




Financial Reporting Quality and Sustainable Development Information: Evidence from Vietnamese Listed Firms

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Abstract. Sustainable development information is a form of reporting on the implementation of social and environmental responsibilities that must be included in the company's annual report or sustainable report. However, how extensive or how much this information must release is still voluntary. This motivated us to research sustainable development information in the context of Vietnam. So that, this study attempts to examine the relationship between financial reporting quality and the level of sustainable development information. The research has followed the quantitative data collection methods with a sample of 262 Vietnamese listed firms in 2018 and run the multiple regression to test the hypotheses. The results indicated that financial reporting quality through accounting conservatism positively affects the extent of sustainable development information. The results add to the body of literature and inform future research on sustainable development information. From the management aspect, the results help investors recognize the motivation that company disclose this information.

Keywords: Sustainable Development Information · Financial Reporting Quality (FRQ) · Listed Company

1 Introduction

In recent years, the pressures and information needs have changed significantly (Romero et al., 2019). This change comes from changes in social goals and negative impacts of business activities on the living environment (Herzig and Schaltegger, 2011). This has led to requirements for sustainable business practices. That is why corporations and stakeholders are increasingly concerned about corporate sustainability (Romero et al., 2019). Although sustainable development information has received a lot of attention, this information also faces many challenges (Herzig and Schaltegger, 2011). One of those challenges is companies that provide high quality financial information tend to be more conservative in their accounting and less inclined to carry out unethical practices such as earnings management. Accordingly, they are more socially responsible (Martínez-Ferrero et al., 2015). So, the aim of this study is to analyze the relationship between financial reporting quality (FRQ) and the level of sustainable development information with the context in Viet Nam.

2 Literature Review

The relationship between FRQ and sustainable development information has been investigated in previous literature. Firstly, Prior et al. (2008) used data to investigate the connection between earnings management and corporate social responsibility (CSR) from 2002 and 2004 with a sample of 593 firms in 26 countries. They adopt Kothari et al. (2005) to measure earnings management and use SiRi Pro data to calculate CSR. The finding shows that a positive impact of earnings management practices on CSR. Then, McDermott. (2011) collected data from the KLD STATS from 1992–2009, which provided data on the firm's corporate social responsibility prepared by KLD Research and Analytics, Inc. (KLD). The author use accruals quality as a proxy for FRQ. The result finds that higher-quality financial reporting reduces over-investment in CSR.

Contrary to the results of McDermott. (2011), B.B.Choi et al. (2013) collect data of Korean companies listed on the KOSPI market of the Korea Exchange from 2002 to 2008. To measure the CSR activities, the KEJI index is employed for the analysis. To gauge the level of earnings level, the discretionary accruals are calculated using the modified Jones model. Thus, a higher level of earnings management indicates that the earnings quality is lower. The result shows a negative association, which indicates that firms with high quality earnings also have better CSR ratings.

Based on institutional theory and signaling theory, Gavana et al. (2017) studied the effect of earnings management practices on a firm's corporate social responsibility (CSR) disclosure behavior. For the period 2006–2015, by analyzing a sample of 226 Italian listed companies, the results revealed that firms are particularly committed to diverting attention from earnings adulterated reductions and, in the presence of this practice, they increase their CSR disclosure, in order to convey an ethical image. The disclosure data was collected by hand from the stand – alone CSR reports available for each firm/ year in the sample. CSR variable was measured by GRI with 93 items and assigned a value of 1 if the item was disclosed and 0 otherwise. Earnings management variable was measured by the model of Dechow et al., (1995).

By using a Tobid method, Martínez-Ferrero et al. (2015) showed that conservative companies, which a high level of accruals quality, provide high quality financial information, and provide high quality CSR information. According to previous studies, FRQ was measured by many different methods, including the degree of earnings management (EA) using accruals (Dechow and Dichev., 2002), the degree of accounting conservatism (Khan and Watts., 2009) and accrual quality (Kothari et al., 2005). To represent the level of standardisation of CSR information disclosed, this study used GRI as a dependent variable and it takes the value from 0 to 3. However, by using an international database, this paper has certain limitation about accounting issues - the consequent heterogeneity of information.

