



Moderating role of Audit Quality in the relationship between ESG Performance and Corporate Capital Financing Dynamics: A Case Study of Iran

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ABSTRACT

This study investigates the relationship between environmental, social, and governance (ESG) performance and corporate capital financing dynamics, while also examining the moderating role of audit quality in this relationship. Firms with stronger ESG performance are expected to reduce information asymmetry and perceived risk, thereby improving their financing conditions and influencing their capital financing decisions. The study adopts an applied research approach with a descriptive–correlational design. ESG performance is measured using the weighted disclosure method developed by Fakhari et al. (2017), which evaluates the extent of ESG-related information disclosed in firms' board reports. Audit quality is proxied by auditor size; following Khani and Rajab-Dari (2021), a dummy variable is used that takes the value of one if the firm is audited by the Audit Organization and zero otherwise. The statistical population consists of companies listed on the Tehran Stock Exchange, from which a sample of 143 firms was selected for the period 2013–2022. The research hypotheses were tested using panel data and pooled regression models estimated through the EGLS method in EViews. The empirical results reveal a positive and statistically significant relationship between ESG performance and corporate capital financing dynamics. Moreover, audit quality positively moderates this relationship, indicating that higher-quality auditing enhances the credibility of ESG disclosures and mitigates opportunistic managerial behavior. These findings highlight the importance of ESG practices and robust auditing mechanisms in improving firms' financing conditions. However, the results should be interpreted with caution due to limitations related to ESG data availability and measurement challenges in emerging markets. Overall, the study provides practical implications for regulators, investors, and corporate managers regarding the role of ESG performance and audit quality in corporate financing decisions.

KEYWORDS: Dynamics of capital financing, Environmental, Social and governance performance, Audit quality

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1. Introduction

The global growth of responsible investment has increased attention to environmental, social, and governance (ESG) performance, which represents the non-financial dimensions of corporate activities. Stakeholders increasingly expect companies to move beyond minimum legal ESG requirements and contribute more actively to environmental protection and social welfare (Zhang et al., 2022). This expectation is consistent with stakeholder theory, which posits that firms create long-term value by addressing the interests and expectations of various stakeholder groups, including investors, employees, customers, regulators, and society (Freeman, 2010). Accordingly, firms that actively engage in ESG practices are more likely to strengthen relationships with stakeholders and enhance their legitimacy in the broader institutional environment. Despite the growing recognition of ESG practices and the implementation of various initiatives designed to enhance social and environmental responsibility, many global challenges—including social inequality, violence, and environmental degradation—remain unresolved (Deegan, 2017). These conditions highlight the limitations of existing corporate and governmental efforts in fulfilling their broader responsibilities. In many cases, governments continue to treat environmental and social responsibilities as largely voluntary and market-based activities (Deegan & Shelly, 2014), thereby aligning with corporate interests in shaping the scope of corporate accountability.

From a market-based perspective, the effective implementation of ESG practices has been shown to enhance firm performance (Zahid et al., 2022), support the development and sustainability of competitive advantages (Aragon-Correa, 1998; Russo & Perrini, 2010), and strengthen relationships with key stakeholders (Freeman, 2010). Prior research also suggests that ESG disclosure can reduce a firm's cost of capital and increase firm value (Eliwa et al., 2021). These outcomes can also be explained through signaling theory, which argues that firms voluntarily disclose ESG information to signal their quality, transparency, and long-term sustainability to investors and other market participants. By providing credible signals regarding responsible corporate behavior, ESG disclosure helps reduce information asymmetry between managers and external stakeholders and improves market perceptions of firm value.

In practice, firms typically adopt one of two strategies when reporting environmental and social activities. The first is a substantive strategy, in which ESG disclosures reflect genuine organizational actions and commitments. The second is a symbolic strategy, whereby companies signal conformity with social expectations without implementing substantial changes in their underlying practices or policies (Zahid et al., 2024). Evidence suggests that many firms rely on symbolic disclosure to maintain legitimacy and satisfy stakeholder expectations, even when actual ESG performance remains limited (Michelon et al., 2015).

Empirical findings indicate that firms with stronger ESG performance tend to exhibit higher future firm value compared with firms with weaker ESG performance. This pattern suggests that investors increasingly incorporate ESG considerations into their investment decisions, leading to improved stock prices and market valuations for firms with strong ESG profiles. Moreover, prior evidence indicates that audit quality plays a significant moderating role in the relationship between ESG performance and firm value. High-quality auditors enhance the credibility and reliability of

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ESG-related information, thereby strengthening investor confidence and amplifying the positive impact of ESG performance on firm value (El-Deeb, Ismail, & El Banna, 2023).

Nevertheless, empirical evidence remains limited regarding whether firms adopt substantive or symbolic approaches when disclosing environmental and social information. Some studies grounded in social accounting literature associate ESG disclosure primarily with symbolic behavior (Cho & Patten, 2007), whereas other market-based studies suggest that ESG disclosure reflects substantive organizational practices (Clarkson et al., 2008; Erragragui, 2018; Khan et al., 2021). In addition, ESG performance and disclosure have been shown to influence corporate capital financing decisions (Kim & Li, 2021; Zhang et al., 2022). However, prior empirical research examining the relationship between ESG performance and capital financing remains limited and has produced inconsistent findings (Lindkvist & Saric, 2020). Consequently, it remains unclear whether ESG initiatives exert a genuine economic influence on financing decisions or merely serve symbolic purposes.

