



Boosting Firm Value: Sustainability Report and Good Corporate Governance Moderated by Firm Size

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Abstract

Background: Firm value has become a central concern in capital market studies, as it reflects investor confidence and long-term corporate sustainability. Prior empirical evidence on the effects of sustainability reporting (SR) and good corporate governance (GCG) on firm value remains inconclusive, warranting further investigation, particularly with respect to potential moderating factors such as firm size proxied by market capitalization.

Objective: This study aims to integrate sustainability reporting and good corporate governance variables that influence firm value by using firm size as a moderating variable.

Methods: This research employed a quantitative methodology utilizing a purposive sampling strategy. The participants in the study comprised 62 manufacturing firms listed on the Indonesia Stock Exchange from 2021 to 2024. A cumulative total of 248 data observations were examined using SPSS software.

Results: The findings of the study reveal that sustainability reporting ($\beta = 2.981$, $p < 0.01$), the presence of an independent board of commissioners ($\beta = 4.275$, $p < 0.01$), and the audit committee ($\beta = 1.004$, $p < 0.01$) each have a significant positive direct impact on firm value. Additionally, firm size plays a significant moderating role in the relationship between sustainability reporting and firm value (interaction $\beta = 0.389$, $p < 0.05$) as well as between the independent board of commissioners and firm value (interaction $\beta = 0.421$, $p < 0.05$). However, firm size does not moderate the relationship between audit committees and firm value (interaction $\beta = -0.051$, $p > 0.05$). These conclusions are drawn from a sample of 62 manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024, resulting in 248 company-year observations.

Conclusion: Future research could explore other moderating variables such as profitability or apply the model in a cross-industry or cross-country context to test the robustness of these findings.

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INTRODUCTION

Within the public equity market, the primary objective of a listed company is to maximize its value, which is fundamentally shaped by how investors perceive and assess the company's long-term potential. Corporate value is commonly measured by means of the company's market price per share; a consistently elevated share price signals investor confidence in the company's underlying financial strength (Daromes, 2020).

According to Huda et al. (2020) efforts to increase company value are crucial to focus on capital structure and profitability. Increasing profitability allows a company to enhance its

revenue, which will increase the company's overall value. Furthermore, refining the capital structure helps optimize the utilization of financial resources and brings stability to operations (Huda et al., 2020). However, the current global environmental conditions demand concern for the environment so that the increase in company value is not only determined by profitability and capital structure factors but also by the environmental performance achieved by the company. According to the Triple Bottom Line concept, proposed by Elkington (1997), companies must balance their objectives: financial (profit), environmental (planet), and social (people).

Sustainability has emerged as an indispensable imperative in contemporary business practice. Corporate operations inevitably generate social, environmental, and economic consequences that organizations must address in order to endure and prosper. Sustainability reporting serves as a formal mechanism through which organizations may demonstrate their commitment to sustainable development. Although industry conditions have undergone rapid transformation, this evolution has not been matched by a proportional improvement in corporate social and environmental responsibility. In Indonesia, Financial Services Authority Regulation (POJK) Number 51 of 2017 stipulates that designated companies must prepare and publicly disclose a Sustainability Report (SR). Such a report constitutes a corporate document encompassing both financial and non-financial disclosures, incorporating information relating to the company's social and environmental activities (Ortiz-Martínez et al., 2023).

As economic, social, and environmental pressures intensify, governments and organizations are increasingly called upon to voluntarily provide social and environmental disclosures to demonstrate regulatory compliance. In this context, legitimacy theory offers a theoretically grounded explanation for corporate engagement in environmental information disclosure. This perspective holds that firms are compelled to conduct their activities in a manner aligned with prevailing societal norms and expectations; non-compliance carries the risk of long-term financial repercussions. Proponents of this view contend that sustainability reporting enables firms to establish and reinforce public legitimacy by communicating their corporate social responsibility programs (Martens & Bui, 2023).

Environmental contamination attributable to manufacturing activities in Indonesia during the 2021–2024 period remains a critical and ongoing concern, manifested in multiple forms, including aquatic pollution from the discharge of liquid chemical effluents into rivers, atmospheric pollution from industrial chimneys and coal dust emissions, and terrestrial pollution arising from the unlawful disposal of hazardous and toxic materials (B3 waste), with documented cases in Central Java (Pajitex, RUM) formally reported by local communities to the Ministry of Environment and Forestry (KLHK) for regulatory enforcement action. These incidents illustrate the persistent challenges of enforcing environmental regulations and cultivating corporate environmental awareness notwithstanding the existence of established legal frameworks. Official statistics from the KLHK indicate that approximately 60 million tons of B3 waste were generated in Indonesia in 2021, with industrial sources accounting for the predominant share of this volume.

According to KLHK data, the manufacturing sector alone produced 2,897 tons of B3 waste in the most recent reporting year. Such waste originates both from routine industrial processes and from incidental sources, including operational spills, surplus packaging, out-of-date goods, and substandard products. Despite the enactment of Government Regulation (PP) No. 22 of 2021 and Ministry of Environment and Forestry Regulation No. 6 of 2021, both of which govern environmental management and protection obligations, numerous manufacturing firms continue to violate these regulatory provisions by discharging their waste into rivers, oceans, or terrestrial environments.

