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THE MODERATING ROLE OF ESG DISCLOSURE IN THE RELATIONSHIP BETWEEN FINANCIAL REPORTING QUALITY, INVESTMENT EFFECTIVITY, AND FIRM VALUE: EVIDENCE FROM EMERGING MARKETS

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ABSTRACT

Purpose: This study aims to examine the effect of financial reporting quality and investment effectivity on firm value, and to analyze how ESG disclosure moderates these relationships in manufacturing firms in Indonesia and Malaysia. The study further compares how differences in institutional maturity shape investor responses to transparency, accountability, and sustainability practices.

Methodology/approach: This research uses secondary data obtained from annual reports and sustainability reports of manufacturing companies listed in Indonesia and Malaysia from 2020 to 2024. Panel data regression was conducted using EViews 12 to evaluate the direct and moderating effects and to compare patterns across the two emerging markets.

Findings: The results reveal contrasting valuation mechanisms between Indonesia and Malaysia. In Indonesia, financial reporting quality does not influence firm value, but investment effectivity plays a significant positive role, reflecting investor sensitivity to firms' capital allocation efficiency. However, ESG disclosure does not strengthen the impact of either financial reporting quality or investment decisions. In Malaysia, financial reporting quality significantly enhances firm value, while investment effectivity shows no direct effect. ESG disclosure negatively moderates the relationship between financial reporting quality and firm value and does not moderate the effect of investment effectivity, suggesting that standardized sustainability reporting may dilute rather than reinforce financial signals in a more mature governance environment.



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Practical implications: These findings suggest that firms in emerging markets can strengthen valuation not only through financial performance but also through sincere sustainability communication. Improved ESG disclosure can amplify the impact of investment decisions, especially in institutional environments where reporting standards are still evolving.

Originality/value: This study provides comparative evidence from Indonesia and Malaysia on how ESG disclosure reshapes the relevance of financial reporting quality and investment effectivity in determining firm value. It contributes to the growing literature by showing that institutional maturity and authentic disclosure practices play a crucial role in defining the meaning of corporate value in Southeast Asia.

Keywords: ESG Disclosure; Financial Reporting Quality; Firm Value; Investment Effectivity.

ABSTRAK

Tujuan: Penelitian ini bertujuan untuk menguji pengaruh kualitas pelaporan keuangan dan efektivitas investasi terhadap nilai perusahaan, serta menganalisis peran moderasi pengungkapan ESG dalam hubungan tersebut pada perusahaan manufaktur di Indonesia dan Malaysia. Studi ini juga membandingkan bagaimana perbedaan kematangan institusional memengaruhi respons investor terhadap transparansi, akuntabilitas, dan praktik keberlanjutan.

Metode/pendekatan: Penelitian ini menggunakan data sekunder yang diperoleh dari laporan tahunan dan laporan keberlanjutan perusahaan manufaktur yang terdaftar di Indonesia dan Malaysia selama periode 2020–2024. Analisis dilakukan dengan regresi data panel menggunakan EViews 12 untuk menguji pengaruh langsung, efek moderasi, serta membandingkan pola hubungan antarnegara.

Hasil: Hasil penelitian menunjukkan perbedaan mekanisme penilaian antara Indonesia dan Malaysia. Di Indonesia, kualitas pelaporan keuangan tidak berpengaruh terhadap nilai perusahaan, namun efektivitas investasi berpengaruh positif dan signifikan, mencerminkan sensitivitas investor terhadap kemampuan perusahaan mengelola alokasi modal. Meskipun demikian, pengungkapan ESG tidak memperkuat pengaruh kualitas pelaporan keuangan maupun efektivitas investasi. Di Malaysia, kualitas pelaporan keuangan berpengaruh positif terhadap nilai perusahaan, sementara efektivitas investasi tidak memberikan pengaruh langsung. Pengungkapan ESG justru memperlemah hubungan antara kualitas pelaporan

keuangan dan nilai perusahaan, serta tidak memoderasi hubungan antara efektivitas investasi dan nilai perusahaan, menunjukkan bahwa pelaporan keberlanjutan yang semakin seragam dapat mengurangi kekuatan sinyal laporan keuangan dalam lingkungan tata kelola yang lebih matang.