Also using GRI guidelines, Asrori et al. (2019) was classified into 7 themes with 78 items measured by index: if the company discloses an item then it is given a value of 1, and if it does not reveal it is valued at 0. This population of this study was a manufacturing company listed on the Indonesia Stock Exchange and published financial reports and annual reports for the last fiscal year, 2008–2009. As used by Dechow et al. (1995), earnings management in this study was proxied by the Jones model discretionary accruals. By using SPSS version 17, authors analyzed the influence of earnings management

on corporate social and environment disclosure. Research results showed that there is a positive effect of discretionary accrual on the level of CSR disclosure. This can be explained that the higher the company does earnings management, the more items of social and environmental responsibility are disclosed.

Based on the agency perspective, Mohamed et al. (2019) investigate the effect of earnings quality on CSR, in Egyptian listed firms from 2007 to 2015. This study uses the environmental and social CSR aspects are drawn from the S&P/ESG index data. Earnings quality is measured by Kothari model. This study also employs both the modified Jones model and proposed by Dechow et al. (1995) and the asymmetric recognition of gains and losses model as proposed by Ball and Shivakumar (2006) to test the robustness of the results. The result shows that earnings quality is positively and significantly associated with CSR ($p_value < 0,01$). This finding supports the agency theory perspective and managerial opportunism as a motivation for CSR in Egyptian firms.

By examining the effect of earnings quality on corporate social disclosure in the context of Viet Nam, Hoang, TC et al. (2019) test social responsibility based on stakeholder theory and whether firms uphold managerial opportunism based on the agency theory. The sample consists of all Vietnamese listed firms, except for banks and other financial industry firms. To capture the quality of corporate social disclosure, this study examines the annual reports during the year ended 31 December 2010. This study constructed a standardise aggregate earnings quality score based on four accounting measures of earnings, namely, accruals quality, earnings predictability, earnings smoothness and earnings persistence. Based on how the individual earnings attributes are ascertained, the larger the value of the individual earnings quality measure, the lower the earnings quality. To measure corporate social disclosure, this study constructs a three – dimensional corporate social disclosure index where one dimension is the quantity of corporate social disclosure, and other two relate to disclosure type quality and disclosure item quality. The quality of corporate social disclosure is measured by content analysis techniques. The GRI 3.1 index was used to measure corporate social disclosure practices in Viet Nam. The result reveals that earnings quality is positively and significantly associated with corporate social disclosure. The result also finds that the relationship between earnings quality and corporate social disclosure is weakened as the percentage of shares by government increases.

To investigate the effect of conservatism in financial reporting on CSR disclosures, Cho et al. (2020) collect data from CSR press releases through the CSR newswire service and use Khan and Watts (2009) model to estimate accounting conservatism. Theoretical and empirical studies suggest that the quantity and quality of CSR disclosures are associated with the degree of accounting conservatism. CSR disclosures are reduced when its financial reporting is more conservative.

Similarly, Anagnostopoulou et al. (2020) examine the association between accounting conservatism, expressed in asymmetric timeliness of recognition of economic gains and losses, and CSR. This study collects CSR data from KLD database and estimate conservatism by Khan and Watts (2009) model. The findings show a robust negative association between conditional conservatism and CSR. This evidence shows that when under pressure from financial stakeholders, managers appear to prioritize the needs of

their capital providers over investments promoting societal good, despite the increasing importance of and attention attracted by CSR practices over time.

3 Research Framework

3.1 Research Hypothesis

Based on Legitimacy Theory of Suchman (1995), to meet society's expectations towards the goal of sustainable development, businesses that provide quality accounting information will publish a lot of information related to the sustainable development. Since companies operate in an environment where accountability is a prerequisite for competition, corporate social responsibility (CSR) is considered an important strategic element (J. Francis et al., 2008). In addition, this relationship is also explained based on the stakeholder theory of Freeman (1983). Specifically, the quality of a company's profits needs to be commensurate with its CSR activities to meet the needs of its stakeholders (B. B. Choi et al., 2013). This has been proven in the study of Hoang, TC et al. (2019) with context analysis data in Vietnam. Also, McDermott (2011) showed that accrual quality has a negative effect on investments in CSR with data analyzed in the multinational context. In addition, Choi et al. (2013) and Gavana et al. (2017) have demonstrated the extent to which earnings management has a negative effect on CSR information in the Korean and Italian markets, respectively. By using both accrual earnings management and accrual quality scales, Martínez-Ferrero et al. (2015) found that the degree of accrual earnings management and accrual quality negatively affect the information on sustainable development. This contributes to support the view that the more a company discloses quality accounting information, the more information it will disclose related to its sustainable development goals in order to meet social and stakeholder expectations inside and outside the business (Martínez-Ferrero et al., 2015). In this regard, we proposed the following research hypothesis:

H1: The degree of accrual earnings management has a negative effect on the extent of disclosure of sustainable development.

