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Sustainability reporting quality and its impact on firm value: Evidence from emerging markets

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Abstract--This study investigates the effect of sustainability reporting quality (SRQ) on firm value in the context of emerging markets, focusing on non-financial companies listed on the Indonesia Stock Exchange (IDX) during 2020–2023. Using a quantitative explanatory research design, the study employs secondary data from sustainability reports, annual reports, and market data. SRQ is measured through content analysis based on the Global Reporting Initiative (GRI) Standards (2021), while firm value is measured using Tobin's Q, with firm size, profitability (ROA), and leverage (DER) as control variables. Panel data regression analysis with EViews is applied, and the model passes classical assumption tests for normality, homoscedasticity, and absence of autocorrelation. The results show that SRQ has a positive and statistically significant effect on firm value, supporting the signaling theory, which posits that high-quality disclosure signals a firm's long-term viability and strong risk management to investors. Firm size and profitability also have significant positive effects on firm value, whereas leverage has a negative but insignificant effect. These findings contribute to the literature by emphasizing the importance of report quality rather than mere disclosure presence and provide



practical implications for companies and regulators in emerging markets to enhance the credibility, transparency, and comparability of sustainability reports to boost investor confidence and corporate reputation.

Keywords---Sustainability Reporting Quality, Firm Value, Emerging Markets, Signaling Theory, Indonesia.

Introduction

In recent decades, sustainability has emerged as a strategic issue shaping how companies operate and interact with stakeholders. This concept encompasses not only environmental aspects but also social and governance dimensions, collectively referred to as Environmental, Social, and Governance (ESG) factors. Sustainability reports have become a key instrument for communicating a company's commitment to sustainability and transparency. At the global level, frameworks such as the Global Reporting Initiative (GRI) encourage companies to present relevant, comparable, and reliable information to investors, regulators, and the wider public (Kolk, 2010; GRI, 2021).

From the perspective of signaling theory, high-quality sustainability reporting can serve as a positive signal to the market that the company has strong long-term prospects, effective risk management, and a solid ethical commitment (Spence, 1973; Connelly et al., 2011). Previous studies have shown that the presence and quality of sustainability reporting can enhance firm value by reducing information asymmetry between management and investors (Dhaliwal et al., 2011; Lourenço et al., 2014).

Nevertheless, empirical findings remain mixed. Some studies have found a positive relationship between sustainability reporting quality and firm value (Plumlee et al., 2015; Barth et al., 2017), whereas others report weak or insignificant effects, particularly in emerging markets where investor awareness and sustainability regulations differ (Ali et al., 2017; Haji & Anifowose, 2016).

In practice, many companies in emerging markets face challenges in producing high-quality sustainability reports. Factors such as weak regulatory enforcement, limited resources, and the prevalence of symbolic disclosure remain significant barriers (Michelon et al., 2015). Moreover, investors in emerging markets tend to focus more on short-term financial performance rather than non-financial information, meaning that the potential benefits of sustainability reporting are yet to be fully realized (de Villiers & Marques, 2016).

This study is conducted in Indonesia, focusing on non-financial companies listed on the Indonesia Stock Exchange (IDX). The location was selected due to the rapid growth of sustainability reporting practices, especially after the Financial Services Authority (Otoritas Jasa Keuangan – OJK) mandated the submission of sustainability reports for listed companies. However, despite increasing adoption, the quality of these reports varies considerably. Many reports do not fully comply with GRI standards, lack independent verification, and in some cases are

produced merely as a formality to meet regulatory requirements. This situation raises doubts as to whether sustainability reporting genuinely influences firm value from the investors' perspective.

The main issues highlighted in this research are the inconsistency in sustainability reporting quality among companies, the weak oversight of quality, and the lack of comprehensive empirical evidence on its impact on firm value in emerging markets such as Indonesia. This is important to investigate because low reporting quality can undermine the credibility of information, thereby hindering the primary objective of sustainability reporting as a value-creation instrument for companies.

The research gap arises because most prior studies have focused on developed economies with well-established regulatory frameworks, whereas studies in emerging markets remain limited and often emphasize the mere existence of sustainability reporting rather than its quality. In fact, reporting quality is a key factor determining the credibility and influence of such information on investor perceptions and firm value. Therefore, this study seeks to address this gap by analyzing the effect of sustainability reporting quality on firm value in the context of emerging markets, providing empirical evidence relevant to policymakers, practitioners, and academics.