Implikasi praktik: Temuan ini menunjukkan bahwa perusahaan di pasar berkembang dapat memperkuat nilai perusahaan tidak hanya melalui indikator finansial, tetapi juga melalui komunikasi keberlanjutan yang tulus. Pengungkapan ESG yang lebih baik dapat memperkuat dampak keputusan investasi, terutama di lingkungan institusional yang standar pelaporannya masih berkembang.

Orisinalitas/kebaharuan: Penelitian ini memberikan bukti komparatif dari Indonesia dan Malaysia mengenai bagaimana pengungkapan ESG mengubah relevansi kualitas pelaporan keuangan dan efektivitas investasi dalam menentukan nilai perusahaan. Studi ini berkontribusi pada literatur dengan menunjukkan bahwa kematangan institusional dan praktik pengungkapan yang autentik memainkan peran penting dalam membentuk makna nilai perusahaan di Asia Tenggara.

Kata kunci: Efektivitas Investasi; Kualitas Pelaporan Keuangan; Nilai Perusahaan; Pengungkapan ESG

INTRODUCTION

Firm value represents the overall worth of a company as perceived by investors, reflecting its ability to generate sustainable future cash flows, maintain profitability, and ensure long-term growth ([Abdi et al., 2022](#)). It captures not only financial performance but also managerial efficiency, governance strength, and market credibility. In corporate finance literature, firm value is commonly proxied by Tobin's Q or price-to-book ratio, which reflects how investors assess a firm's future potential relative to its current resources ([Bartlett & Partnoy, 2020](#)). High firm value indicates that market participants believe the company is managed effectively and possesses superior growth prospects, while low firm value often signals inefficiency, weak transparency, or poor investor confidence ([Certo et al., 2001](#)).

In the context of emerging markets such as Indonesia and Malaysia, enhancing firm value remains a persistent challenge. Both countries have experienced substantial industrial and digital transformation, particularly within the manufacturing sector, yet they continue to face structural issues related to financial transparency, inefficient capital allocation, and inconsistent sustainability reporting. In Indonesia, although the adoption of IFRS-based accounting standards has improved reporting comparability, weak enforcement and delayed audits still undermine investor trust ([Fuad et al., 2022](#)). Meanwhile, in Malaysia, the implementation of sustainability reporting under Bursa Malaysia's guidelines has not been uniformly applied across firms, leading to variations in the quality and depth of ESG disclosures ([Bakry et al., 2023](#)). These asymmetries result in different market perceptions of firm performance, suggesting that traditional financial indicators alone cannot fully explain valuation differences among firms in these economies ([Ali et al., 2020](#)).

Theoretically, this study builds upon Agency Theory and Signaling Theory to explain how firm value is shaped by both financial integrity and sustainability disclosure. According to Agency Theory by [Jensen & Meckling \(1976\)](#), conflicts between managers and shareholders give rise to information asymmetry, which can distort decision-making and reduce firm value. Transparent financial reporting serves as a mechanism to minimize agency costs and align managerial actions with shareholder interests. Meanwhile, Signaling Theory by [Morris \(1987\)](#) posits that credible disclosure, whether financial or non-financial, functions as a signal that reduces market uncertainty and enhances investor confidence. Integrating these two theoretical lenses provides a holistic understanding of how financial reporting quality and investment effectivity contribute to firm value, and how ESG disclosure may amplify these relationships through improved credibility and governance alignment.