H2: Accumulation quality has a negative effect on the extent of disclosure of sustainable development information.

Also based on stakeholder theory, Anagnostopoulou et al. (2020) argue that companies are expected to demonstrate ethical responsibility to all stakeholders when they demonstrate financial responsibility through the degree of high caution. This view has been demonstrated in the study of Martínez-Ferrero et al. (2015) and Mohamed et al (2019). Therefore, hypothesis 3 is proposed as follows:

H3: The degree of accounting prudence has a positive effect on the extent of disclosure of sustainable development information.

3.2 Variable Definition

Sustainable development information: Since the Brundtland Report was issued by the World Commission on Environment and Development (WCED) in 1987, sustainable development is a concept that was widely used. According to this report, "sustainable

development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs". In other words, sustainable development must ensure effective economic development, a protected and preserved environment and a just society. According to Perrini and Tencati (2006), a company with a sustainable development orientation will consider the economic, environmental and social aspects of their operations over time. Sustainable development information is often published on annual reports, sustainability reports... Sustainability reports are reports that reflect the extent to which the company has taken to improve efficiency, as well as reflect the effect achieved is related to the three aspects of economic, environment and society (Daub, 2007). Similarly, sustainability reporting was also defined by the World Business Council on Sustainable Development (WBCSD) as follows: "A public company report to provide to internal and external stakeholders picture of the position of the company and its economic, environmental and social activities". Thus, in this study, we perceive that sustainable development of enterprises is expressed through three aspects: social, economic, and environmental.

Financial reporting quality (FRQ): The financial reporting quality is a concept that many scientists are interested in, but there is still no unified definition. Barth et al (2008) define accounting information as having quality when it reflects the economic situation and performance of the entity. Watts (2003) argues that financial reporting quality is information that benefits investors and other stakeholders by protecting them against actions that influence accounting data from the managers. According to Choi and Pae (2011), financial reporting quality is demonstrated by providing useful information for decision-making purposes. And that is also the basic objective of the financial statements. Thus, several approaches show that financial reporting quality is understood as the truthfulness and reasonableness of the information presented on the report. This is also consistent with two basic characteristics (relevance and fair presentation) to ensure the quality of financial statements according to IASB (2018).

3.3 Variable Measurement

The study uses content analysis techniques to measure the level of disclosure of sustainable development information. To do content analysis techniques, studies need to be based on a set of criteria for evaluating information, known as an evaluation framework. According to Siew (2015) there are many frameworks to guide the preparation of Sustainability Reporting. Among them, GRI is considered as a leading design guideline standard for creating Sustainability Reports (Hahn and Kühnen, 2013). Therefore, GRI is chosen by many studies to measure sustainable development information or social responsibility information (Adnan et al., 2018; Hoang, TC et al., 2019; Johari, 2019; Kuzey and Uyar, 2017; Martínez-Ferrero et al., 2015). According to the assessment from the Association of Chartered Certified Accountants (ACCA), almost Vietnamese enterprises apply GRI to prepare sustainability reports in the core application option, not comprehensively (ACCA, 2019). Therefore, the set of criteria for measuring sustainable development information that the study selected based on the set of GRI criteria has been adjusted to suit the content of information published by listed companies in Vietnam with a rating scale from 0 to 3 points.

The financial reporting quality is expressed through three aspects: the degree of accrual earnings management, the accrual quality, and the degree of accounting conservatism. In which, the accrual earnings management is measured by the model of Dechow et al. (1995), the accrual quality is measured by the model of Francis et al. (2005) and the level of accounting conservatism is estimated with the adjusted Basu model by M. Khan and Watts (2009).