Previous research regarding the sustainability report (SR) influencing company value has yielded inconsistent results. Sustainability reporting exerts a statistically significant and positive influence on corporate value (Natalia & Soenarno, 2021; Puspita & Jasman, 2022; Sudiadnyani et al., 2025; Ukoh et al., 2024). This outcome reflects the growing inclination of investors and stakeholders to favor organizations that actively prioritize social responsibility endeavors. Firms that demonstrate a genuine commitment to social sustainability are accorded greater market recognition, which translates into an enhanced per-share market valuation. This affirmative relationship underscores the strategic imperative of embedding sustainability considerations into core corporate planning and decision-making frameworks. However, several studies have found that sustainability reporting has no effect on company value, including: (Bukreeva & Grishunin,

2023; Friske et al., 2023; Nguyen, 2020; Suhartini et al., 2024; Windiarti et al., 2024).

These contributions, demonstrating that sustainability disclosure does not exert a statistically significant effect on corporate value or equity pricing, illuminate the inherent complexity and multidimensional character of the CSR–financial performance relationship. Although sustainability reporting may confer a range of potential organizational benefits, the conversion of such benefits into quantifiable and immediate financial returns is neither invariably straightforward nor universally applicable across different business contexts. A thorough appreciation of these dynamics is essential for corporate managers and stakeholders seeking to navigate the intricate interplay between CSR engagement and measurable financial outcomes.

Efforts to support business sustainability also require the implementation of good corporate governance (GCG). Theoretically, implementation can optimize company value and financial performance. Farawansyah et al. (2024) have empirically demonstrated that GCG implementation exerts a meaningful effect on corporate value. GCG operational mechanisms, as represented by the independent board of commissioners and audit committee, constitute significant determinants of firm value. The proportion of independent commissioners within a company's governance structure directly conditions the functional capacity and effectiveness of the independent board in fulfilling its supervisory mandate.

The institution of an independent board of commissioners within the GCG framework safeguards corporate strategy, exercises supervisory oversight of managerial decision-making, and enforces organizational accountability. Correspondingly, the composition of the audit committee should be calibrated to reflect the operational complexity of the firm, given its pivotal role in supporting effective decision-making that contributes to both corporate value enhancement and financial reporting quality. The audit committee occupies a critically important position in the governance architecture by functioning as a supervisory interface for the independent board of commissioners in monitoring corporate management activities, thereby reinforcing a sound and effective governance structure.

The two primary constructs under examination, SR and GCG, cannot be dissociated from the organizational resource base in their capacity to contribute to corporate value enhancement. A positive relationship exists between the magnitude of resources at the company's disposal and the amplified effectiveness of both SR and GCG in driving firm value. Corporate resources may manifest in tangible form, encompassing holdings such as total assets or market capitalization. Handayati et al. (2022) incorporated firm size as a moderating construct to more comprehensively examine the dynamic between ESG disclosure and corporate value. The selection of firm size as a moderating variable by these four research teams was predicated on its recognized function as a primary catalyst for ESG adoption, with the implication that the ESG–firm value relationship may manifest differently across enterprises of varying scale. Their collective empirical findings affirm that firm size has the capacity to moderate the association between ESG disclosure and firm value.

The work of Fahri et al. (2022) further posits that organizational scale reinforces the nexus between capital structure and firm value, generating statistically significant and positive results. As organizational scale increases, investor confidence correspondingly rises, given the presumption that larger firms possess greater capacity to manage their capital structure effectively and access debt financing with comparatively greater ease. Handayati et al. (2022) confirmed that firm size performs a moderating function in the CSR–firm value relationship. In contrast, Wulandari & Istiqomah (2024) and Lanjaryanto & Riwayati (2025) concluded that firm size does not effectively moderate the relationship between environmental, social, and governance (ESG) dimensions and corporate value.

Additionally, as organizations grow in scale, the scope of supervisory responsibilities expands proportionally. Accordingly, it is necessary for firms to adopt comprehensive GCG structures (encompassing a board of directors, independent board of commissioners, and audit committee) to effectively oversee business operations and sustain external financing stability. An expanded membership within these governance bodies enhances managerial oversight capacity, thereby supporting corporate value improvements (Rahmawati, 2021). The empirical findings of Surjadi & Tobing (2016) and Silalahi et al. (2022) collectively confirm that firm size substantially amplifies the positive influence of GCG on corporate value.

In response to the mixed and inconsistent findings from prior research, this study seeks

to consolidate SR and GCG within a unified analytical framework for examining their influence on corporate value, employing firm size as a moderating variable. While earlier studies predominantly used total assets as a proxy for firm size, this study adopts market capitalization for this purpose. A principal advantage of market capitalization over total assets in investment analysis is that it reflects the market's contemporaneous valuation of the company, incorporating dimensions of liquidity and financial stability, while simultaneously enabling size-based classifications (small-cap, mid-cap, and large-cap) that correspond to distinct risk profiles and are commonly used as the basis for constructing equity indices. Market capitalization reflects investor expectations regarding growth potential and risk exposure in real time, whereas total assets represent a historically derived book value that may not adequately capture the company's current market worth or forward-looking economic potential.

According to Ismail et al. (2023), market capitalization serves as an indicator of both the scale and economic worth of a business entity and is widely employed to stratify firms into small-cap, mid-cap, and large-cap categories. Enterprises characterized by substantial market capitalizations generally exhibit greater organizational resilience and operational consistency, whereas firms of lower capitalization tend to offer higher growth potential, albeit accompanied by commensurately elevated financial risk. Based on previous research, there is a positive and significant impact of market capitalization and firm value (Indupurnahayu et al., 2023; Rambe, 2023; Riza, 2025). According to Hermawati (2025), large-capitalization companies typically have a market capitalization of 10 billion or more, mid-capitalization companies between 2 billion and 10 billion, and small-capitalization companies between 250 million and 2 billion.