Financial reporting quality (FRQ) is fundamental in shaping firm value because it reflects the accuracy and transparency of a firm's financial information ([Harjanto, 2024](#)). High-quality financial reporting reduces information asymmetry between management and external stakeholders, enabling investors to evaluate performance and risks more effectively ([García-Sánchez & Noguera-Gámez, 2017](#)). Prior studies [Zhou et al. \(2022\)](#) found that firms with reliable financial reporting tend to enjoy higher valuations since transparency signals ethical management and stable governance ([Eugster & Wagner, 2020](#)). However, in emerging markets where institutional enforcement remains uneven, the relationship between FRQ and firm value may vary significantly ([Elliott et al., 2020](#)). Differences in audit quality, accounting conservatism, and the credibility of disclosures often result in market responses that are inconsistent across firms and jurisdictions ([Chen et al., 2019](#)).

Empirical findings on the relationship between FRQ and firm value are not uniform. Several studies confirm a positive relationship, indicating that better reporting quality enhances investor confidence and market capitalization ([Elliott et al., 2020](#)). Yet others, such as [Habib et al. \(2020\)](#), observe insignificant or even negative effects, particularly in contexts with weak regulatory environments or high political interference. Such inconsistencies suggest that additional contextual factors, such as corporate governance practices, sustainability orientation, or ESG disclosure may influence how investors interpret financial information and determine firm value.

Another key determinant of firm value is investment effectivity, which captures the firm's ability to allocate capital efficiently and achieve optimal returns from investment activities ([An et al., 2024](#)). Effective investment decisions reflect managerial competence and strategic foresight, thereby enhancing the firm's long-term value. In manufacturing industries, particularly in Indonesia and Malaysia, where capital-intensive operations dominate, investment efficiency becomes a crucial indicator of competitiveness and growth potential ([Della Amarta & Hendrawaty, 2025](#)). When firms invest prudently, neither underinvesting nor overinvesting they demonstrate resource optimization that signals sound governance and operational discipline, which in turn attract positive investor evaluations ([Sun et al., 2025](#)).

However, empirical evidence regarding the influence of investment effectivity on firm value is also mixed. [Lubis et al. \(2025\)](#) find that efficient investment behavior leads to higher firm valuation, while [Kim et al. \(2025\)](#) argue that the relationship can weaken or even reverse in firms facing severe financial constraints or high uncertainty. These discrepancies imply that market perceptions of investment effectiveness are not solely determined by financial outcomes but also by the transparency and credibility of accompanying disclosures. When investors cannot clearly observe how capital is managed, they may discount firm value due to increased risk perception ([Bilgin & Turan, 2023](#)).

The inconsistencies observed in both relationships between FRQ and firm value, and between investment effectivity and firm value can be attributed to the absence of non-financial moderating factors that capture a firm's ethical, environmental, and social orientation. ESG disclosure serves as a crucial moderating variable that provides this missing dimension. By voluntarily disclosing environmental, social, and governance practices, firms send credible signals of integrity and accountability that can strengthen investor trust ([Pong & Man, 2024](#)). ESG transparency not only reduces agency problems but also enhances the interpretability of financial reports and investment decisions, thus potentially amplifying their positive impact on firm value ([Nurhayati et al., 2025](#)).

From a theoretical standpoint, the moderating role of ESG disclosure can be explained through the interaction of Agency and Signaling mechanisms. Under Agency Theory, comprehensive ESG disclosure reduces information asymmetry, mitigates managerial opportunism, and improves alignment between corporate actions and stakeholder interests ([Ewert & Wagenhofer, 2025](#)). Under Signaling Theory, strong ESG performance and transparent reporting communicate positive signals about long-term sustainability and corporate responsibility, enhancing market confidence ([Lu et al., 2025](#)). Consequently, ESG disclosure is expected to strengthen the positive effects of financial reporting quality and investment effectivity on firm value by shaping investor perceptions toward trust, legitimacy, and accountability.

Despite growing attention to ESG practices, limited research has empirically examined how ESG disclosure moderates the relationship between financial reporting quality, investment effectivity, and firm value particularly in cross-country emerging market contexts. Most existing studies treat ESG as a dependent or independent variable rather than as a moderating mechanism that interacts with financial attributes. This study fills that research gap by analyzing Indonesian and Malaysian manufacturing firms from 2020 to 2024, providing comparative insights into how ESG transparency enhances the valuation effects of financial quality and investment efficiency. The motivation arises from the need to understand how sustainability-oriented governance can resolve valuation inconsistencies and strengthen investor confidence in post-pandemic recovery settings.

