

SUSTAINABILITY REPORT AND EARNING QUALITY ON FIRM VALUE: THE ROLE OF FIRM SIZE

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ABSTRACT

This study aims to quantitatively evaluate the relationship between the sustainability reporting and the quality of profitability on a company's worth. This study also analyzes the impact of a firm's size on the relationship between sustainability reporting, profitability quality, and company value as a moderating variable. The empirical background of the research is limited to companies included on the SRI-KEHATI Index from 2020 to 2024 that consistently published both annual and sustainability reports. Fourteen companies were selected using a purposive sampling strategy to constitute the analytical sample. Hypothesis testing is conducted using multiple linear regression in conjunction with Moderated Regression Analysis (MRA). Theoretical analysis using interconnected studies demonstrates that sustainability reporting and profitability quality possess both separately and collectively unfavorable and significant correlations with business value. Conversely, firm size exhibits a positive and strong correlation with firm value, indicating its influence in enhancing business valuation. Nonetheless, the moderating results indicate that business size does not influence or alter the negative correlations between sustainability reporting, profits quality, and firm value, suggesting it offers minimal, if any, advantages as a moderating variable in this model.

Key words: Earning Quality; Firm Size; Firm Value; Sustainability Report

ABSTRAK

Tujuan penelitian ini untuk menginvestigasi hubungan antara pelaporan keberlanjutan serta kualitas laba terhadap nilai perusahaan. Studi ini juga menyelidiki peran moderasi ukuran perusahaan dalam hubungan antara pelaporan keberlanjutan, kualitas laba, dan nilai perusahaan. Lingkup empiris terbatas untuk perusahaan yang termasuk dalam Indeks SRI-KEHATI mulai 2020 hingga 2024 yang secara konsisten telah menerbitkan laporan tahunan serta laporan keberlanjutan. Empat belas perusahaan dipertahankan menggunakan pendekatan seleksi tujuan, membentuk sampel analitis. Pengujian hipotesis dilakukan menggunakan regresi linier berganda bersama dengan analisis regresi moderasi. Hasil penelitian menunjukkan bahwa pelaporan keberlanjutan dan kualitas laba memiliki hubungan negatif signifikan terhadap nilai perusahaan. Sebaliknya, ukuran perusahaan menunjukkan korelasi positif signifikan dengan nilai perusahaan, serta menunjukkan kontribusinya terhadap peningkatan valuasi bisnis. Namun demikian, analisis moderasi menunjukkan bahwa ukuran perusahaan tidak mempengaruhi atau mengubah korelasi negatif antara pelaporan keberlanjutan, kualitas laba, dan nilai perusahaan, yang menandakan efektivitasnya yang terbatas sebagai variabel moderasi dalam kerangka ini.

Kata kunci: Kualitas Laba; Nilai Perusahaan; Ukuran Perusahaan; Laporan Keberlanjutan

INTRODUCTION

Firm value reflects market perception and is generally indicated by stock price (Laurensia et al., 2023). Recently, sustainability awareness has increased, and the evaluation of companies has expanded beyond financial metrics to include environmental and social accountability (Pujiningsih, 2020). In Indonesia, this principle is reflected in the SRI-KEHATI Index, which features firms distinguished by their sustainability performance. However, despite the index outperforming the market, the decline in average Tobin's Q from 2020–2024 suggests that sustainability initiatives have not consistently enhanced firm value.

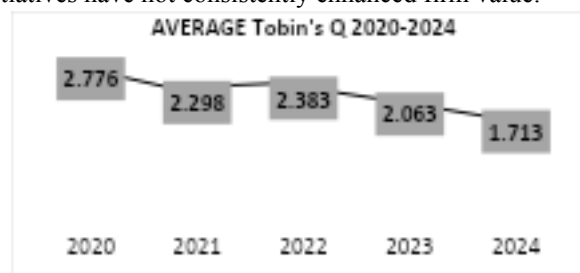


Figure 1. Average Tobin's Q

Source: Secondary data processed in this research (2025)

Beyond sustainability disclosure, earnings quality also influences firm value. High-quality earnings reduce information asymmetry, strengthen investor trust, and improve market valuation (Intara et al., 2024). However, the declining average earnings quality among SRI-KEHATI firms suggests that reported profits may not fully reflect their actual performance.