Two foundational theoretical frameworks underpin the strategic significance of Sustainability Reporting (SR) for firm value: Stakeholder Theory and Legitimation Theory. Stakeholder theory posits that a company's operational activities generate consequences extending beyond the organization itself to affect a wide spectrum of stakeholder groups. Consequently, corporate strategies and managerial decisions must be formulated in consideration of the diverse interests of all relevant stakeholders. The systematic incorporation of stakeholder interests into organizational decision-making enhances the precision of risk assessment and, in doing so, generates firm value for both investors and other affected parties. Legitimation theory, meanwhile, recognizes that companies bear an implicit responsibility toward the communities within which they operate.

This imperative to conduct operations in conformity with prevailing societal norms and expectations motivates firms to produce sustainability reports as demonstrable evidence of their compliance commitment. The legitimation process requires firms to establish measurable indicators aligned with existing regulations or recognized standards to assess and communicate their environmental and social performance levels to the public (Deegan & Blomquist, 2006). Organizations that engage in comprehensive and transparent SR signal their demonstrated proficiency in corporate social responsibility and their adherence to ethical business conduct, thereby elevating stakeholder perceptions of the company's CSR orientation and transparency. Ultimately, this elevated stakeholder confidence and support serves as a catalyst for firm value appreciation.

Agency Theory provides a foundational theoretical rationale for the implementation of Good Corporate Governance (GCG) within organizational settings. Formulated by Jensen & Meckling (1976), this framework identifies and analyzes the inherent tension of interests embedded in the principal-agent relationship that characterizes corporate organizational structures. In this context, the principal (shareholder) confers decision-making authority upon the agent (manager), who may be inclined to advance self-serving objectives at the detriment of the principal's interests. Such divergences in interest generate agency costs, encompassing monitoring expenditures, bonding costs, and residual losses.

The deployment of sound financial reporting systems and governance structures constitutes an essential instrument for minimizing these costs. The provision of transparent and relevant accounting information reduces informational asymmetry between parties, thereby enhancing the capacity of shareholders to exercise effective oversight of managerial conduct. Additionally, GCG mechanisms—including independent boards of commissioners and audit committees—operate to reconcile managerial incentives with shareholder objectives through the institutionalization of accountability and governance oversight.

Grounded in the premises of stakeholder theory and legitimacy theory, organizations engaged in commercial activities bear obligations that extend beyond profit generation to encompass social accountability toward all relevant stakeholder groups, comprising both internal and external constituencies. When the interests of these diverse groups are systematically integrated into corporate planning, risk assessment accuracy improves, thereby facilitating the creation of sustainable firm value for investors and other affected parties alike. Organizations that implement sustainability reporting in a transparent and substantive manner affirm their demonstrated effectiveness in corporate social responsibility and their adherence to ethical business principles. Such transparency cultivates more favorable stakeholder evaluations of the company's CSR commitment and overall accountability.

This elevated level of stakeholder trust and endorsement ultimately serves as a catalyst for firm value appreciation (Nguyen, 2020). Market participants evaluate corporate value not exclusively through financial metrics but also by reference to reputational standing, risk governance capabilities, and organizational commitment to sustainability objectives (Barth et al., 2017). In developing-country contexts, corporate value is substantially conditioned by the degree of investor confidence in publicly disclosed information. Based on these theories and empirical studies, the proposed hypothesis is:

H1: Sustainability reporting has a significant positive effect on firm value.

From the perspective of agency theory, sound financial reporting systems and governance frameworks are indispensable instruments for containing agency-related costs. The availability of transparent and material accounting information reduces informational asymmetry between parties, enabling shareholders to exercise more effective oversight of managerial conduct. Additionally, GCG structures—including independent boards of commissioners and audit committees—serve to reconcile managerial incentives with shareholder objectives through institutionalized accountability and governance oversight mechanisms. From a theoretical standpoint, effective GCG implementation has the capacity to optimize both corporate value and overall financial performance.

Harun et al. (2020) have proven that GCG influences firm value. GCG mechanisms, proxied by independent commissioners and audit committees, can affect firm value. The number of independent commissioners in a company will determine how well the independent board of commissioners performs its functions. The existence of an independent board of commissioners for GCG ensures corporate strategy, supervises business management by managers, and mandates the implementation of corporate accountability. Meanwhile, audit committee membership in a company should be adjusted to its complexity, as it is related to the importance of effectiveness in the decision-making process to enhance company value and the quality of its financial reports.

The audit committee has a very important influence because it can be utilized as a supervisor and listener for the independent board of commissioners in overseeing corporate management, thus forming a good corporate governance structure. Based on these theories and empirical studies, the proposed hypothesis is:

H2a: The independent board of commissioners has a significant positive effect on firm value.

H2b: The audit committee has a significant positive effect on firm value.