This study contributes to theory and practice in several ways. Theoretically, it extends Agency Theory and Signaling Theory by integrating ESG disclosure as a moderating governance mechanism that bridges financial performance and firm value. Empirically, it provides robust cross-country evidence from emerging ASEAN markets, offering insights into how transparency and sustainability practices reinforce firm resilience and market perception. Practically, the findings can guide regulators in Indonesia and Malaysia to harmonize ESG reporting frameworks and strengthen sustainability assurance mechanisms, thereby fostering a more credible, responsible, and value-driven business environment across Southeast Asia.

Financial reporting quality plays a fundamental role in shaping how investors assess a firm's credibility, governance integrity, and future performance ([Muhi & Benaissa, 2023](#)). Transparent and reliable financial statements reduce information asymmetry, enabling investors to make rational decisions based on accurate representations of the company's financial condition ([Armstrong et al., 2010](#)). Within the framework of Agency Theory, high-quality reporting minimizes agency costs by aligning managerial behavior with shareholder interests and discouraging opportunistic actions ([Armstrong et al., 2010](#)). At the same time, Signaling Theory posits that transparent financial information sends a credible signal of integrity and competence, reinforcing investor confidence ([Naveed et al., 2021](#)). In emerging markets where regulatory enforcement and audit quality may be inconsistent, financial

transparency becomes a substitute for formal governance mechanisms and a critical determinant of firm value. Firms that produce high-quality financial reports tend to gain investor trust, face lower costs of capital, and enjoy better market valuation ([Asyik et al., 2023](#)).

H1a: Financial reporting quality positively influences firm value in Indonesia

H1b: Financial reporting quality positively influences firm value in Malaysia

Investment effectivity reflects a firm's ability to allocate resources wisely to generate sustainable returns ([Ma & Zhu, 2025](#)). When managers make sound investment decisions, avoiding both overinvestment and underinvestment, they demonstrate discipline, foresight, and governance maturity ([Sánchez & Meca, 2018](#)). Under the perspective of Signaling Theory, effective investment decisions act as a market signal of managerial capability and long-term profitability ([Alghifari et al., 2022](#)). Investors interpret such efficiency as an indication of corporate prudence and reward it with higher firm valuation ([Liao & Errico, 2023](#)). Conversely, poor investment decisions often reveal weaknesses in governance and financial control, which can erode market confidence. In the manufacturing sectors of Indonesia and Malaysia, where operations are capital-intensive and competition is dynamic, investment efficiency serves as a tangible indicator of strategic and operational excellence. Therefore, firms that exhibit effective investment behavior are more likely to sustain growth and strengthen their market value ([Mousa et al., 2021](#)).

H2a: Investment effectivity positively influences firm value in Indonesia

H2b: Investment effectivity positively influences firm value in Malaysia

The rise of Environmental, Social, and Governance (ESG) disclosure has reshaped how financial information is interpreted and trusted by investors ([Alsayegh et al., 2020](#)). ESG transparency provides a broader context that integrates ethical, environmental, and social dimensions into corporate communication ([Tsang et al., 2022](#)). From the standpoint of Agency Theory, disclosing ESG information reduces managerial opportunism by increasing accountability and reinforcing stakeholder monitoring ([Widiastutik et al., 2024](#)). Simultaneously, Signaling Theory suggests that firms with robust ESG disclosure send credible signals of responsibility, sustainability, and long-term vision, which amplify the credibility of their financial reporting ([Ferdous et al., 2025](#)). In emerging markets, where formal institutions may lack enforcement capacity, ESG disclosure acts as an informal governance mechanism that enhances market trust. When companies combine high financial reporting quality with strong ESG transparency, the resulting synergy deepens investor confidence and strengthens perceived firm value ([Harjanto, 2023](#); [Yu et al., 2018](#)).