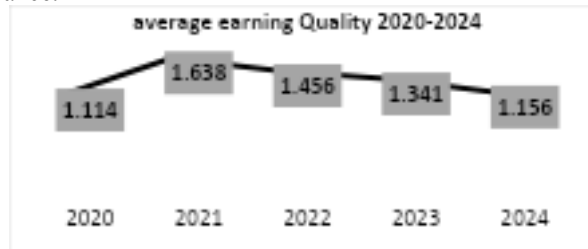


Figure 2. Average
data processed in this

Earning Quality
Source: Secondary
research (2025)

Firm value is not only shaped by sustainability reporting and earnings quality but is also influenced by the scale of the firm. Larger firms indicates greater financial capacity and stability, which supports optimal financing decisions and strengthens investor confidence (Hidayat & Khotimah, 2022). Consistent with (Irawati et al., 2021) large companies face lower risk and possess stronger control over operations, enabling them to better withstand competition and maintain firm value.

Empirical results concerning the effect of sustainability reporting, earnings quality, and firm size on firm value were inconsistent. Certain studies indicated positive correlations (Puspita & Jasman, 2022; Widyadi & Widiatmoko, 2023; Wairisal & Hariyati, 2021; Falah Aghnia et al., 2024; Nguyen et al., 2021), whereas others revealed negative impacts (Made et al., 2023; Pujiningsih, 2020; Dewi et al., 2021; Baihaqi & Murtanto, 2023; Fajriah et al., 2022; Stevanio & Ekadjaja, 2021).

This study examines these relationships and investigates the moderating effect of firm size to enhance the knowledge of determinants of firm value. The approach is based on signaling theory, agency theory, stakeholder theory, and legitimacy theory, which together elucidate how disclosures and corporate attributes affect investor perceptions and firm valuation.

Based on these theories, the study formulates the following hypotheses:

- H1: Sustainability report has a positive effect on firm value.
- H2: Earnings quality has a positive effect on firm value.
- H3: Firm size has a positive effect on firm value.
- H4: Firm size moderates the relationship between sustainability reporting and firm value.
- H5: Firm size moderates the relationship between earnings quality and firm value.

METHOD

This research focuses on companies that are part of the SRI-KEHATI Index, which represents socially responsible investment in Indonesia. The research specifically looks at firms that were consistently listed in this index from 2020 to 2024 and provided complete financial and sustainability disclosures. Fourteen companies were chosen using purposive sampling, resulting in a total of fifty-nine observations. In this study, the firm value is the dependent variable. In this research, Tobin's Q is used to measure firm value, which indicates a company's valuation by comparing their respective book values and the market value of equity and debt, thus signaling if the company might be overvalued or undervalued (Dewi et al., 2021). Sustainability reporting and earnings quality are the independent variables. Sustainability reporting is represented by the Sustainability Report Disclosure Index (SRDI), which is based on the Global Reporting Initiative (GRI, 2020) guidelines for reporting on economic, environmental, and social issues. The earnings quality is measured by the ratio of operating cash flow to net income (Wairisal & Hariyati, 2021). Meanwhile, firm size is considered a moderating in this study and is measured by the natural logarithm of the total assets (Brigham & Houston, 2021). The data are analyzed using descriptive statistics, classical assumption tests (normality and multicollinearity), multiple linear regression, and also moderated regression analysis (MRA), all of which are carried out using SPSS version 25 with hypothesis testing executed via the F-test and t-test, and also coefficient of determination (Adj R²).

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1. SPSS Result

Variables	Max	Min	Mean	Std. Dev	f	t	Sig.	Adjusted R Square (Before)	Adjusted R Square (After)
Regression					9.410		.000	.303	.296
FV	4.7777	0.4598	1.8360	1.1710					
SR	0.7472	0.2197	0.4748	0.1287		-4.264	.000		
EQ	4.9318	-1.0412	1.3800	0.9931		-3.296	.002		
FS	35.4255	29.9422	32.7945	1.7186		2.178	.034		
FS*SR						-487	.628		
FS*EQ						.971	.336		

Source: SPSS Processed (2025)

Classical Assumption Analysis

The findings of the diagnostic test demonstrated that the regression model was suitable with the necessary assumptions. The normality data test revealed a significance value of 0.079 (which is greater than 0.05), which indicated that the residuals were normally distributed. Additionally, the tolerance and VIF values confirmed that there is no multicollinearity. As a result, the model was appropriate for additional investigation.

Sustainability Report on Firm Value

Hypothesis testing showed a statistically substantial negative correlation between sustainability reporting and business valuation. The proposed hypothesis was rejected with a t-value of -4.264 and a significance level of 0.000 ($p < 0.05$). The link showed that more sustainability disclosure decreased firm value. This suggests that the market may not perceive sustainability reporting as an indicator of improved performance or economic prospects.

This study confirmed prior empirical studies (Made et al., 2023; Suhartini et al., 2024; Junaidi and Maulana, 2025) that sustainability reporting negatively affected firm value. This consistency may indicate that investors view sustainability disclosures as increasing expenses, not delivering short-term financial rewards, or being more of a show to win permission than an actual performance improvement. These findings showed that investors' reactions to sustainability disclosures depend on the amount, reliability, quality, and strategic significance of the information revealed. Due to investor skepticism about its economic relevance, sustainability disclosure may appear weak and pricey. In emerging economies like Indonesia, investors concentrate short-term financial results, while sustainability reporting is seen as symbolic compliance rather than a performance indicator.