Furthermore, investments in ESG initiatives can enhance a firm's social reputation and legitimacy; however, these benefits may be undermined by managerial opportunism and ethical hazards (Lemma et al., 2022). This issue can be understood through agency theory, which highlights conflicts of interest between managers and shareholders. Managers may engage in opportunistic behavior or use ESG disclosures strategically to enhance their reputation without implementing substantive improvements. In this context, audit quality serves as an important governance mechanism that mitigates managerial opportunistic behavior and reduces agency conflicts. High-quality auditing enhances transparency and reliability in corporate reporting, thereby strengthening trust among investors, lenders, and other external stakeholders (Zahid et al., 2024). The institutional context of Iran provides a distinctive environment for examining the relationship between ESG performance and corporate capital financing. Several institutional and regulatory characteristics of the Iranian economy make this setting particularly relevant for studying how ESG practices influence firms' financing decisions. First, the Iranian capital market is characterized by relatively high levels of information asymmetry and limited transparency compared with more developed markets. In such environments, non-financial information—such as ESG disclosures—can play an important role in reducing uncertainty and improving the quality of information available to investors and creditors. When reliable ESG information is available, it may serve as an additional signal of corporate transparency, ethical behavior, and long-term sustainability, thereby influencing investors' perceptions and financing decisions. Second, the regulatory framework governing ESG disclosure in Iran remains relatively underdeveloped. Unlike many developed economies where ESG reporting standards and sustainability disclosure frameworks have become increasingly formalized, ESG disclosure in Iran is largely voluntary and lacks standardized reporting requirements. This regulatory gap creates variation in the extent and quality of ESG disclosures across firms, making it possible to empirically examine how differences in ESG performance affect corporate financing dynamics. Third, the Iranian financial system is relatively bank-oriented, and access to external financing can be constrained by institutional and economic factors such as financial market inefficiencies, limited availability of long-term

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financing instruments, and economic sanctions that restrict international capital flows. Under such conditions, firms may rely more heavily on internal financing or domestic capital markets, and credible non-financial signals—including ESG practices and high-quality auditing—may become more important in attracting investors and securing financial resources. Fourth, corporate governance structures in many emerging markets, including Iran, may face challenges related to agency conflicts, ownership concentration, and limited investor protection. In this context, mechanisms that enhance transparency and credibility—such as high audit quality and reliable ESG reporting—can play a critical role in mitigating agency problems and strengthening investor confidence. Finally, environmental and social challenges in Iran, including environmental degradation, resource constraints, and increasing societal expectations regarding corporate responsibility, have heightened the importance of sustainable business practices. These conditions encourage firms to engage more actively in ESG-related activities and disclosures in order to maintain legitimacy and improve their reputation among stakeholders. Taken together, these institutional characteristics—information asymmetry, evolving ESG regulatory frameworks, financing constraints, corporate governance challenges, and increasing societal expectations—create a meaningful and relevant context for investigating how ESG performance influences corporate capital financing and how audit quality may moderate this relationship within the Iranian capital market.

Financial institutions and investors increasingly consider ESG practices as an important indicator when evaluating corporate credibility and long-term sustainability. From the perspective of legitimacy theory, ESG disclosure enhances organizational legitimacy, which may improve access to external financing and reduce the cost of capital. Moreover, increased investor confidence may encourage firms to rely more on equity financing rather than debt financing. Integrating these theoretical perspectives—stakeholder theory, signaling theory, agency theory, and legitimacy theory—provides a comprehensive conceptual framework for understanding how ESG performance influences corporate financing decisions and how audit quality may strengthen this relationship. Given these considerations, this study investigates the moderating role of audit quality in the relationship between environmental, social, and governance performance and the dynamics of corporate capital financing. Specifically, the study seeks to answer the following research question: What is the relationship between ESG performance and corporate capital financing dynamics, and how does audit quality influence this relationship?

The findings of this research may provide valuable insights for regulators such as the Securities and Exchange Organization, financial analysts and brokers, corporate financial managers, and auditing institutions. In addition, the results may assist researchers and students in the fields of accounting, finance, and auditing by expanding the existing body of knowledge on ESG practices and corporate financing decisions. For investors, the findings can provide a clearer understanding of the current status of firms and their potential future performance, thereby supporting more informed investment decisions. Finally, the study may assist corporate managers in strengthening internal control systems, improving ESG performance and disclosure, and enhancing audit quality,

ultimately contributing to improved corporate financial performance and credibility in capital markets.

2. Literature Review

Theoretical foundations and research background

The capital structure of economic enterprises is essential for both financial performance and non-financial performance, including their social welfare. Research shows that companies that engage in socially responsible investments tend to have higher equity and maintain lower levels of leverage. Additionally, social and environmental aspects have a positive impact on lower leverage, while the governance aspect is also supported by agency theory, which suggests that improving governance quality can reduce agency costs and subsequently lower debt levels (Zahid et al, 2024). Two main financial theories provide theoretical support for ESG and capital financing decisions. The first is business theory, which guides management to decide how to structure a company's equity capital and determine levels of financial leverage (Modigliani & Miller ,1985). On the other hand, the pecking order hypothesis explains the preference for the use of internal funds in adverse conditions (Myers , 1984).

Based on data for Western European listed companies (leaders in ESG revolution) over the period 2010–2019, panel regression analyses show a significant positive relationship between ESG and dividend payouts. Thus, companies with strong ESG practices prove their stakeholders' and shareholders' orientation, maintaining their dividend payments. However, involvement in high-quality ESG practices slows dividend growth. Audit quality has also a negative moderating effect on ESG–dividend links, prevalent at the firms whose financial audit is conducted by Big Four auditors, with no statistically significant results for ESG assurance quality. The findings are robust to sensitivity analyses based on alternative measures and estimation techniques (Zahid et al., 2023). Excessive investment in ESG activities may encourage companies to gain easy access to equity funds. However, excessive investment in ESG also affects executives' interest in obtaining personal benefits as a result of the company's established social reputation (Barnea & Rubin , 2010; Borghesi et al , 2014), which helps management to extract private benefits at the expense of shareholders' funds.

One of the strongest control techniques for monitoring managerial activities is the auditing by a quality auditor, which limits their opportunistic behavior and provides reasonable assurance of the quality of financial reporting. By reducing financial frictions such as moral hazard and adverse selection between management and other stakeholders, resource allocation and contract efficiency can be improved. In addition, the audit theory indicates that the effectiveness of external auditing depends on the quality of the audit (Francis & Yu , 2009; Knechel et al , 2013; Lin & Hwang , 2010), which may be influenced by the size of the auditor or its brand identity. Larger audit firms are more independent and provide quality financial services, as their reputations are compromised if there is a misrepresentation. As a result, well-known and large audit firms provide superior audit services (Francis & Wang , 2008). In addition, Pae and Yoo (2001) suggest that the four major

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auditors provide audit and quality assurance services, as they allocate more resources in terms of human capital and the use of technology to promote service quality control, associated risk management, independence in mere services, and the quality of decision-making and the overall quality of audit services. In addition, Xiao et al (2020) claim that large auditors are more likely to support the expansion of new reporting aspects (such as CSR reporting) that may strengthen their intelligence and reliability responsibilities. Finally, Kosar et al (2016) state that the choice of audit firm provides more information about the company's outlook to external stakeholders, and from the perspective of shareholders, large audit firms have more audit value.