H3a: ESG disclosure strengthens the positive relationship between financial reporting quality and firm value in Indonesia

H3b: ESG disclosure strengthens the positive relationship between financial reporting quality and firm value in Malaysia

Corporate investment behavior increasingly demands justification not only in financial but also in ethical and environmental terms ([Ahmad et al., 2024](#)). ESG disclosure provides that justification, showing how investment strategies contribute to sustainable and responsible growth ([Sciarelli et al., 2021](#)). From the lens of Signaling Theory, transparent ESG reporting communicates to investors that a firm's investments are not purely profit-driven but are guided by social and environmental consciousness ([Tsang et al., 2023](#)). This enhances investor trust and broadens the firm's appeal among sustainability-oriented stakeholders ([Lestari & Gangodawilage, 2025](#)). Under Agency Theory, ESG disclosure also limits the scope for managerial misuse of resources by making investment processes more visible and

7 accountable to the public ([Jensen & Meckling, 1976](#)). For manufacturing firms in emerging markets, where transparency standards are still evolving, ESG disclosure bridges the trust gap and validates the credibility of investment decisions. Thus, when firms disclose their sustainability efforts alongside effective investment practices, the market perceives greater alignment between profitability and responsibility, resulting in enhanced firm value ([Kouaib, 2022](#)).

H4a: ESG disclosure strengthens the positive relationship between investment effectivity and firm value in Indonesia.

H4b: ESG disclosure strengthens the positive relationship between investment effectivity and firm value in Malaysia.

METHODS

Research Design

This study adopts a quantitative research design using panel data analysis to examine the moderating role of ESG disclosure in the relationship between financial reporting quality, investment effectivity, and firm value. The approach was chosen because it allows for the observation of firm behavior over time and captures both cross-sectional and longitudinal variations in governance and reporting quality. By combining firm-level data from two emerging markets i.e. Indonesia and Malaysia. the study provides a perspective on how transparency and sustainability practices shape valuation dynamics in the manufacturing sector. The research spans a five-year period, from 2020 to 2024, a timeframe that reflects the post-pandemic acceleration of sustainability reporting and digital transformation.

Population and Sample

The study focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia, representing industries that are both capital-intensive and central to national economic growth. Manufacturing firms were chosen because they face higher scrutiny regarding operational transparency, investment efficiency, and environmental responsibility. The initial population consists of all publicly listed manufacturing companies in both countries, but the final sample was determined through a purposive sampling technique based on three criteria:

1. Firms must have published annual reports consistently from 2020 to 2024.
2. Firms must disclose financial and ESG-related data, either through sustainability reports or integrated annual reports.
3. Firms with incomplete or missing data were excluded to ensure consistency.

Definition Variables and Measurement

Four main constructs are examined in this study: firm value, financial reporting quality, investment effectivity, and ESG disclosure.

1. Firm Value (FV)

Firm value serves as the dependent variable and is measured using Tobin's Q, calculated as the ratio of the market value of equity plus total liabilities to total assets ([Ghani et al., 2023](#)). Tobin's Q captures investor expectations regarding future profitability and market performance, making it an appropriate proxy for firm value in capital market studies ([Zaleski, 2024](#)).

2. Financial Reporting Quality (FRQ)

Financial reporting quality represents the degree to which a firm's financial statements reflect its true economic performance ([Muhi & Benaissa, 2023](#)). FRQ is proxied by the

discretionary accruals model using the Modified Jones Model, where lower discretionary accruals indicate higher reporting quality ([Alomair, 2024](#)).

3. Investment Effectivity (INV)

Investment Effectivity (INV) refers to the firm's ability to utilize its investment resources efficiently to generate optimal returns ([Ma & Zhu, 2025](#)). In this study, investment effectivity is proxied by Return on Investment (ROI), which measures the ratio of net income to total investment ([Tram Le, 2023](#)). A higher ROI indicates that the firm's investments are managed more effectively, yielding greater profitability relative to the resources employed ([Setiawan & Rosa, 2023](#)).