Market capitalization constitutes a significant proxy measure for firm scale, growth trajectory, and the broader market's appraisal of the company. It encapsulates investor sentiment and provides informative signals regarding how market participants assess corporate value relative to its fundamental financial attributes. For manufacturing enterprises specifically, market capitalization substantially influences the capacity to mobilize capital, invest in technological development, expand operational scope, and sustain competitive positioning (Langat, 2025). As organizational scale increases, investor inclination toward the company's equity tends to strengthen, driving share price appreciation and, correspondingly, improvements in firm value (Adhi & Cahyonowati, 2023).

Larger-scale enterprises command greater financial capacity relative to their smaller counterparts to pursue comprehensive ESG activities; consequently, robust ESG disclosure through quality sustainability reporting is more effective in attracting investment by generating

public trust and stakeholder confidence (Adhi & Cahyonowati, 2023). Conversely, smaller organizations face resource constraints that limit the scope of their ESG engagement, and inadequate ESG disclosure may therefore fail to generate the investor confidence necessary to attract capital. The signaling perspective posits that large-scale firms that proactively demonstrate ESG performance are positioned to transmit credible sustainability signals to the market, thereby stimulating investor engagement. This is empirically corroborated by Abdi et al. (2022), whose findings demonstrate that firm size amplifies the ESG disclosure–firm value relationship. Furthermore, Handayati et al. (2022) established that organizational scale similarly strengthens the association between CSR disclosure and corporate value. Based on these theories and empirical studies, the proposed hypothesis is:

H3: Firm size significantly moderates the relationship between sustainability reporting and firm value.

Organizations characterized by substantial market capitalization are particularly dependent upon robust good corporate governance (GCG) frameworks to maintain long-term business sustainability, elevate operational performance, and sustain investor confidence. The pursuit of sound governance, grounded in the principles of transparency, accountability, and corporate responsibility, reinforces competitive positioning and enables proactive risk management in increasingly complex operating environments. Market capitalization constitutes a key indicator of firm scale, growth prospects, and prevailing market perceptions of corporate worth. Greater organizational scale corresponds to a more complex array of operational activities; accordingly, the company's accountability to shareholders and other stakeholder groups expands proportionally with the growth of the company's asset base. Consequently, the moderating role of the independent board of commissioners and audit committee in determining firm value becomes more pronounced as organizational scale increases. It is therefore imperative that companies maintain sound governance mechanisms, particularly an independent board of commissioners and an audit committee, to facilitate effective organizational management and preserve the stability of external financing relationships.

The operational complexity inherent in large organizations and their extensive economic influence render rigorous governance structures a strategic imperative. Investors commonly interpret the presence of strong governance practices in large-scale firms as indicative of organizational stability and enhanced performance credibility, a perception that reinforces the positive influence of governance quality on equity price performance (Nurul Ulfa et al., 2025).

An expanded membership within both the audit committee and the independent board of commissioners enhances the collective supervisory capacity available to senior management and contributes to improvements in corporate value (Rahmawati, 2021). The findings of Suharto et al. (2022), and Intan Permatasari & Musmini (2023) collectively confirm that firm size amplifies the positive effect of good corporate governance on firm value. Based on these theories and empirical studies, the proposed hypotheses are:

H4a: Firm size significantly moderates the relationship between the independent board of commissioners and firm value.

H4b: Firm size moderates the relationship between the audit committee and firm value.

Following a comprehensive review of both theoretical and empirical literature, the researchers derived seven research hypotheses centered on four principal constructs operationalized as study variables. This investigative process culminated in the construction of a systematic conceptual framework that subsequently served as the basis for empirical statistical testing. The study employs secondary data extracted from the financial and sustainability reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) covering the 2021–2024 observation period, as depicted in the figure below:

The proposed conceptual framework asserts that sustainability reporting (SR) and good corporate governance (GCG), operationalized through the independent board of commissioners and the audit committee, contribute to firm value enhancement (measured by PBV) via two distinct causal mechanisms. The first pathway involves SR's contribution to firm value through the strengthening of organizational legitimacy, the consolidation of stakeholder trust, and the signaling of long-term environmental and social accountability (Plumlee et al., 2015). The second

pathway operates through GCG mechanisms, which curtail agency costs by bringing managerial conduct into alignment with shareholder interests, thereby augmenting corporate value (Dewri, 2022; Jensen & Meckling, 1976). Firm size, proxied by market capitalization, serves as a moderating variable that amplifies both of these pathways: companies of greater organizational scale possess superior financial capacity to sustain comprehensive SR and GCG initiatives, thereby generating more powerful informational signals for market participants (D'Amato & Falivena, 2020).

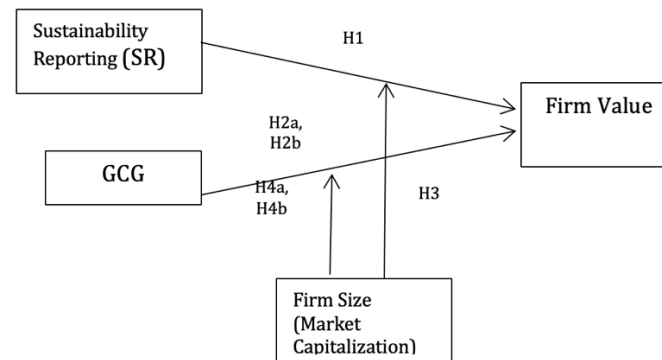


Figure 1. Conceptual Framework

This study holds significant practical implications for businesses, policymakers, and stakeholders both within Indonesia and beyond. By detailing the influence of Social Responsibility (SR) and Good Corporate Governance (GCG) on enhancing company value, this research lays a robust groundwork for informed decision-making and strategic planning that promotes sustainable development and ethical governance. Additionally, this research addresses the global challenge of sustainability, using the Indonesian manufacturing sector as a case study to illustrate the wider effects of sustainable business practices on firm value. The primary aim of this research is to furnish empirical evidence regarding the incorporation of SR and GCG into business models. As industries across the globe confront the demands of sustainable development, this study provides timely insights into the strategic significance of sustainability and governance in boosting firm value, advocating for a holistic approach that aligns with stakeholder expectations and international sustainability objectives.

