquerque et al., 2019; Broadstock et al., 2021). In line with the literature, the results suggest that ESG disclosure can function as a reputational asset that strengthens stakeholder confidence and facilitates access to financial resources (Clarkson et al., 2008; Liang & Renneboog, 2017; Hsu et al., 2021).

More importantly, the interaction term between ESG disclosure and audit quality is positive and statistically significant in the preferred dynamic specification, providing strong support for the argument that the financial impact of sustainability transparency depends on the credibility of external assurance mechanisms. This result is closely aligned with the information asymmetry and governance arguments developed in the literature review, which emphasise that ESG reporting is particularly vulnerable to managerial discretion and symbolic signalling. High-quality audits can mitigate these risks by enhancing reporting discipline and improving the consistency between disclosed sustainability information and firms' underlying operational practices (Francis, 2011; Rezaee, 2016). From a signalling theory perspective, reputable audit assurance strengthens stakeholders' trust in ESG disclosure, thereby amplifying its economic relevance.

At the same time, the findings provide an informative contrast with studies highlighting potential adverse or neutral financial consequences of ESG initiatives. Prior research suggests that sustainability programmes may impose substantial compliance costs or lead to overinvestment problems when disclosure is superficial or strategically misaligned (Barnea & Rubin, 2010; Di Giuli & Kostovetsky, 2014; Manchiraju & Rajgopal, 2017).

Moreover, evidence indicates that ESG screening may not consistently generate abnormal returns in global markets due to offsetting costs and benefits (Auer & Schuhmacher, 2016; Revelli & Viviani, 2015). The positive and robust interaction effect observed in this study suggests that such adverse mechanisms are less dominant when sustainability disclosure is supported by credible governance structures. This interpretation is particularly relevant in emerging market environments characterised by institutional voids and evolving disclosure standards, where external audit assurance can substitute for weaker regulatory enforcement and enhance the perceived reliability of corporate information.

Table 4: Research results

	P-OLS	FEM	GLS	S-GMM
L1.ROA	--	--	--	0.2979*** (0.1015)
ESG	0.0006***	0.0002***	0.0002***	0.0006***
	(0.0001)	(0.0001)	(0.0000)	(0.0001)
AQI	0.0136**	0.0122***	-0.0017	0.0080*
	(0.0063)	(0.0038)	(0.0039)	(0.0045)
ESG×AQI	-0.0000	-0.0000**	0.0000	0.0002*
	(0.0001)	(0.0000)	(0.0000)	(0.0001)
LEV	-0.0717***	-0.0105	-0.0441***	0.0156
	(0.0209)	(0.0130)	(0.0082)	(0.0124)
LIQ	-0.0000**	-0.0000	-0.0000**	-0.0000
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
SIZE	9.89e-08***	1.93e-08	2.68e-08**	8.03e-08*
	(2.99e-08)	(1.97e-08)	(1.12e-08)	(4.81e-08)
ROIC	-0.4733***	-0.1436	-0.0641	-0.2629***
	(0.1561)	(0.0933)	(0.0727)	(0.0776)
Constant	-0.0482***	- 0.0505***	-0.0216***	-0.1420*
	(0.1721)	(0.1051)	(0.1147)	(0.1442)
No. of Obs	150	150	150	120
R-Squared	0.477	0.428	--	--
Firm fixed effect	No	Yes	No	No
Year fixed effect	No	Yes	No	No
AR (2) p-value				0.088
Hansen test p-value				0.781

*Note: ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. Standard errors are reported in parentheses. ROA represents the firm performane; L1.ROA represents ; ESG represents ESG disclosure proxied by the composite sustainability score capturing environmental, social, and governance performance; AQI represents audit quality; ESG×AQI measures the moderating effect of audit quality; LEV denotes financial leverage; LIQ reflects the firm's liquidity; SIZE represents firm size; ROIC is the return on invested capital.*

Source: Compiled by the authors

Regarding control variables, leverage generally exhibits a negative relation with firm performance, consistent with the performance-reducing effects of financial risk and constrained managerial flexibility. Firm size tends to be positively related to firm performance, reflecting scale advantages and improved access to capital markets. The dynamic specification also confirms significant persistence in firm performance, highlighting the importance of accounting for path-dependent profitability dynamics in ESG-related analyses.

Overall, the results provide robust evidence that the value relevance of ESG disclosure is conditional on audit quality, underscoring the role of credible governance mechanisms in shaping the financial consequences of sustainability transparency. These findings contribute to the literature by demonstrating that, in emerging markets such as Vietnam, ESG disclosure can enhance firm performance primarily when supported by strong external assurance that reduces information risk and strengthens stakeholder confidence.

Conclusions

This study investigates the moderating role of audit quality in shaping the ESG - firm performance nexus in the context of Vietnamese listed firms. Using panel data and alternative econometric estimators, including dynamic system GMM, the findings provide robust evidence that ESG disclosure is positively associated with firm profitability. More importantly, the results indicate that the financial relevance of sustainability transparency is conditional on the credibility of external assurance mechanisms. Firms with higher levels of audit quality appear to derive stronger performance benefits from ESG disclosure, suggesting that governance structures play a crucial role in enhancing the informational value of non-financial reporting.

These findings carry important implications. For corporate managers, ESG disclosure should be strategically integrated into broader transparency and governance frameworks rather than treated as a purely symbolic reporting exercise. For investors, the results highlight the importance of evaluating audit credibility alongside sustainability disclosure when assessing firm risk and long-term value. For policymakers, the evidence underscores the need to strengthen ESG reporting standards and audit assurance systems in emerging markets to improve the decision-usefulness of non-financial information.