In order to enhance the explanatory power, we add in the model a number of control variables that have significant impact on the disclosure of sustainable development information that are well tested from previous studies such as firm size (Kuzey and Uyar, 2017; Martínez-Ferrero et al., 2015; McDermott, 2011; Reverte, 2009), industry (Martínez-Ferrero et al., 2015; Reverte, 2009), firm age (A. Khan et al, 2013; M. Shamil et al, 2014) and profitability (A. Khan et al, 2013; Martínez-Ferrero et al., 2015; Reverte, 2009) (Table 1).

3.4 The Data Source and Sample

The data source used in this study is secondary data. The variables in the model include the financial reporting quality and the extent of disclosure of sustainable development information. In which, the extent of disclosure of sustainable development information is taken from the Sustainable Development Reports prepared by themselves and from the annual report on the case of the enterprises did not prepare the Sustainable Development Reports. The annual reports are collected from <https://www.hsx.vn> and the companies' website. The financial reporting quality variable is collected from Thomson Reuters data. However, short-term debt is not fully provided from Thomson Reuters data source, so we collected directly from the financial statements and <https://finance.vietstock.vn/>.

The sample is selected from companies listed on Vietnam stock market. The identification of the sample as listed companies is based on the criteria that listed companies have publicly accessible data, so they are obligated to disclose more information than others (Asrori et al., 2019). With the initial sample of 365 companies listed on the Ho Chi Minh City Stock Exchange in 2018, after excluding samples that do not meet the conditions, the remaining sample including 262 companies.

4 Findings

First, this research has examined the validity of the hypotheses. These values have been mentioned in Table 2.

The results in Table 2 exposed that all the P_values of the F-test are less than 10%, this means the model is suitable to run the regression. In addition, based on the R-squared value, the sustainable development information variable explained by the independent and control variables in models 1, 2 and 3 is 20.77%, 20.14% and 21.87%, respectively. Since the regression model is determined to be suitable, the author performs a test to check the multicollinearity of the model through the variance inflation factor (VIF).

The results obtained from Tables 3, 4, 5 show that: all independent and control variables in models 1, 2, 3 have $VIF < 2$. This proves that multicollinearity does not

Table 1. Design of the scale.

No.	Factors	Scale	Source
1	Sustainable Development Information	GRI criteria has been adjusted to suit the content of information published by listed companies in Vietnam with a rating scale from 0 to 3 points. - 0: if SDI is not published - 1: if SDI is published at a basic level - 2: if SDI is published at a full level - 3: if SDI is published at an advanced level	Adnan et al., 2018; Hoang, TC et al., 2019; Johari, 2019; Kuzey and Uyar, 2017; Martínez-Ferrero et al., 2015
2	Financial Reporting Quality (FRQ)	The accrual earnings management is measured by the model of Dechow et al. (1995) The accrual quality is measured by the model of Francis et al. (2005) The level of accounting conservatism is estimated with the adjusted Basu model by M. Khan and Watts (2009)	J. Francis et al, 2008; Martínez-Ferrero et al., 2015; Verleun et al, 2011
3	Firm size	Log (Asset)	Kuzey and Uyar, 2017; Martínez-Ferrero et al., 2015; McDermott, 2011; Reverte, 2009
4	Industry	1: Industries that are environmentally sensitive (utilities, energy, materials, construction, real estate and industry) 0: Industries that are not environmentally sensitive	Martínez-Ferrero et al., 2015; Reverte, 2009
5	Firm age	Number of years of operation	A. Khan et al, 2013; M. Shamil et al, 2014
6	Profitability	Profit after tax/ Asset	A. Khan et al, 2013; Martínez-Ferrero et al., 2015; Reverte, 2009

Table 2. Testing the validity of the hypotheses

	Obs	R-squared	Prob > F
H1	0.0000	0.208	0.0000
H2	262	0.201	0.0000
H3	262	0.219	0.0000

Table 3. Results of testing to assess multicollinearity of hypothesis 1

Variable	VIF	1/VIF
The accrual earnings management	1.07	0.9358
Industry	1.05	0.9533
Firm age	1.05	0.9499
Firm size	1.00	0.9953
ROA	1.07	0.9364
Mean VIF	1.05	

Table 4. Results of testing to assess multicollinearity of hypothesis 2

Variable	VIF	1/VIF
Accrual quality	1.03	0.9726
Industry	1.06	0.9409
Firm age	1.06	0.9472
Firm size	1.01	0.9928
ROA	1.01	0.9884
Mean VIF	1.03	

Table 5. Results of testing to assess multicollinearity of hypothesis 3

Variable	VIF	1/VIF
Accounting conservatism	1.33	0.7519
Industry	1.06	0.9473
Firm age	1.09	0.917
Firm size	1.04	0.9623
ROA	1.21	0.8275
Mean VIF	1.14	

exist in these models. Next, Table 6 will give the results of the White test to determine whether *errors* have *constant variance*.