METHOD

The present study adopted a quantitative research design employing a purposive sampling technique for sample selection. IBM SPSS Statistics version 26 was utilized as the primary statistical instrument for hypothesis testing. The study drew upon data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) that satisfied the selection criteria of having consistently published annual reports and sustainability reports throughout the 2021–2024 study period. The data were sourced from the official corporate websites of the respective companies. All financial data were denominated in Indonesian Rupiah. As the data were obtained from publicly accessible platforms and previously disclosed corporate documents, no supplementary authorization was required for their academic use.

For the purpose of testing the direct-effect hypotheses (H1, H2a, and H2b), multiple regression analysis was conducted using the following specification:

$$PBV = \alpha + \beta_1 SR + \beta_2 KOMISARIS + \beta_3 KOMITE + \varepsilon$$

where PBV denoted firm value as measured by Price-to-Book Value, SR represented the sustainability reporting score, KOMISARIS indicated the total number of independent board of commissioners members, and KOMITE referred to the number of audit committee members. To assess the moderating-effect hypotheses (H3, H4a, and H4b), Moderated Regression Analysis (MRA) was applied in accordance with the Baron & Kenny (1986) procedure, with interaction terms constructed as the multiplicative products of each independent variable and the moderating variable:

$$PBV = \alpha + \beta_1 SR + \beta_2 KOMISARIS + \beta_3 KOMITE + \beta_4 SIZE + \beta_5 (SR \times SIZE) +$$

$$\beta_6(\text{KOMISARIS} \times \text{SIZE}) + \beta_7(\text{KOMITE} \times \text{SIZE}) + \varepsilon$$

where SIZE represented firm size, which was approximated by the natural logarithm of market capitalization. All variables were mean-centered prior to the computation of the interaction terms to mitigate potential multicollinearity concerns.

The SR variable was operationalized through disclosure scores across the economic, environmental, and social dimensions, which were extracted from company annual reports using the GRI 4 framework. Under this framework, a score of 1 was assigned for each fulfilled disclosure item based on the 91-item index (Linh et al., 2022). The GRI 4 disclosure categories encompassed general standard disclosures (SR_GRI.1), economic performance indicators (SR_GRI.2), environmental performance indicators (SR_GRI.3), and social performance indicators (SR_GRI.4). The aggregate disclosure score was then compared with the maximum potential score of 91 GRI disclosure points.

The GCG variable was assessed by quantifying the membership of the Independent Board of Commissioners and the Audit Committee. The Independent Board of Commissioners was selected as a GCG proxy because its members had no financial affiliations with the company, thereby enabling them to provide more impartial and credible evaluations. The Audit Committee was similarly selected because its independent external members were positioned to provide more objective and transparent assessments. The GCG score was derived from the combined number of independent commissioners and audit committee members. Firm size was measured using market capitalization as a proxy variable, representing the aggregate market value of all outstanding company shares. Market capitalization was determined as the product of the prevailing share price and the total number of shares outstanding.

The quality of GCG was quantified through two complementary sub-indicators: (1) the ratio of independent commissioners to total board membership, which reflected the degree of board independence as a governance monitoring mechanism (Guluma, 2021); and (2) the aggregate number of audit committee members, which captured the committee's functional capacity for financial oversight. Although this study employed raw membership counts consistent with established Indonesian research practice Pramestie & Atahau (2021), future studies may consider using the proportion of independent board members as a more granular and analytically refined proxy. Firm size was quantified using the natural logarithm of market capitalization ($\ln_MKTCAP$), which was derived by multiplying the closing share price by the total number of shares outstanding at the fiscal year-end. This logarithmic transformation was applied to normalize the variable's distribution and mitigate potential heteroscedasticity-related issues.

Corporate value, which served as the dependent variable in the study, was proxied by the Price-to-Book Value (PBV) ratio, a market-based metric used to evaluate the relationship between the market price of equity and its corresponding book value. Following data collection and consolidation, a series of classical assumption diagnostic tests were conducted to verify the statistical integrity of the dataset and ensure its suitability for hypothesis testing. In addition, a coefficient of determination analysis was conducted to assess the proportion of variance in the dependent variable that could be explained by the independent variables included in the regression models.

RESULTS AND DISCUSSION

Results

Application of the purposive sampling criteria yielded an initial pool of 228 manufacturing companies listed on the IDX that maintained their listing status throughout the 2021–2024 observation period. Of these, 148 companies were excluded owing to their failure to publish both annual and sustainability reports on a consistent basis across the full four-year period, while an additional 17 companies were eliminated due to their use of non-rupiah reporting currencies, resulting in a final qualified sample of 62 companies. Based on this selection, a total of 248 firm-year observations constitute the analytical dataset for this study.