The study contributes to the literature by shifting the focus from ESG engagement to the informational role of ESG disclosure and by demonstrating that governance quality conditions the ESG performance relationship. Empirically, it provides new evidence from Vietnam, where evolving institutional structures make disclosure credibility particularly salient. Methodologically, the use of dynamic panel estimation helps address performance persistence and potential endogeneity concerns in sustainability research.

Several limitations should be acknowledged. ESG disclosure is measured using a composite index that may not fully capture qualitative differences in reporting credibility, and the analysis focuses on large-cap listed firms, which may limit generalisability. Future research could examine alternative disclosure quality measures, explore additional governance moderators, or conduct cross-country comparisons to better understand how institutional environments shape the financial consequences of sustainability transparency.

References:

Ado, A. B., Rashid, N., Mustapha, U. A., & Ademola, O. J. (2020). Audit quality and sustainability reporting credibility: Evidence from emerging markets. Journal of Accounting in Emerging Economies, 10(4), 629-657.

Ado, A. B., Rashid, N., & Mustafa, U. A. (2024). Audit quality as an institutional substitute in sustainability reporting: Evidence from emerging economies. Journal of International Accounting, Auditing and Taxation, 52, 100562.

Albuquerque, R., Koskinen, Y., & Zhang, C. (2019). Corporate social responsibility and firm risk: Theory and empirical evidence. Management Science, 65(10), 4451-4469.

Auer, B. R., & Schuhmacher, F. (2016). Do socially responsible investments outperform conventional investment funds? Journal of Business Ethics, 136(4), 687-700.

Awaysheh, A., Heron, R. A., Perry, T., & Wilson, J. I. (2020). On the relation between corporate social responsibility and financial performance. Strategic Management Journal, 41(6), 965-987.

Barnea, A., & Rubin, A. (2010). Corporate social responsibility as a conflict between shareholders. Journal of Business Ethics, 97(1), 71-86.

Buallay, A. (2019). Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. Management of Environmental Quality, 30(1), 98-115.

Berk, J. B., & van Binsbergen, J. H. (2021). The impact of impact investing. Journal of Financial Economics, 142(2), 665-685.

Broadstock, D. C., Chan, K., Cheng, L. T. W., & Wang, X. (2021). The role of ESG performance during times of financial crisis: Evidence from COVID-19 in China. Finance Research Letters, 38, 101716.

Clarkson, P. M., Li, Y., Richardson, G. D., & Vasvari, F. P. (2008). Revisiting the relation between environmental performance and environmental disclosure: An empirical analysis. Accounting, Organizations and Society, 33(4-5), 303-327.

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835-2857.

Fernando, C. S., Sharfman, M. P., & Uysal, V. B. (2022). Corporate environmental policy and shareholder value: Following the smart money. Journal of Financial and Quantitative Analysis, 57(2), 653-683.

Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. Management Science, 61(11), 2549-2568.

Francis, J. R. (2004). What do we know about audit quality? The British Accounting Review, 36(4), 345-368.

Francis, J. R. (2011). A framework for understanding and researching audit quality. Auditing: A Journal of Practice & Theory, 30(2), 125-152.

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210-233.

Griffin, J. J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate. Business & Society, 36(1), 5-31.

Habib, A., & Bhuiyan, M. B. U. (2011). Audit firm industry specialization and the audit report lag. Journal of International Accounting, Auditing and Taxation, 20(1), 32-44.

Hope, O. K., Thomas, W. B., & Vyas, D. (2013). Financial credibility, ownership, and financing constraints in private firms. Journal of International Business Studies, 44(4), 1-21.

Hsu, P. H., Li, K., & Tsou, C. Y. (2021). The value relevance of ESG disclosure: Evidence from international markets. Journal of Accounting Research, 59(3), 1021-1058.

Hummel, K., & Schlick, C. (2016). The relationship between sustainability performance and sustainability disclosure. Accounting, Auditing & Accountability Journal, 29(4), 517-545.

Ioannou, I., & Serafeim, G. (2017). The consequences of mandatory corporate sustainability reporting. Harvard Business School Research Working Paper.

Kim, E.-H., & Lyon, T. P. (2015). Greenwash vs. brownwash: Exaggeration and undue modesty in corporate sustainability disclosure. Organization Science, 26(3), 705-723.

Liang, H., & Renneboog, L. (2017). On the foundations of corporate social responsibility. The Journal of Finance, 72(2), 853-910.

Liang, H., & Renneboog, L. (2020). Corporate social responsibility and sustainable finance: A review of the literature. European Corporate Governance Institute Working Paper.

Manchiraju, H., & Rajgopal, S. (2017). Does corporate social responsibility (CSR) create shareholder value? Evidence from the Indian Companies Act 2013. Journal of Accounting Research, 55(5), 1257-1300.

Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. (2009). Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate social and financial performance. Academy of Management Annals, 3(1), 401-455.

Ramsey, J. B. (1969). Tests for specification errors in classical linear least-squares regression analysis. Journal of the Royal Statistical Society: Series B, 31(2), 350-371.

Revelli, C., & Viviani, J.-L. (2015). Financial performance of socially responsible investing (SRI): What have we learned? A meta-analysis. Business Ethics: A European Review, 24(2), 158-185.

Rezaee, Z. (2016). Business sustainability: Performance, compliance, accountability, and integrated reporting. Sheffield: Greenleaf Publishing.

Simnett, R., Vanstraelen, A., & Chua, W. F. (2009). Assurance on sustainability reports: An international comparison. The Accounting Review, 84(3), 937-967.

Velte, P. (2021). Archival research on integrated reporting: A systematic review. Journal of Management Control, 32(4), 1-36.

Wooldridge, J.M. (2002) “Econometric Analysis of Cross Section and Panel Data”. Cambridge, MA: MIT Press.