4. ESG Disclosure (ESG)

ESG disclosure is measured using the Bloomberg ESG Disclosure Score, which evaluates the extent and quality of environmental, social, and governance information reported by firms ([Atayah et al., 2024](#)). The score ranges from 0 to 100, where higher values indicate greater transparency and alignment with global sustainability reporting practices. This measure reflects both the breadth and depth of ESG information disclosed in annual and sustainability reports, ensuring comparability across firms and countries ([Eskantar et al., 2024](#)).

5. Firm Size (FS)

Firm size reflects the scale and economic capacity of a company, which can influence operational stability, access to capital, and market power ([Kadek & Suryatna, 2023](#)). In this study, firm size is measured using the natural logarithm of total assets (Ln Total Assets), following prior corporate finance literature. The logarithmic transformation provides a more normalized distribution and ensures comparability across firms of different scales ([Dorothy & Endri, 2024](#)).

6. Profitability

Profitability represents the firm's ability to generate earnings from its assets and indicates the efficiency of management in utilizing company resources ([Bahadori et al., 2021](#)). This study measures profitability using Return on Assets (ROA), calculated as net income divided by total assets. ROA is widely used as a robust indicator of financial performance, where higher values reflect greater operational effectiveness and stronger capability to create shareholder value ([Pattiruhu & Paais, 2020](#)).

Model Specification and Data Analysis

This study employs panel data regression analysis using EViews 12 to test the direct and moderating effects among variables. The general model can be expressed as:

MODEL 1:

$$FV = \alpha + \beta_1FRQ + \beta_2INV + C1 + C2 + e$$

MODEL 2:

$$FV = \alpha + \beta_1FRQ + \beta_2INV + \beta_3ESG + C1 + C2 + e$$

MODEL 3:

$$FV = \alpha + \beta_1FRQ + \beta_2INV + \beta_3ESG + \beta_4(FRQ \times ESG) + \beta_5(INV \times ESG) + C1 + C2 + e$$

The data analysis in this study follows several systematically structured stages to ensure that the empirical results are valid, reliable, and aligned with the research objectives. The first stage involves descriptive statistical analysis, which provides an initial overview of the dataset

by identifying the mean, minimum, maximum, and standard deviation of each variable. This step helps illustrate the overall characteristics of firms in Indonesia and Malaysia, as well as the distribution and variation of the study variables.

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The second stage is the panel regression analysis, which is conducted using three model specifications. Model 1 tests the baseline relationships between financial reporting quality, investment effectivity, and firm value. Model 2 incorporates financial constraint to observe changes in the direct effects. Model 3 introduces the interaction terms to evaluate the moderating role of ESG disclosure. These models collectively provide a comprehensive understanding of both the direct and conditional relationships among the variables.

The third stage consists of the Pearson correlation analysis, which examines the correlation coefficients among all variables to ensure that multicollinearity is not present. This step confirms that the independent, moderating, and control variables can be included together in the regression models without statistical distortion. Together, these analytical stages form a robust methodological framework that supports accurate hypothesis testing and meaningful interpretation of the relationships proposed in H1–H4.

RESULTS AND DISCUSSIONS

Descriptive Statistics Test

Table 1 presents the descriptive statistics of the main variables used in this study, including firm value, financial reporting quality, investment effectivity, ESG disclosure, and their interaction terms for manufacturing firms in Indonesia and Malaysia.

The descriptive statistics presented in Table 1 provide an overview of the key characteristics of manufacturing firms in Indonesia and Malaysia and reveal several noteworthy differences between the two markets. In Indonesia, firm value measured by Tobin's Q shows a relatively modest mean accompanied by a wide gap between the minimum and maximum values, indicating substantial variation in how the market perceives the performance and future prospects of different firms. This variation reflects the heterogeneous nature of Indonesia's manufacturing sector, where some firms experience strong growth expectations while others face declining or stagnant valuations. ESG disclosure in Indonesia displays a striking pattern: the median value is zero, and the range is extremely wide. This means that the majority of firms do not disclose ESG information at all, while a minority report ESG metrics extensively. Such a skewed distribution suggests that ESG adoption in Indonesia remains voluntary, uneven, and still in the early stages of institutionalization, making disclosure a distinguishing feature of only certain firms.