Classical Assumption Test

The classical assumption diagnostics presented in Table 1 indicate that the One-Sample Kolmogorov-Smirnov normality test produced an Asymp. Sig. (2-tailed) value of 0.200. Given that this significance value exceeds the 0.05 threshold, the null hypothesis of normal distribution

cannot be rejected, and it is concluded that the residuals of the research model (incorporating the Sustainability Report score, Independent Board of Commissioners, Audit Committee, Market Capitalization, and Firm Value variables) conform to a normal distribution.

The multicollinearity test is conducted to verify the absence of problematic intercorrelation among the independent variables, with the assessment criteria specifying that Tolerance values must exceed 0.10 and Variance Inflation Factor (VIF) values must remain below 10. The diagnostic results reveal VIF values of 1.160 for the Sustainability Report score, 1.148 for the independent board of commissioners, 1.134 for the audit committee, and 1.178 for market capitalization, with all variables correspondingly maintaining Tolerance values in excess of 0.10. These results confirm that the regression model is free from multicollinearity concerns, as no problematic linear relationships were identified among the predictor variables.

The heteroscedasticity test is administered to assess whether the variance of residuals remains constant across all observations, with an adequate model requiring significance values exceeding the 0.05 threshold. The Glejser test, conducted with ABS_RES_1 as the dependent variable, yields significance values of 0.055 for the Sustainability Report score, 0.246 for the independent board of commissioners, 0.604 for the audit committee, and 0.075 for market capitalization. As all significance values for the independent variables surpass the 0.05 benchmark, the regression model is confirmed to be free from heteroscedasticity.

An autocorrelation test was administered to assess whether systematic correlations exist between error terms in a given period and those of the preceding period. The Runs Test was employed for this diagnostic purpose, with the acceptance criterion specified as an Asymp. Sig. (2-tailed) value exceeding 0.05. The test produced an Asymp. Sig. (2-tailed) value of 0.899, substantially surpassing the minimum acceptable threshold of 0.05. This result confirms the absence of autocorrelation in the regression model, indicating that the residuals are randomly distributed across time periods.

Table 1

Classical Assumption Test

Variables	Normality Test	Multicollinearity Test		Heteroscedasticity Test	Autocorrelation Test	
	Asymp.Sig (2-Tailed)	Tolerance	VIF	Glejser Test	Asymp.Sig (2-Tailed)	(2-Tailed)
	0.200				0.899	
Sustainability Report		0.862	1,160	0.055		
board of Commissioners		0.871	1,148	0.246		
Independent Audit Committee		0.882	1,134	0.604		
Firm Size		0.849	1,178	0.075		

Hypothesis Testing

Direct Effect Hypothesis Test (H1, H2a, H2b)

Table 2

Hypothesis Testing Influence Direct

Variables	Coefficient	Std.Error	t-Statistic	p-Value	Hypothesis
C (Constant)	-4,941	0.476	-10,389		
Sustainability Report (X1)	2,981	0.457	6,523	0.000	H 1: Accepted
board of Commissioners Independent (X2)	4,275	0.489	8,735	0.000	H2 a: Accepted
Committee (X3)	1,004	0.145	6,931	0.000	H2 b: Accepted

The findings presented in Table 2 document the direct effects of the sustainability report, independent board of commissioners, and audit committee on firm value. Hypothesis H1 is confirmed; sustainability reporting demonstrates a statistically significant and positive effect on firm value ($\beta = 2.981$, $p < 0.01$). Hypothesis H2a is similarly supported; the independent board of commissioners exhibits a statistically significant and positive influence on firm value ($\beta = 4.275$, $p < 0.01$). Hypothesis H2b is likewise accepted; the audit committee exerts a statistically significant and positive effect on firm value ($\beta = 1.004$, $p < 0.01$).

Hypothesis Test of Moderation Effect (H3, H4a, H4b)

Table 3

Hypothesis Testing Influence Moderation

Variables	Coefficient	Std.Error	t-Statistic	p-Value	Hypothesis
C (Constant)	-5,251	5,703	-0.921	0.358	
Sustainability Report (X1)	-9,426	5,439	-1,733	0.084	
board of Commissioners Independent (X2)	-9,350	5.105	-1,831	0.068	
Committee (X3)	2,510	1,629	1,540	0.125	
Firm Size (M)	0.050	0.194	0.258	0.797	
X1M	0.389	0.188	2,077	0.039	H 3: Accepted
X2M	0.421	0.169	2,484	0.014	H4 a: Accepted
X3M	-0.051	0.055	-0.923	0.357	H4 b: Rejected

The moderating effect analysis reported in Table 3 examines the role of firm size in the relationships among the sustainability report, independent board of commissioners, audit committee, and firm value. The empirical results confirm that Hypothesis H3 is supported; firm size significantly moderates the influence of sustainability reporting on firm value (interaction $\beta = 0.389$, $p < 0.05$). Hypothesis H4a is similarly validated; firm size significantly moderates the effect of the independent board of commissioners on firm value (interaction $\beta = 0.421$, $p < 0.05$). Hypothesis H4b, however, is rejected; firm size does not perform a significant moderating function in the audit committee–firm value relationship (interaction $\beta = -0.051$, $p > 0.05$).