Sustainability reporting refers to the disclosure of information regarding a company's environmental, social, and governance (ESG) performance, with the aim of enhancing transparency and accountability (GRI, 2021). Sustainability reporting quality refers to the extent to which the report meets the principles of completeness, accuracy, reliability, comparability, and timeliness (Michelon et al., 2015; Gerged et al., 2021).

In emerging markets, sustainability reporting quality is often influenced by internal factors such as top management commitment and external factors such as regulatory pressure and stakeholder demands (Rahman & Kamal, 2024). Research by Khan et al. (2024) in the ASEAN+3 region shows that sustainability reporting quality is positively associated with market perceptions and financial performance. Similar results were found by Sukkasem et al. (2025) in Thailand, who emphasized that high ESG ratings enhance firm value. However, Alghamdi and Agag (2023) in Saudi Arabia found that in the initial stages, voluntary reporting could serve as a costly signal and negatively impact firm value before eventually having a positive effect. These findings indicate that the institutional context plays a critical role in determining the effect of reporting quality on firm value.

Literature Review and Hypothesis Development

Firm value refers to the market's perception of a company's success in creating wealth for shareholders, typically measured through stock prices, Tobin's Q ratio, or market capitalization (Brealey et al., 2019). Investors assess firm value not only based on financial performance but also on reputation, risk management, and commitment to sustainability (Plumlee et al., 2015; Barth et al., 2017). In developing countries, firm value tends to be influenced by the level of investor

trust in publicly disclosed information, including sustainability reporting (Rahman & Kamal, 2024). Therefore, reporting quality becomes a critical determinant in building corporate reputation and influencing market reactions. Signalling theory posits that information disclosed by a company serves as a signal to the market (Spence, 1973). High-quality sustainability reporting reflects effective risk management, transparency, and a long-term commitment to sustainability, which is expected to enhance investor trust and, ultimately, increase firm value (Connelly et al., 2011).

Empirical studies support this positive relationship. For example, Khan et al. (2024) found that sustainability reporting quality positively affects firm value in the ASEAN+3 region. Similarly, Rahman and Kamal (2024) in Malaysia reported a significant positive relationship, reinforcing the idea that reporting quality is a key factor influencing investment decisions. However, Alghamdi and Agag (2023) found that this relationship may vary depending on market conditions and the maturity of reporting practices in a given country.

High-quality sustainability reporting provides stakeholders with more relevant, reliable, and comprehensive information, thereby reducing information asymmetry and increasing investor confidence. From the perspective of signaling theory, this constitutes a positive signal reflecting the company's long-term prospects. The findings of Khan et al. (2024) and Rahman & Kamal (2024) confirm that sustainability reporting quality positively influences firm value in emerging markets. Accordingly, it is reasonable to hypothesize that companies with higher-quality sustainability reporting will have greater firm value.

H1: Sustainability reporting quality has a positive effect on firm value in emerging markets.

Methods

This study employs a quantitative approach with an explanatory research design, aimed at testing the causal relationship between sustainability reporting quality and firm value. This approach was chosen because it can provide empirical evidence and objectively measure the effect of the independent variable on the dependent variable through statistical analysis (Creswell & Creswell, 2018).

The research population consists of all non-financial companies listed on the Indonesia Stock Exchange (IDX) that consistently published sustainability reports during the 2020–2023 period. The sample was selected using purposive sampling based on the following criteria: (1) the company was listed on the IDX during the observation period; (2) the company published a sustainability report either as a standalone report or as part of the annual report in accordance with the GRI Standards; and (3) the company had complete financial data for measuring firm value.

Secondary data were used, obtained from sustainability reports, annual reports, and market data such as stock prices and market capitalization accessed through the official IDX website and financial databases such as Bloomberg. The independent variable, sustainability reporting quality, was measured through content analysis using disclosure indicators from the GRI Standards (2021), with

assessment criteria covering completeness, balance of information, comparability, and reliability. The dependent variable, firm value, was measured using the Tobin's Q ratio, which represents the market's perception of a company's value. Control variables included firm size, profitability (return on assets), and leverage (debt-to-equity ratio).