Financial reporting quality in Indonesia also demonstrates very high dispersion, shown by the large standard deviation and extreme minimum value. This implies inconsistencies in accrual-based reporting practices, possibly due to differences in accounting policies, managerial discretion, or the strength of internal controls across firms. Meanwhile, investment effectivity and profitability show moderate mean values, but both variables also exhibit noticeable variability, indicating differences in how efficiently firms allocate resources and generate returns. Firm size in Indonesia ranges broadly from relatively small to very large firms, illustrating the structural diversity of the industry.

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16.1

Malaysia, on the other hand, exhibits a more stable and consistent pattern across most variables. Firm value shows a higher mean and a considerably higher maximum value than Indonesia, suggesting stronger investor confidence and more optimistic market expectations. ESG disclosure presents a higher average score and a more balanced spread, signifying that Malaysian firms generally engage more actively in sustainability practices and comply with

structured reporting requirements established by regulators. Unlike Indonesia, where financial reporting quality is highly volatile, Malaysia displays a narrow distribution for FRQ, indicating more standardized and reliable reporting practices across firms. Investment effectivity also shows stronger values in Malaysia, supported by more efficient capital allocation and better managerial decision-making. Profitability is likewise higher on average, suggesting healthier operational performance. Furthermore, firm size in Malaysia appears more homogeneous, with less extreme variation, implying a more uniform industrial structure relative to Indonesia.

Overall, the descriptive statistics reveal clear contrasts between the two countries. Indonesian firms show greater variability and uneven adoption of sustainability and reporting practices, whereas Malaysian firms exhibit stronger performance and more consistent governance behaviors. These foundational differences help explain the regression patterns observed later in the analysis, particularly regarding the role of ESG disclosure, financial reporting quality, and investment effectivity in shaping firm value in each market.

	Indonesia						Malaysia					
	Firm Value	Financial Reporting Quality	Investment Effectivity	ESG Disclosure	Firm Size	Profitability	Firm Value	Financial Reporting Quality	Investment Effectivity	ESG Disclosure	Firm Size	Profitability
Mean	1.658	-6.832	0.034	13.377	28.851	0.055	4.315	20.755	-0.115	19.894	0.232	0.117
Median	1.106	-0.029	0.024	0.000	28.462	0.046	1.722	0.000	-0.061	19.034	0.134	0.053
Max	14.414	224.179	0.218	81.870	32.937	1.015	67.371	91.560	1.339	24.248	2.625	0.606
Min	0.064	-846.513	0.000	0.000	22.763	-0.517	0.366	0.000	-5.628	17.462	-0.367	0.000
Std. Dev	1.738	75.754	0.035	13.377	2.097	0.119	9.600	30.198	0.516	1.743	0.393	0.144
N	235	235	235	235	235	235	170	170	170	170	170	170

Table 1.
Descriptive Statistics

Variables	Indonesia					Malaysia				
	Firm Value	Financial Reporting Quality	Investment Effectivity	Firm Size	Profitability	Firm Value	Financial Reporting Quality	Investment Effectivity	Firm Size	Profitability
Firm Value	1	-0.001	0.171	0.062	0.379	1	0.461	-0.066	0.521	0.598
Financial Reporting Quality	-0.001	1	0.044	0.237	0.018	0.461	1	0.028	0.289	0.166
Investment Effectivity	0.171	0.044	1	0.098	0.134	-0.066	0.028	1	-0.010	-0.357
Firm Size	0.062	0.237	0.098	1	0.281	0.521	0.289	-0.010	1	0.530
Profitability	0.379	0.018	0.134	0.281	1	0.598	0.166	-0.357	0.530	1