Discussion

Sustainability Report and Firm Value

The empirical findings affirm that the first hypothesis, positing a significant effect of sustainability reporting on firm value, is substantiated. Sustainability reporting contributes to firm value enhancement through a set of interconnected mechanisms, prominently including the elevation of organizational reputation, the cultivation of robust stakeholder relationships, and the improvement of financial performance outcomes. Through substantively demonstrating a commitment to ethical and sustainable business conduct, sustainability reporting serves as a reputational asset for the organization (Lawrence, 2022). This demonstrated commitment cultivates confidence among a broad spectrum of stakeholders, including investors, employees, customers, and the general public. As a result, firms that prioritize sustainability are better positioned to attract and sustain engaged stakeholder relationships, thereby supporting the realization of long-term strategic objectives. Sustainability reporting further enables organizations to deepen stakeholder engagement by transparently communicating sustainability goals, programs, and performance metrics, drawing stakeholders into collaborative efforts to achieve shared objectives (Eneh, 2019). This cooperative orientation generates positive relational outcomes grounded in mutual trust and shared understanding, ultimately supporting more informed organizational decision-making. Additionally, empirical evidence indicates that organizations with documented sustainability commitments tend to attain stronger financial outcomes relative to competitors, partly because sustainable practices drive operational efficiencies, reduce costs, and generate novel revenue opportunities (Lawrence, 2022). These mechanisms collectively demonstrate that sustainability reporting creates value by

simultaneously advancing environmental and social responsibility and generating measurable financial benefits. These findings are consistent with the prior work of (Amin et al., 2024).

Notwithstanding these findings, it is essential to acknowledge that a number of prior studies have identified no statistically significant association between sustainability reporting and corporate value (Friske et al., 2023; Nguyen, 2020; Suhartini et al., 2024; Windiarti et al., 2024). The divergence between these findings may be attributed to variations in institutional environments, differences in measurement methodologies, and the distinction between voluntary and mandated SR disclosure regimes. In the Indonesian regulatory context, where POJK No. 51/2017 renders SR mandatory for designated sectors, the informational value of sustainability disclosures may become diluted when firms approach reporting as a compliance obligation rather than a genuine instrument of strategic commitment. This observation implies that sustainability disclosures are not uniformly informative across contexts, and future research would benefit from drawing distinctions between the qualitative depth and thematic comprehensiveness of SR rather than treating it as a dichotomous or purely index-based construct.

Independent Board of Commissioners and Firm Value

The second hypothesis, asserting a significant effect of the independent board of commissioners on firm value, is confirmed by the empirical results. The strategic significance of independent commissioners in strengthening corporate governance frameworks has become progressively more widely acknowledged. Independent commissioners bear the primary institutional responsibility of providing objective governance oversight and safeguarding the rights and interests of minority shareholders.

Independent commissioners are board members who are devoid of financial relationships, managerial affiliations, equity ownership interests, or familial connections with fellow board members, company directors, controlling shareholders, or any other parties whose relationships could compromise their independence in the exercise of their governance functions. By virtue of this independence, such commissioners are uniquely positioned to discharge their supervisory responsibilities and contribute to the development of companies with robust corporate governance standards (Widyatini, 2019). The appointment of independent commissioners facilitates rigorous monitoring of corporate activities, reduces agency conflicts, and strengthens investor confidence, all of which cumulatively exert a constructive influence on firm value. The number of independent commissioners serving on a company's board directly conditions the board's overall capacity to fulfill its governance mandate. The GCG-aligned institution of an independent board of commissioners ensures that corporate strategy is duly observed, that managerial conduct is subject to appropriate supervision, and that organizational accountability is systematically enforced. These findings are aligned with and corroborate the conclusions of (Farawansyah et al., 2024).

Audit Committee and Firm Value

Hypothesis H2b, postulating a significant positive effect of the audit committee on firm value, is confirmed by the empirical findings. The audit committee bears institutional responsibility for maintaining internal control mechanisms that promote greater efficiency in the generation and dissemination of high-quality financial information, minimize managerial conflicts of interest, and enhance overall organizational welfare. As the designated institutional party responsible for overseeing the financial reporting process, the audit committee's functional effectiveness is positively associated with its membership size; a larger committee is better positioned to conduct rigorous assessments of the accuracy and completeness of management's financial disclosures. An expanded audit committee is widely regarded as conducive to ensuring that management-produced financial reports satisfy high quality standards. Furthermore, the audit committee augments corporate oversight by acting as an investigative and communicative mechanism supporting the independent board of commissioners, thereby conditioning the operationalization of an effective corporate governance architecture. The audit committee is a significant determinant of firm value, reflecting the principle that committee composition should be calibrated to organizational complexity, with sustained attention to effective decision-making processes that support both corporate value enhancement and financial reporting quality.

Firm Size Moderates the Relationship between Sustainability Reporting and Firm Value

The moderation hypothesis (H3), asserting that firm size significantly moderates the relationship between sustainability reporting and firm value, is confirmed by the empirical results. As organizational scale increases, investor propensity to direct capital toward the company's equity tends to strengthen, driving share price appreciation and a corresponding improvement in firm value. Larger firms possess comparatively superior financial capacity to support comprehensive ESG engagement; consequently, robust ESG disclosure through quality sustainability reporting is more effective in attracting investment capital by establishing public stakeholder confidence (Adhi & Cahyonowati, 2023). Conversely, smaller organizations face resource constraints that limit the scale and scope of their ESG engagement, rendering inadequate ESG disclosure insufficient to generate the investor confidence necessary to attract capital. The signaling framework posits that large-scale firms that proactively communicate their ESG performance are positioned to transmit credible sustainability signals to the market, thereby stimulating investor engagement. This interpretation is empirically corroborated by D'Amato & Falivena (2020), whose findings confirm that firm size amplifies the ESG disclosure–firm value association. Complementarily, Handayati et al. (2022) provide corroborating evidence that organizational scale similarly reinforces the nexus between CSR disclosure and corporate value.