Data were analyzed using panel data regression with EViews or Stata software. The analytical stages included descriptive statistics, classical assumption tests such as multicollinearity, heteroscedasticity, and autocorrelation, as well as model selection between common effect, fixed effect, and random effect models through the Chow test, Hausman test, and Lagrange Multiplier test. Partial significance tests (t-test) and simultaneous significance tests (F-test) were conducted to examine the hypotheses, while the coefficient of determination (R^2) was used to assess the model's explanatory power regarding variations in firm value.

The 2020–2023 research period was selected to capture the latest developments in sustainability reporting in Indonesia, particularly following the mandatory reporting requirement imposed by the Financial Services Authority (Otoritas Jasa Keuangan – OJK), as well as to analyze market responses to the quality of such reports.

Results and Discussion

A panel data regression analysis was conducted to examine the effect of Sustainability Reporting Quality (SRQ) on Firm Value, with Firm Size, profitability (ROA), and leverage (DER) as control variables. The estimation results indicate that the model has an R^2 value of 0.411, meaning that 41.1% of the variation in firm value can be explained by SRQ, firm size, ROA, and DER, while the remaining 58.9% is explained by other variables outside the model. The F-statistic value of 20.07 with a probability of $p < 0.001$ indicates that the model is statistically significant at the 99% confidence level.

Individually, SRQ has a positive and statistically significant effect on firm value (coefficient = 0.0207; $p < 0.001$), indicating that a one-point increase in SRQ is associated with a 0.0207 increase in firm value, *ceteris paribus*. Firm Size also shows a positive and significant effect (coefficient = 0.1016; $p < 0.001$), implying that companies with larger assets tend to have higher firm value. ROA has a positive and significant effect (coefficient = 2.3050; $p = 0.020$), suggesting that higher profitability contributes to increased firm value. Conversely, DER has a negative coefficient (-0.0565) but is statistically insignificant ($p = 0.304$), indicating that leverage does not significantly affect firm value in this model.

These findings confirm the relevance of signaling theory in the context of emerging markets such as Indonesia. Higher SRQ sends a positive signal to investors regarding a company's commitment to sustainable business practices, effective risk management, and stable long-term prospects. This result is consistent with Khan et al. (2024) in the ASEAN+3 region and Rahman & Kamal (2024) in Malaysia, both of which found a significant positive relationship between SRQ and firm value.

The significant positive effect of firm size on firm value indicates that the market tends to value larger firms more highly, as they are perceived to have stronger resource capacity to sustain performance and reputation. Meanwhile, the positive influence of profitability on firm value aligns with the traditional view that higher earnings enhance investor confidence and strengthen stock prices (Brealey et al., 2019).

The insignificant effect of leverage (DER) on firm value suggests that capital structure is not a primary factor considered by investors in assessing firm value in this context. This may be due to the market's perception that financial risk from debt can be offset by sustainable and transparent business strategies. Overall, the results support the argument that in emerging markets, SRQ plays a strategic role in enhancing firm value, even though traditional financial factors such as firm size and profitability remain relevant.

Conclusion

This study examined the effect of Sustainability Reporting Quality (SRQ) on firm value in the context of emerging markets, focusing on Indonesian non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The findings demonstrate that SRQ has a positive and statistically significant effect on firm value, suggesting that high-quality sustainability reporting enhances market perception and contributes to higher firm valuation. This is consistent with signaling theory, wherein transparent and credible non-financial disclosures act as positive signals to investors regarding a firm's long-term prospects and risk management capabilities.

The analysis also shows that firm size and profitability (ROA) are significant positive determinants of firm value, indicating that larger and more profitable firms tend to be more highly valued by the market. Conversely, leverage (DER) exhibits a negative but statistically insignificant relationship with firm value, implying that debt levels do not substantially influence investor assessments in this context.

From a practical standpoint, these findings underscore the strategic importance for companies in emerging markets to improve the quality of their sustainability reporting—not only to comply with regulatory requirements but also to strengthen investor confidence and corporate reputation. Regulators and policymakers, such as the Financial Services Authority (OJK), could consider developing stricter guidelines and assurance mechanisms to enhance the credibility and comparability of sustainability reports.

Future studies could extend this research by incorporating cross-country comparisons within the ASEAN region, examining sector-specific variations, or exploring the mediating role of investor trust between SRQ and firm value. Such research would contribute to a deeper understanding of how sustainability reporting practices can foster sustainable value creation in diverse institutional environments.

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