Earnings Quality on Firm Value

The result of the hypothesis test demonstrated that earnings quality negatively and affected firm value and hence the hypothesis suggested was not supported. This was indicated by a t-statistic of -3.296 and a p-value of 0.002 ($p < 0.05$). The results revealed that, contrary to the expectations, a higher earnings quality as in this research, had a negative impact on firm value. It may mean that the market did not necessarily see higher reported earnings quality as a positive sign of good firm performance or better prospects for the future.

These findings aligned with other papers by Baihaqi and Murtanto (2023), Dewi et al. (2021), and Wardani and Dewanti (2022) who also found a negative relation. According to agency theory, while earnings are indeed a major indicator of managerial performance, the chance to manipulate earnings through financial reporting made stakeholders doubt the reliability of the reported results. Attempts to show steady or high earnings might have been seen by investors as a kind of disguise. In that context, instead of increasing firm value, higher earnings reported might have been taken as less trustworthy thus leading to a drop in market valuation.

Firm Size on Firm Value

Hypothesis testing results confirmed that firm size positively and significantly impacted firm value, as the significance was 0.034 ($p < 0.05$), which was somewhat surprising given that larger firms accounted for higher market valuations, so to speak, from a signaling perspective, firm size had been a reflection of the existence of abundant resources, a more dominant position in the market, and a higher level of trustworthiness of the organization. Such features had minimized the problem of information asymmetry between management and investors and, thus, had allowed the market to set more positive expectations about the firm's performance in the future.

This finding was in line with the work of Stevanio and Ekadjaja (2021) Meidiana Puri et al. (2024) that documented a positive relationship between firm size and firm value. It was generally the case that larger firms had been viewed as more stable and capable of withstanding economic shocks, thereby increasing investor sentiments. Besides that, firm size had represented a vital measure for a company's operational strength, financial

position, and established image in the market. As a result, such traits had led to greater levels of investor confidence and, eventually, to higher firm value.

The Moderation Effect of Firm Size in the Relationship Between Sustainability Report and Firm Value

With a significance level of 0.628 ($p > 0.05$), the moderated regression analysis showed that firm size did not substantially affect sustainability reporting and firm value. Firm size did not moderate the effect of sustainability disclosure on firm value, so the hypothesis proposed was rejected. Sustainability reporting has the same impact on market valuation regardless of firm size. This showed that investor credibility and significance of sustainability information were not increased by firm size alone. More resources and visibility were predicted for larger organizations, but sustainability disclosure had not increased firm value. Investors likely assessed sustainability reporting based on substance, transparency, and expected economic benefits rather than corporate size. Thus, business size did not moderate this link, and other factors may have been more important in influencing how sustainability reporting affected firm value.

The Moderating Effect of Firm Size in the Relationship Between Earnings Quality and Firm Value

In this research, the moderated regression analysis results shown the firm size did not affect the relationship between earnings quality and firm value, as shown by a significance level of 0.336 (> 0.05). Thus, the hypothesis was rejected, suggesting that firm size did not strengthen the impact of earnings quality on firm value.

Despite expectations that larger firms provide more credible earnings signals, such signals may be undermined by earnings management practices. As a result, firm size cannot be regarded as an effective moderating in this relationship.

CONCLUSION

This study examines the effects of sustainability reporting, quality of earnings, and the size as a moderator on firm value. Results indicate that sustainability reporting and earnings quality are both negatively and significantly correlated with firm value. So, the market may not necessarily view fuller disclosure and better earnings quality as elements that will increase the company's value. It could be that investors are doubtful about the financial merits of sustainability disclosures or that the market gives more weight to short-term financial results than long-term strategic value. Meanwhile, firm size has a strong and impact positively on firm value, which is consistent with the idea that bigger companies enjoy more market trust, have access to more resources, and are regarded as more stable, all of which lead to higher valuations.

Nevertheless, results from the moderating model indicate that the position of firm size in the relationship between sustainability reporting, earnings quality, and firm value is negligible. This yields that firm size is not a useful contingency variable in the current study. In other words, investors may evaluate sustainability efforts and earnings quality regardless of company size, or indeed other situational variables might be more important. Thus, follow-up studies may want to focus on other moderating factors i.e., quality of corporate governance, ownership structure, characteristics of the industry, regulatory environment, and investor sentiment to better explain the relationship between sustainability reporting, earnings quality, and firm value. It may also be useful to add the sample size and insert a wider institutional settings to enhance the validity and applicability of future results.

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