Also in the results from a fixed-effect panel regression show that higher ESG scores lead to higher valuation when a Big Four audit firm is engaged as the external auditor, highlighting the impact of audit quality on the the reliability of the ESG evaluation (Vaihekoski & Yahya, 2025).

Zahid and colleagues (2024) conducted a study titled "The Moderating Role of Audit Quality in ESG Performance and Capital Financing Dynamics: Insights from China." This study reveals the relationship between environmental, social, and governance (ESG) performance and the capital structure of companies in the Chinese corporate sector. Furthermore, it was examined whether audit quality intervenes in this ESG-capital structure relationship. Utilizing panel regression with fixed effects, they selected A-Listed Chinese companies that provided 6,295 annual observations from 2010 to 2019. The results support legitimacy theory and indicate that ESG disclosure and a company's overall progress are significant factors in determining their financial decisions. The findings show that companies with better ESG performance have lower debt financing and easier access to equity capital from stock markets. However, the results did not demonstrate a significant impact of audit quality on this relationship. Zhao and Zhang (2024) conducted a study titled "How does ESG performance determine specific financing levels in capital structure? New insights from China." This study examines the relationship between ESG performance and capital structure in Chinese companies, focusing on debt and equity financing. Utilizing panel data from 2010 to 2022 and the GMM system model, it controls for firm-specific factors. The results indicate that environmental and governance scores are negatively associated with debt financing and positively associated with equity financing. Social scores do not show a significant impact on debt but have a positive effect on equity financing. All ESG indicators are positively related to the debt-to-equity ratio, highlighting the role of sustainability in capital structure decision-making. These findings guide policymakers in promoting sustainable practices and assist corporate leaders in aligning financing strategies with sustainability goals, supporting long-term growth and shareholder value. Zhang et al. (2024) conducted a study titled "Credibility Assurance, Financial Structure, and ESG Performance of Companies." This empirical research examines the complex relationships between credibility assurance mechanisms, financial structures, and environmental, social, and governance (ESG) performance among companies. The study utilizes a rich dataset of companies from 2000 to 2022. Econometric analyses reveal subtle connections, including unexpected negative correlations between composite ESG scores and environmental innovations. Static and dynamic panel modeling highlights the need for robust statistical adjustments. This study contributes to

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understanding the multifaceted dynamics that shape corporate behavior and emphasizes the importance of aligning financial decisions with sustainable practices.

Ha and Han (2024) conducted a study titled ESG and Corporate Financial Performance: the Moderating Role of Audit Quality in Emerging Markets and they found theoretical implications for integrating ESG principles into business strategy, particularly in emerging Asian markets. Firstly, the negative effect of ESG practices on financial metrics supports the trade-off theory, which posits that investments in sustainability and social responsibility may initially increase costs and reduce profitability. This is in line with the concept that, while socially acceptable acts may incur greater financial costs, they are necessary for long-term viability. Secondly, the favorable impact of ESG activities on revenue demonstrates the shifting consumer and investor preferences for firms with strong ESG commitments. The study strengthens the idea that incorporating ESG into corporate strategy is not only a moral necessity, but also a realistic business strategy for generating revenue development. Thirdly, the study investigation of audit quality, notably the involvement of Big4 auditors, sheds light on its significance in the link between ESG and financial success. This study calls into question the premise that high audit quality helps all elements of financial performance consistently, emphasizing the importance of complex theoretical models that account for differential audit consequences.

Wu (2024) conducted a study titled The Impact of Corporate ESG Performance on Debt Financing Costs. This paper selects A-share listed companies from 2012 to 2022 as the target of the research and examines the impact of a company's ESG performance on their debt financing costs. The results of the research show that the ESG performance of companies has an inverse effect on their debt financing costs, and further mechanism testing shows that the level of risk and the costs of limiting corporate financing both have a positive moderating effect on this effect. Heterogeneity tests show that the inverse effect of a company's ESG performance on debt financing costs is more pronounced in Western companies and corporations where the chairman and general manager are separated.

Jamshidi and colleagues (2024) conducted a research study titled "The Impact of Digital Financing on the Environment, Social Responsibility, and Corporate Governance (Corporate ESG)." In this study, the statistical population consisted of companies listed on the stock exchange, and the research sample included 155 companies listed on the Tehran Stock Exchange during the period from 2016 to 2021. The model was presented using the structural equation modeling approach and Smart PLS software. The results of the research indicated that digital financing has a positive and significant impact on corporate ESG, and the results, broken down by the dimensions of corporate ESG, showed that digital financing positively and significantly affects environmental responsibility, social responsibility, and corporate governance.

Rahmanian Kooshaki and Motai (2023) conducted a research titled "The Role of Debt-Based Financing in the Relationship Between Corporate Governance and Research and Development Investment." Their study is applied and, from a methodological perspective, is correlational of the causal type (post-event). The statistical population of the research includes all companies listed on the Tehran Stock Exchange, and using the systematic elimination sampling method, 134 companies

were selected as the research sample and examined. The results obtained from the hypothesis testing of the research indicated that among the components of corporate governance, including board size, board independence, financial expertise of board members, and ownership concentration, two variables—board independence and ownership concentration—have a direct relationship with investment in research and development of companies. In the second group of hypotheses, it was also observed that the interaction of debt-based financing with the components of corporate governance does not influence research and development investment.