Table 6. Results of Tests for Constant Error Variance

H1	Estat imtest, white White’s test for Ho: homoskedasticity against Ha: unrestricted heteroskedasticity chi2(20) = 51.67 Prob > chi2 = 0.0001
H2	Estat imtest, white White’s test for Ho: homoskedasticity against Ha: unrestricted heteroskedasticity chi2(20) = 47.46 Prob > chi2 = 0.0003
H3	Estat imtest, white White’s test for Ho: homoskedasticity Against Ha: unrestricted heteroskedasticity chi2(20) = 49.22 Prob > chi2 = 0.0002

Table 7. The updated regression models results

Variable	H1: SR (robust)		H2: SR (robust)		H3: SR (robust)	
	Coef	t	Coef	t	Coef	t
AEM	-.3945424	-1.72				
AQ			-0.21821	-0.48		
AC					.1688199***	2.61
Firm size	.127798***	6.34	.127641***	6.36	.1360234***	6.45
Industry	-.227827***	-2.93	-.237624**	-3.06	-.2184188***	-2.86
Firm age	.0001366	0.1	.000269	0.20	-.0004622	-0.32
ROA	.011057***	3.34	.00978**	3.19	.0062938**	1.91

Notes: AEM: accrual earnings management, AQ: Accrual quality, AC: Accounting conservatism; *, **, *** denotes significance at 10%, 5%, and 1% respectively

The results of Table 6 illustrates that The p_value of models 1, 2 and 3 are all less than the significance level $\alpha = 10\%$. Therefore, all three model errors (or residuals) have non-constant variance. Hence, to get better regression results, we run the regression again using a strong standard error model. These values have been mentioned in Table 7.

Table 7 indicates that in terms of three components representing the financial reporting quality, only the level of prudence has an effect on the extent of disclosure of sustainable development information. This is the positive effect with high statistical significance level of 1%. As a result, hypothesis H3 is accepted. In addition, the degree of disclosure of sustainable development information is also affected by the variables of firm size, industry and profitability with statistical significance at 1%.

5 Conclusion

The theory of legitimacy and stakeholders suggests that accrual earnings management and accrual quality negatively affect the extent of disclosure of sustainable development information. However, the research did not obtain statistical evidence in the Vietnamese market. The result is similar to the study of Laksmi and Kamila (2018) in the context of Indonesia. This can be explained by the fact that sustainable development information in developing countries has not received as much attention from stakeholders as in developed countries (Chih et al., 2008). Therefore, listed companies in Vietnam do not have much incentive to disclose information related to sustainable development.

Besides, based on stakeholder theory, we hypothesized that the degree of accounting conservatism has a positive effect on the extent of disclosure of sustainable development information. This hypothesis has been accepted by the statisticals with a high significance level of 1%. This means the more conservative companies are, the more sustainable development information they disclose. These results are in line with the past study of Martínez-Ferrero et al. (2015), Mohamed et al. (2019) which shows that accounting conservatism is positively linked with disclosure of sustainable development information. Moreover, the study results have also indicated that the level of disclosure of sustainable development information is affected by some factors: firm size, industry and profitability with statistical significance at 1%. For the industry, this result is inconsistent with prior studies such as Reverte (2009), da Silva Monteiro and Aibar-Guzmán (2010), Kuzey and Uyar (2017). Sectors that are considered to be sensitive to the environment such as industry, materials, real estate construction and installation, and utility services publish information on sustainable development lower than those of non-environmentally sensitive industries. This can be explained from the legitimacy theory, the groups of industries that are not sensitive to the environment such as health care and essential consumer goods exposure in high-choice media environments, therefore, to improve their images, businesses in these sectors tend to disclose more sustainable development information.

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