Firm Size Moderates the Relationship between the Independent Board of Commissioners and Firm Value

The moderation hypothesis (H4a), asserting that firm size significantly moderates the relationship between the independent board of commissioners and firm value, is supported by the test results. Greater organizational scale is associated with more complex operational activities, and corporate accountability to shareholders and broader stakeholder groups expands in proportion to the firm's asset base. Consequently, the governance influence of the independent board of commissioners on firm value intensifies as company scale grows. This relationship reinforces the imperative for firms to maintain sound governance mechanisms, particularly an independent board of commissioners, to sustain effective organizational management and preserve the stability of external financing arrangements. The operational intricacy of large organizations and their broad economic impact render strong governance frameworks a strategic necessity. Investors commonly interpret the presence of robust governance structures in large-scale companies as indicative of organizational stability and enhanced credibility, a perception that reinforces the positive relationship between governance quality and equity price performance, ultimately contributing to firm value appreciation (Devita et al., 2024).

Firm Size Moderates the Relationship between the Audit Committee and Firm Value

The moderation hypothesis (H4b), postulating that firm size moderates the audit committee–firm value relationship, is not supported by the empirical evidence. Firm size does not appear to perform a meaningful moderating function in this relationship. This finding is consistent with the observation that companies across all size categories are uniformly required to maintain an audit committee in compliance with POJK Number 55/POJK.04/2015. When making investment decisions, market participants do not differentiate between audit committee compositions on the basis of firm scale, as all publicly listed companies, regardless of size, are mandated to maintain audit committee membership in accordance with regulatory provisions. Accordingly, firm size cannot function as an effective moderating variable in explicating the relationship between audit committee characteristics and corporate.

This finding can be further explained from a resource dependence and regulatory compliance perspective. Under POJK Number 55/POJK.04/2015, all public companies in Indonesia, regardless of size, are obligated to maintain an audit committee with a minimum of three members. This regulatory uniformity creates a 'floor effect,' where institutional compliance overrides any size-driven variation in audit committee composition. Consequently, investors do not differentiate audit committee size based on firm size when making investment decisions, as the structural requirement is already presumed to be uniformly met. This differs from the independent board of commissioners (H4a accepted), where larger companies tend to appoint a higher proportion of independent commissioners voluntarily beyond the regulatory minimum, allowing firm size to amplify the governance signal. Additionally, Pramestie & Atahau (2021)

support this interpretation, finding that regulatory homogeneity neutralizes any size-moderated effect of audit committee composition on firm value.

From a managerial perspective, these findings suggest that company executives, particularly in large manufacturing firms, should view sustainability reporting and independent governance structures not merely as compliance instruments but as strategic value-creation tools. Larger companies should leverage their financial capacity to invest in comprehensive GRI-aligned sustainability reports and to appoint well-qualified independent commissioners who can provide credible oversight. For investors, these results confirm that market capitalization (firm size) is a meaningful signal for differentiating the governance quality and sustainability commitment of Indonesian manufacturing companies. Investors may use firm size as a screening variable when constructing ESG-oriented portfolios. For policymakers, the findings reinforce the importance of POJK No. 51/2017 mandating sustainability reporting; however, the quality and standardization of disclosures should be enhanced to maximize the market value impact. The OJK may consider differentiating reporting requirements by firm size to allow smaller firms to gradually develop their SR capabilities while setting higher standards for large-capitalization companies.

CONCLUSION

This study demonstrates that both sustainability reporting (SR) and good corporate governance (GCG) contribute to enhancing firm value in Indonesian manufacturing companies. Specifically, sustainability reporting, the independent board of commissioners, and the audit committee each have a significant partial effect on firm value. In addition, firm size strengthens the influence of sustainability reporting and the independent board of commissioners on firm value, indicating that larger firms are better positioned to translate sustainability initiatives and governance quality into higher market valuation. However, firm size does not moderate the relationship between the audit committee and firm value. These findings highlight that integrating high-quality sustainability disclosure with effective governance mechanisms is an important strategy for creating long-term corporate value while supporting sustainable business practices.

The findings provide practical implications for managers and policymakers. Managers should view sustainability reporting as a strategic value-creation instrument rather than merely a regulatory obligation and strengthen the effectiveness of independent commissioners in corporate oversight. Policymakers, particularly the Financial Services Authority (OJK), should enhance sustainability reporting regulations by emphasizing disclosure quality and strengthening governance standards through improved oversight and competency requirements. Despite these contributions, this study has several limitations, including its focus on the 2021–2024 period, the manufacturing sector, simplified governance proxies, reliance on the GRI disclosure index, and the absence of formal endogeneity treatment. Future research is therefore encouraged to examine other industries or countries, incorporate alternative moderating variables such as profitability, use more comprehensive governance quality measures, and apply more rigorous econometric approaches to improve the robustness and generalizability of the findings.

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AUTHOR CONTRIBUTION STATEMENT

Nurul Aini: Conceptualization, Methodology, Data Collection, Formal Analysis, Investigation, Writing – Original Draft Preparation. Lilik Pirmaningsih: Supervision, Validation, Methodology Review, Writing & Editing, Project Administration.

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