Rahmanian Koushkaki and Heydari (2022) conducted a study titled "The Role of Financial Policies and Human Capital on the Relationship Between Corporate Social Responsibility and Innovation." They formulated five hypotheses to achieve the research objectives. To test the research hypotheses, a multivariate linear regression model and panel data were used. The research sample included 102 companies listed on the Tehran Stock Exchange, selected based on the convenience sampling method and examined over the years 2013 to 2020. The research findings indicate that corporate social responsibility has a negative and significant relationship with corporate innovation. Additionally, corporate social responsibility has a negative and significant impact on human capital. Therefore, based on the multivariate regression findings, the mediating role of human capital between corporate social responsibility and corporate innovation is confirmed. Furthermore, the results showed that corporate social responsibility does not have a significant effect on financial policy. Thus, the financial policy variable does not mediate the relationship between corporate social responsibility and corporate innovation. Companies should invest in innovative and social responsibility activities to gain legitimacy and meet the expectations of various stakeholders. Companies that actively engage in corporate social responsibility have greater access to credit and better debt conditions. Companies inclined towards corporate social responsibility activities create more innovation in products and processes for various reasons. By implementing corporate social responsibility activities, companies support the motivation, participation, and commitment of human resources to enhance innovation within the company.

3. Foundations of Development Hypothesis

Extensive research has shown that the capital structure of companies is influenced by various factors, including the internal dynamics of the companies themselves (Öztekin & Flannery, 2012), as well as the costs associated with financing and transactions (Liao, et al, 2015). Furthermore, it is predicted that the presence of strong governance practices, by regulating financial leverage and aligning the company's capital structure, will bring beneficial outcomes for shareholders (Kieschnick & Moussawi, 2018). Studies have indicated that the capital structure of companies depends on various factors, including the internal environment of the companies (Oztakin and Flannery, 2012) and financial or transaction costs (Liao et al., 2015). It is expected that quality governance, by optimizing leverage and adjusting the company's capital structure, will benefit shareholders (Kishnik and Mousavi, 2018). Additionally, when a company faces the risk of bankruptcy, it refrains from investing to maintain its position and reputation, but addresses social issues, as a company that cares for its employees and maintains its goodwill operates with high

leverage but higher stock value. It is worth noting that companies tend to consider social, governance, and environmental issues more when investing. This encourages them to commit to ESG disclosures, which ultimately affects the dynamics of their equity capital financing.

Hopner et al (2016) argue that social and environmental factors of the company affect the cost of financing as well as the company's debt structure. However, the impact is not symmetrical with the availability of capital through equity. It is noteworthy that the debt structure depends on the type of credit a company can access, which can include bank loans, bonds, or debentures. The availability of funds primarily depends on the company's relationship with its counterparts, namely banks and other lenders (Nandy & Lodh , 2012). On the contrary, companies are more likely to use debt financing to enhance their reputation or cover financial inconsistencies, which helps them meet debts related to social and environmental actions (Bacha et al , 2020). Bhuiyan and Nguyen (2019) suggested that lenders classify companies with ESG disclosures as prime (low-risk) customers who can obtain financial resources at lower rates. Additionally, companies with higher ESG leverage act as a risk hedging tool to protect stakeholder interests and address the risk of corporate bankruptcy (Huang & Ye , 2021).

However, previous research has consistently shown that organizations that are environmentally and socially trustworthy tend to maintain a lower debt-to-equity ratio (Pijourlet , 2013). Additionally, one argument for socially responsible companies is that due to lower leverage, free cash is used for the social benefits of investors (Jensen , 1986). ESG disclosure requires companies to act in a way that protects the interests of all stakeholders (Freeman, et al , 2010). Specifically, the cost of equity decreases, which is considered a positive effect of ESG policies. However, the reduction in equity costs due to the decrease in asymmetric information among shareholders is considered the effect of adopting ESG investments (Ferris, et al , 2017). Similarly, another rationale for the benefits of ESG for companies in terms of capital structure is increased transparency, which helps reduce equity costs (Armitage & Marston , 2007). From a theoretical perspective, efforts to reduce environmental risks are rewarded with low-cost financing, which in practice leads to a negative relationship between ESG performance and the company's financial leverage (Zahid et al., 2024). Based on the above discussion, the following hypothesis is proposed:

Hypothesis1: There is a significant relationship between environmental, social, and governance performance and the dynamics of corporate capital financing.

Recent studies have shown that clients of large auditing firms have lower debt costs and easier access to financial resources in secondary markets (Zahid et al., 2024). Lin and Hwang (2010) suggest that large auditors play a crucial role in governance by ensuring the accuracy, reliability, and consistency of financial reports. They act as reliable overseers or monitor of corporate behavior. Additionally, clients of the Big Four auditing firms exhibit improved trading patterns, better communication, and greater transparency in disclosures.

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Organizations often refer to large auditing firms to enhance the credibility of their disclosures and provide greater assurance to their stakeholders. The objectivity and comprehensiveness of the audit reflect the company's commitment to transparent financial reporting and improved disclosure practices (Kousar et al., 2016). Utilizing reputable auditing institutions increases the reliability of the information contained in a company's annual report, including any additional information voluntarily disclosed (such as ESG reports). Chen, et al (2016) assert that the four major auditing firms play a significant role in enhancing the reliability and credibility of financial disclosures, especially when a company demonstrates strong corporate social responsibility. By engaging auditing firms with a strong commitment to environmental responsibility and maintaining high standards in their reports, organizations demonstrate that they value transparency and integrity in their operations. These fosters trust among lenders and investors, making it easier to obtain financing (Trpeska et al ,2017). Based on the aforementioned foundations, the following hypothesis can be articulated:

Hypothesis2: Audit quality moderates the relationship between environmental, social, and governance performance and the dynamics of corporate capital financing.

3. Research Methodology

In any research, it is essential to first determine the type, nature, objectives, and scope of the study in order to utilize appropriate rules and tools to achieve realities through credible means. Therefore, the present research is classified based on objectives as applied research, and its direction is retrospective. Applied research entails the development of practical knowledge in a specific field. The retrospective method is used when the researcher investigates the subject after the occurrence of events. Additionally, the present research is descriptive and correlational in nature and methodology. It is descriptive because its aim is to describe the conditions or phenomena being studied for a better understanding of the existing circumstances, and it is correlational because this study aims to examine the relationships between variables. The present research focuses on exploring the relationships between variables and aims to establish the existence of this relationship under current conditions based on historical data.

The statistical population of the present research encompasses all companies listed on the Tehran Stock Exchange in Iran during the years 2013 to 2022. The sampling method in this research is systematic (purposeful) elimination. This means that initially, a list of all companies accepted on the Tehran Stock Exchange in Iran is prepared, and then companies that do not meet the desired sample criteria of the present research are excluded, with the remaining companies being selected as a sample based on the following characteristics:

- 1) They should not be banks or financial institutions (investment companies, financial intermediaries, holding companies, and leasing companies).
- 2) The financial year should end on March 19 of each year.
- 3) The companies have not changed their fiscal year during the research period.

4) Companies must have been listed on the stock exchange before the year 2013.

They should not have a trading halt of more than three months, as shown in table 1.

Table 1. Method of Sample Selection

Description	Number
The total number of companies listed on the stock exchange at the end of 2022	546
Banks, Financial Institutions (Investment Companies, Financial Intermediaries, Holding Companies and Leasing)	(75)
Companies whose financial year does not end on March 20	(69)
Companies that have changed the fiscal year during the research period	(65)
Companies that have been listed on the stock exchange after 2013	(99)
Companies that have had a trading hiatus of more than three months	(95)
Statistical sample	143

Ultimately, based on the above criteria, 143 companies were selected as the statistical sample for the research.

In this research, library resources such as Persian and Latin books, journals, and websites have been used to collect data and information related to the literature review and theoretical discussions. The collection of the necessary data and information available in the financial statements of the main companies, explanatory notes, and board reports was also carried out through the Codal electronic system (www.codal.ir) and the Rahavard Novin software, with the analysis of this data and information conducted using Excel and Eviews 10 software.

Regression model and research variables

In this research, the following regression model is used to test the research hypotheses:

Model of the first hypothesis

AQit: The audit quality of company i in year t

BLit: Independence of the board of directors of company i in year t

BSit: The size of the board of directors of company i in year t

ESGit: Environmental, Social, and Governance performance of company i in year t

FLevit: The dynamics of capital financing for company i in year t

$$FLevit = \beta_0 + \beta_1 ESG_{it} + \beta_2 AQ_{it} + \beta_3 ESG_{it} \times AQ_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 BS_{it} + \beta_7 BLit + \epsilon_{it} \quad (2)$$

$$FLevit = \beta_0 + \beta_1 ESG_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 BS_{it} + \beta_5 BLit + \epsilon_{it} \quad (1)$$

Model of the second hypothesis

ROA_{it}: Return on assets of company i in year t

SIZE_{it}: Size of company i in year t

Dependent variable

Dynamics of capital financing: Following previous research (Rahmanian Kooshkaki & Heidari, 2022; Ezeani, et al , 2022; Öztekin , 2015), it is measured based on financial leverage:

$$Bklvit = STD_{it} + LTD_{it}/TA_{it} \quad (3)$$

Bklvit: Financial Leverage Based on Book Value

LTD_{it}: Long-Term Debt

STD_{it}: Short-Term Debt

TA_{it}: Total Assets

Independent Variable

The independent variable in this research is the Environmental, Social, and Governance (ESG) performance. In this research, for the calculation of the level of reporting on environmental, social, and governance performance, a weighted model proposed by Fakhari and colleagues (2017) is used to measure the extent of environmental, social, and governance reporting by companies active in Iran's capital market. Accordingly, based on the checklist of the mentioned research, the reports of the board of directors are carefully examined, and if any indicator is present, a score of 1 is assigned, otherwise a score of 0 is given. The weighted model utilized in this research (derived from the study by Fakhari and colleagues, 2017) is as follows (Tahriri and Afsaye, 2021):

$$ESG = 0.337E + 0.388S + 0.275G \quad (4)$$

E: represents the environmental dimension score.

ESG: represents the score of environmental, social, and governance reporting.

G : represents the governance score.

S: represents the social dimension score.

The indicators related to the dimensions of environmental, social and governance disclosure in Table 2 are as follows:

Table 2. Indicators related to environmental, social, and governance disclosure dimensions

Governance dimension Indicators	Social dimension indicators	Environmental dimension indicators
1.Respecting shareholders' rights	1. Health, security, and productivity	1. Pollution and contamination, waste
2. Committees	2.Labor rights	2. Energy, efficiency, wate.
3.Risk Management	3. Social perception of stakeholders	3. Biodiversity
4.Performance compensation	4. Production health	4. Climate Change
5.Ethics and behavioral principles	5. Non-discrimination and social inclusion	5. Environmental risk assessment
6. Leadership transparency	6.Social issues of customers and the supply chain	6. Service and supply chain issues
7. Compliance with regulations	7.Respect for human rights principles	7. Environmental education
8. Board composition	8.Social development and philanthropy	8. Environmental management system
9. Investment Risk Management	9.Social responsibility investment	9. Environmental transparency
	10. Brand preservation and anti-competitive behavior	
	11. Social learning and education	
	12. Social transparency	

Moderating variable**Audit quality**

refers to the degree to which the auditing process enhances the credibility, reliability, and transparency of financial reporting by increasing the likelihood that material misstatements are detected and appropriately reported. High-quality auditing plays a crucial role in reducing information asymmetry between corporate managers and external stakeholders, strengthening investor confidence, and improving the overall integrity of financial information disclosed in capital markets. In empirical research, audit quality is often proxied by observable characteristics of the audit process, one of the most common being auditor size. Larger and more reputable auditing institutions typically possess greater professional expertise, stronger quality control systems, and higher reputational incentives to maintain auditing standards. As a result, they are

generally expected to provide more rigorous and reliable audit services. Consistent with the approach adopted by Khani and Rajab-Dari (2021), this study measures audit quality using auditor size as a proxy variable. Specifically, a dummy variable is employed in which a value of 1 is assigned if the firm's financial statements are audited by the Audit Organization of Iran, which is recognized as the largest and most reputable governmental auditing institution in the country, and 0 otherwise. This operationalization reflects the assumption that audits conducted by larger and more reputable auditing bodies are associated with higher audit quality and greater credibility of financial reporting..

Control variables

Company size: It is calculated from the natural logarithm of the company's total assets (Zahid et al., 2024; Rahmanian Kooshkaki and Heydari, 2022).

Return on assets: Return on assets is obtained by dividing net profit by total assets (Zahid et al., 2024; Rahmanian Koshkaki and Motai, 2023).

Board size: It refers to the number of members on the company's board of directors (Zahid et al., 2024; Rahmanian Koshkaki and Motai, 2023).

Board independence: It is calculated using the ratio of the number of independent board members to the total number of board members (Zahid et al., 2024; Rahmanian Koshkaki and Motai, 2023). Independent or non-executive directors are those who are not part of the company's management but serve on the company's board of directors.

4. Finding

In this research, the evIEWS10 software was used for data analysis and hypothesis testing. Table (3) shows the descriptive statistics of the research variables, which include 1430 observations. In this table, the indices of mean, median, maximum, minimum, standard deviation, skewness, and kurtosis are presented. Table (3) contains the descriptive statistics of the research variables. In this table, the lowest mean corresponds to the variable Return on Assets (ROA) and the highest mean corresponds to the variable Size (SIZE). Additionally, the positive values of the skewness coefficients indicate that the distribution of the variables is taller than a normal distribution, and the data have become more concentrated around the mean. Before using the variables in the analysis, it is necessary to ensure their stationarity or non-stationarity. The results of the unit root test for the model variables are as described in Table 4.

Table 4. Results of the Stationarity Test

Variable	PP -Fisher Chi-square		ADF - Fisher Chi-square		Im, Pesaran and Shin W-stat		Levin, Lin & Chu	
	Probability	statistics	Probability	statistics	Probability	statistics	Probability	statistics
FLEV	0.000	400.532	0.000	399.377	0.000	-4.062	0.000	-13.061
ESG	0.000	429.702	0.000	455.052	0.000	-5.547	0.000	-13.616
ROA	0.000	389.289	0.000	383.314	0.001	-3.059	0.000	-10.891
BI	0.000	277.980	0.011	243.531	0.013	-2.220	0.000	-8.907

Based on the results presented in Table 4, the significance calculated for the unit root tests of all variables is less than 0.05, therefore all research variables are stationary. Before estimating the model, it is necessary to test the absence of multicollinearity among the research variables. To examine the presence or absence of multicollinearity among the research variables, Pearson correlation analysis has been utilized. Table 5 illustrates the Pearson correlation coefficients among the variables.

Table 5. Test of Non-Collinearity of the Research Variables

Correlation	FLEV	ESG	AQ	SIZE	ROA	BS	BI
FLEV	1.000						
ESG	0.009	1.000					
AQ	0.197	-0.019	1.000				
SIZE	-0.052	0.133	0.238	1.000			
ROA	-0.589	0.068	-0.045	0.223	1.000		
BS	-0.124	-0.029	-0.044	-0.010	0.018	1.000	
BI	-0.283	-0.037	-0.144	-0.101	0.151	0.094	1.000

Considering the results of Table 5, it is evident that there are no values of the correlation coefficient that are very high or very low (close to +1 and -1) that would affect the results of the regression analysis; therefore, there is no multicollinearity among the research variables.

The normality of the model residuals was examined using the Jarque–Bera test. In this test, if the probability value is lower than 0.05, the null hypothesis of normal distribution of the residuals is rejected. The results of this test are presented in Table (6).

Table 6. Results of the Normality Test of Model Residuals

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Test Type	Statistic	Significance	Result
Jarque-Bera	1.625	0.430	Residuals are normally distributed

The results reported in Table (6) indicate that the significance level of the test (0.430) is greater than 0.05, which confirms that the residuals of the research model follow a normal distribution.

In this study, the Bartlett test was used to examine the homogeneity of variance of the residuals. In this test, the null hypothesis assumes homoscedasticity (equal variances), while the alternative hypothesis indicates heteroscedasticity (unequal variances). Table (7) presents the results of the homoscedasticity test.

Table 7. Results of the Homoscedasticity Test of Model Residuals

Test Type	Significance	Result
Bartlett	0.000	Heteroscedasticity of residuals

According to Table (7), the probability value of the test is less than 0.05, indicating that the variance of the residuals is heteroscedastic, and therefore the null hypothesis of constant variance is rejected. To determine whether the pooled data model or the panel data model should be used, the F-Limer test was first applied. If the calculated probability (p-value) is greater than the error level of 0.05, the pooled data model is used; otherwise, the panel data model is selected. The results of the F-Limer test are presented in Table (8).

Table 8. Results of the F-Limer Test

Test Type	Statistic	Value	Prob
F-Limer	Period F	1.085	0.321

Based on the results reported in Table (8), the probability value (0.321) obtained from the F-Limer test is greater than 0.05. Therefore, the pooled data model is used to estimate the research model. Table 9 presents the results obtained from estimating the first model using Eviews software and the generalized least squares (EGLS) estimation. The EGLS (Estimated Generalized Least Squares) method was employed because panel data in this study may suffer from heteroskedasticity and serial correlation across firms and time periods. Unlike conventional fixed-effects or random-effects estimators, EGLS adjusts the variance–covariance matrix to produce efficient and unbiased parameter estimates under such conditions. By correcting for potential heteroskedasticity and autocorrelation, EGLS improves the reliability of statistical inference. Therefore, this approach was considered more appropriate for estimating the panel regression models used in the study.

Table 9. Results of the first model estimation

$FLevit = \beta_0 + \beta_1 ESGit + \beta_2 SIZEit + \beta_3 ROAit + \beta_4 BSit + \beta_5 BIit + \epsilon_{it}$				
Variable	Coefficient	Std. Error	t-Statistic	Prob
ESG	0.215	0.077	2.781	0.008
SIZE	0.004	0.001	2.949	0.003
ROA	-0.746	0.017	-41.687	0.000
BS	-0.109	0.010	-10.383	0.000
BI	-0.161	0.014	-11.141	0.000
Width from the origin (C)	1.242	0.062	20.022	0.000
Adjusted coefficient of determination = 0.610		Coefficient of Determination =0.611		
Probability of the F-test = 0.000		F-test statistic=448.200	Durbin-Watson statistic=1.652	

Based on the results of the analysis presented in Table 9, the probability of the F-test is 0.000, which is less than 0.05; therefore, this model is statistically significant at a 95% confidence level and possesses high validity. The adjusted coefficient of determination of the model is 0.610, indicating that 61 percent of the variations in the dependent variable are explained by the explanatory variables in the model. Additionally, the Durbin-Watson statistic for this model is 1.652, which falls between 1.5 and 2.5, suggesting that there is no autocorrelation in the model, fulfilling one of the regression hypotheses. The results in Table 6 indicate that the calculated P-value for the independent variable of environmental, social, and governance performance (0.008) is less than 0.05, and its estimated coefficient (0.215) is positive. Consequently, it can be stated that environmental, social, and governance performance has a positive and significant impact on the dynamics of corporate financial resource mobilization. Accordingly, the first hypothesis of the research, asserting that there is a significant relationship between environmental, social, and governance performance and the dynamics of corporate financial resource mobilization at the 95% confidence level, is accepted. Table 7 presents the results obtained from the estimation of the second model using Eviews software and generalized least squares (EGLS) estimation. The normality of the model residuals was examined using the Jarque–Bera statistic. If the probability value of the Jarque–Bera test is less than 0.05, the null hypothesis of normal distribution of the residuals is rejected. The results of this test are presented in Table (10).

Table 10. Results of the Normality Test of Model Residuals

Test Type	Statistic	Significance	Result
Jarque-Bera	1.658	0.430	Residuals are normally distributed

As shown in Table (10), the significance level of the test (0.425) is greater than 0.05, indicating that the residuals of the research model are normally distributed.

In this study, the Bartlett test was employed to examine the homogeneity of variance of the residuals. In this test, the null hypothesis assumes homoscedasticity (equal variances), whereas the alternative hypothesis assumes heteroscedasticity (unequal variances). The results of the homoscedasticity test are reported in Table (11).

Table 11. Results of the Homoscedasticity Test of Model Residuals

Test Type	Significance	Result
Bartlett	0.000	Heteroscedasticity of residuals

The results in Table (11) indicate that the probability value of the test is less than 0.05, suggesting that the residual variances are heteroscedastic. Therefore, the null hypothesis of constant variance is rejected.

To determine whether the panel data model or the pooled data model should be used, the F-Limer test was conducted. If the calculated probability (p-value) exceeds the significance level of 0.05, the pooled data model is selected; otherwise, the panel data model is preferred. The results of the F-Limer test are presented in Table (12).

Table 12. Results of the F-Limer Test

Test Type	Statistic	Value	Prob
F-Limer	Period F	1.078	0.388

Based on Table (12), the probability value (0.388) obtained from the F-Limer test is greater than 0.05. Therefore, the pooled data model is used to estimate the research model.

Table 13. Results of estimating the second model

FLevit= $\beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{AQ}_{it} + \beta_3 \text{ESG}_{it} \times \text{AQ}_{it} + \beta_4 \text{SIZE}_{it} + \beta_5 \text{ROA}_{it} + \beta_6 \text{BS}_{it} + \beta_7 \text{BI}_{it} + \epsilon_{it}$				
Variable	Coefficient	Std. Error	t-Statistic	Prob
ESG	0.004	0.095	0.045	0.963
AQ	0.028	0.045	0.609	0.542
ESG×AQ	0.210	0.226	0.930	0.352
SIZE	0.001	0.001	0.568	0.570
ROA	-0.724	0.018	-39.573	0.000
BS	-0.105	0.010	-10.041	0.000
BI	-0.147	0.014	-10.307	0.000
Width from the origin (C)	1.260	0.062	20.171	0.000
Adjusted coefficient of determination =0.609			Coefficient of Determination =0.611	
Probability of the F-test = 0.000		F-test statistic=319.227		Durbin-Watson statistic=1.663

Based on the results of the research model analysis in Table 13, the probability of the F-test is 0.000 and less than 0.05, thus indicating that this model is significant at a 95 percent confidence level and holds high validity. The adjusted coefficient of determination of the model is 0.609; therefore, it can be stated that 60 percent of the variations in the dependent variable are explained by the explanatory variables of the model. Additionally, the Durbin-Watson statistic for this model is 1.663, which falls between 1.5 and 2.5, suggesting that there is no autocorrelation in the model, fulfilling one of the regression hypothesis. The results presented in Table 7 indicate that the calculated P-value for the variable ESG×AQ (0.352) is greater than 0.05, and its estimated coefficient (0.210) is positive. Consequently, it can be stated that the quality of auditing does not have a significant impact on the relationship between environmental, social, and governance performance and the financial dynamics of the company's capital. Therefore, the second hypothesis of the research, at a 95% confidence level, stating that the quality of auditing moderates the

relationship between environmental, social, and governance performance and the financial dynamics of the company's capital, is accepted.

5. Conclusion and Suggestions

The empirical results of this study provide evidence that environmental, social, and governance (ESG) performance plays an important role in shaping corporate capital financing dynamics. The statistical analysis shows that the significance level associated with ESG performance is below 0.05 and that the estimated coefficient is positive. This indicates that ESG performance has a positive and statistically significant effect on corporate capital financing dynamics. Therefore, the first research hypothesis, which proposed a significant relationship between ESG performance and the dynamics of corporate capital financing at the 95% confidence level, is supported. This finding suggests that companies with stronger ESG performance are more likely to gain the confidence of investors, lenders, and other stakeholders. In modern capital markets, investors increasingly evaluate firms not only based on their financial outcomes but also on their environmental responsibility, social commitment, and governance practices. Firms that demonstrate responsible ESG behavior tend to signal transparency, accountability, and long-term sustainability. As a result, these firms may face lower perceived risk from investors and financial institutions. Reduced risk perceptions can translate into easier access to external financing, more favorable financing conditions, and potentially lower costs of capital. Another important explanation for this result is that companies with strong ESG practices often develop stronger reputational capital. A positive corporate reputation enhances investor trust and can attract both institutional and long-term investors who prioritize sustainability considerations in their investment decisions. Furthermore, improved ESG performance can reduce exposure to regulatory penalties, environmental liabilities, and social conflicts, thereby stabilizing firms' financial outlook and making them more attractive to capital providers. Consequently, ESG performance can indirectly facilitate capital financing by strengthening credibility, improving stakeholder relations, and reducing information asymmetry in financial markets. In this context, audit quality is generally expected to further strengthen the informational value of ESG disclosures. High-quality auditing enhances the credibility and reliability of corporate disclosures because audits conducted by reputable and independent auditors increase stakeholders' confidence in the information presented in financial statements and related reports. Accordingly, strong audit quality may increase the credibility of ESG-related information and signal that firms' sustainability activities and disclosures are less likely to be symbolic or opportunistic. Moreover, rigorous auditing can reduce information asymmetry between corporate managers and external stakeholders. Since ESG disclosures often involve non-financial and forward-looking information that may not be easily verifiable by investors, effective auditing improves the overall transparency of corporate reporting and reduces uncertainty regarding firms' actual performance and risk profiles. This enhanced transparency can facilitate more efficient capital allocation and potentially improve firms' access to external financing. Despite these theoretical expectations, the empirical results of this study do not support the moderating role of audit quality. Regarding the second hypothesis, the results indicate that the interaction term

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between ESG performance and audit quality ($ESG \times AQ$) is not statistically significant, although the estimated coefficient is positive. This suggests that audit quality does not significantly moderate the relationship between ESG performance and corporate capital financing dynamics. In other words, while ESG performance itself influences financing decisions, the presence of higher audit quality does not significantly strengthen or weaken this relationship in the examined context. Several explanations may account for this finding. First, ESG reporting practices in many emerging markets are still developing and often lack standardized disclosure frameworks. In the absence of clear and uniform reporting standards, ESG information may vary in quality and comparability across firms. Under such conditions, even high audit quality may not substantially improve the credibility of ESG disclosures, limiting its moderating effect on investors' financing decisions. Second, some investors may prioritize overall ESG performance indicators rather than the assurance or verification of ESG information through auditing processes. In such cases, investors may rely more on observable corporate behavior, reputation, or financial performance indicators rather than the auditing characteristics associated with ESG disclosures. Consequently, audit quality may not play a decisive role in shaping the relationship between ESG performance and capital financing. Third, institutional and regulatory environments may influence the effectiveness of audit quality as a governance mechanism. In contexts where ESG regulations, reporting requirements, or assurance frameworks are not fully developed, the role of auditors in verifying ESG-related information may remain limited. As a result, the moderating role of audit quality may not be sufficiently strong to influence financing outcomes. Another possible explanation relates to internal corporate governance and managerial commitment to ESG principles. If companies treat ESG practices primarily as symbolic or compliance-oriented activities rather than substantive strategic initiatives, the impact of audit quality on ESG credibility may remain limited. In such situations, investors may perceive ESG disclosures as informational signals rather than rigorously verified reports, thereby weakening the potential moderating effect of audit quality. This interpretation is also broadly consistent with the findings reported by Zahid et al. (2024). Based on the findings of this study, several practical recommendations can be proposed. First, company owners and managers should strengthen their commitment to transparent, accurate, and comprehensive ESG disclosure. Providing reliable ESG information can increase investor confidence and enhance the firm's credibility in capital markets, which may ultimately improve access to external financing. Second, firms should continuously update and improve their ESG reporting practices. Regular evaluation of the relationship between ESG performance and financial outcomes can help organizations better understand how sustainability initiatives contribute to capital attraction in both the short and long term. Third, managers should promote organizational awareness of ESG principles by implementing training and educational programs for employees and stakeholders. Increasing awareness of environmental responsibility, social engagement, and governance practices can foster a culture of sustainability within the organization and support long-term corporate value creation. Finally, several directions for future research can be suggested. Future studies may examine the moderating role of earnings quality in the relationship between ESG disclosure and corporate capital financing dynamics. Additionally, researchers may explore

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the moderating effects of corporate governance mechanisms—such as board characteristics, board independence, or ownership structure—on the relationship between ESG performance and financing decisions. Such investigations could provide deeper insights into the governance mechanisms that strengthen the financial implications of ESG practices.

Despite providing valuable insights into the relationship between ESG performance and corporate capital financing dynamics, this study has several limitations that should be considered when interpreting the findings. First, the unavailability or incomplete disclosure of financial statements for some listed companies limited the scope of the sample and the availability of certain data. This constraint may have affected the comprehensiveness of the dataset and restricted the number of firms that could be included in the analysis.

Second, as with many empirical studies in finance and accounting, the results may have been influenced by external factors beyond the researcher's control. Political conditions, macroeconomic fluctuations, regulatory changes, and market instability may affect corporate financing behavior and ESG practices. Since these factors were not explicitly incorporated into the research model, their potential influence should be considered when interpreting the results.

Third, collecting reliable information on environmental, social, and governance performance posed challenges due to the voluntary nature of ESG disclosure in many firms. In the absence of mandatory and standardized reporting frameworks, ESG data may vary in quality, consistency, and completeness across companies. This limitation may lead to potential measurement errors and could affect the accuracy of ESG performance indicators used in the study.

These limitations also imply several directions for future research. Scholars may consider incorporating additional macroeconomic and institutional variables to better capture the broader context affecting corporate financing decisions. Moreover, future studies could utilize alternative ESG data sources, develop more refined measurement proxies, or apply different methodological approaches to further validate and extend the findings.

The findings of this study offer several practical implications for corporate managers, investors, and policymakers. First, shareholders and corporate managers should strengthen their commitment to transparent and accurate ESG disclosure. Providing reliable and comprehensive ESG information can enhance investor confidence and improve the firm's credibility in capital markets, thereby facilitating greater access to external financing.

Second, companies should continuously improve and update their ESG reporting practices. Regular and systematic reporting enables firms to evaluate how sustainability initiatives affect financial performance and capital attraction. By integrating ESG considerations into strategic planning and financial decision-making, firms may enhance both short-term financing opportunities and long-term capital sustainability.

Third, organizations should promote education and awareness programs related to ESG principles. Training initiatives for managers, employees, and stakeholders can increase understanding of the strategic importance of environmental responsibility, social engagement, and effective governance. Such awareness can encourage broader participation in sustainability initiatives and strengthen the overall ESG performance of the company.

Overall, strengthening ESG practices and improving the transparency of related disclosures can enhance corporate reputation, reduce perceived investment risk, and support more effective capital financing strategies in modern financial markets.

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ETHICAL CONSIDERATION

Authenticity of the texts, honesty and fidelity has been observed.

CONFLICT OF INTEREST

Author/s confirmed no conflict of interest.