Table 3.
Pearson Correlation Test

Regression Test

Table 2 presents the results of the regression test examining the role of ESG disclosure in moderating the relationship between financial reporting quality, investment effectivity, and firm value for manufacturing firms in Indonesia and Malaysia. **16.1**

Variables	Indonesia			Malaysia		
	(1)	(2)	(3)	(1)	(2)	(3)
Financial Reporting Quality	0.994	0.096	0.108	0.000	0.000	0.000
	(-1.030)	(0.002)	(-0.012)	(0.104)	(0.174)	(1.434)
Investment Effectivity	0.041	0.012	0.090	0.086	0.094	0.406
	(6.196)	(6.970)	(5.235)	(1.885)	(1.772)	(19.178)
ESG Disclosure		0.000	0.000		0.000	0.937
		(0.031)	(0.026)		(-1.585)	(0.042)
Firm Size	0.391	0.000	0.000	0.013	0.032	0.091
	(-0.046)	(-0.202)	(-0.212)	(4.068)	(3.388)	(2.566)
Profitability	0.000	0.000	0.000	0.000	0.000	0.000
	(5.489)	(4.807)	(4.849)	(32.660)	(29.590)	(28.042)
Financial Reporting Quality x ESG Disclosure			0.057			0.000
			(0.000)			(-0.061)
Investment Effectivity x ESG Disclosure			0.247			0.447
			(0.173)			(-0.949)
Constant	0.110	0.000	0.000	0.001	0.000	0.813
	(2.471)	(6.599)	(6.906)	(-2.431)	(28.168)	(-2.453)
Adj.R2	0.146	0.285	0.294	0.514	0.550	0.596
F-Statistic	11.060	19.696	14.935	45.810	42.414	36.706
N	235	235	235	170	170	170

Table 2. Regression Test

First, the results for H1 show a clear contrast between Indonesia and Malaysia. In Indonesia, financial reporting quality does not significantly influence firm value ($\beta = 0.994$; $p > 0.05$ in Model 1), and remains insignificant even after control variables are included ($\beta = 0.096$; $p > 0.05$ in Models 2 and 3) H1a not supported. This indicates that the Indonesian market does not yet fully respond to financial reporting quality as a credible value-enhancing signal. In contrast, H1b is strongly supported in Malaysia, where financial reporting quality shows a significant positive effect on firm value ($\beta = 0.000$; $p < 0.05$ in Model 1). The effect remains stable after including controls, suggesting that Malaysian investors are more sensitive to transparency and consider FRQ a strong indicator of governance integrity and credibility.

Second, the results for H2a show a in Indonesia, investment effectivity has a significant positive impact on firm value ($\beta = 0.041$; $t = 6.196$; $p < 0.05$) and remains significant in subsequent models. However, H2b is not supported in Malaysia. Although the coefficient for investment effectivity is positive ($\beta = 0.086$), the t-statistic (1.885) does not meet conventional significance thresholds, meaning the effect is statistically insignificant. This implies that Malaysian investors may not rely on investment efficiency as a primary signal of firm value, possibly due to more mature monitoring mechanisms or differing industry dynamics that weaken the direct valuation impact of investment decisions.

Third, the moderating effect of ESG disclosure on the relationship between financial reporting quality and firm value (H3a–H3b) reveals an interesting pattern. In Indonesia, the moderating effect is not significant ($\beta = 0.057$; $p > 0.05$), indicating that ESG disclosure does not yet strengthen the value relevance of high-quality financial reporting. Conversely, in Malaysia, the moderation is significant but negative ($\beta = 0.000$; $t = -0.061$), suggesting that the combination of FRQ and ESG disclosure fails to enhance firm value. This may reflect potential over-disclosure, misalignment between sustainability communication and financial

transparency, or investor skepticism regarding the coherence of the firm's overall reporting strategy.

Fourth, the moderating effect of ESG disclosure on the relationship between investment effectivity and firm value (H4a–H4b) shows that the moderating role of ESG is not significant in either country. In Indonesia, the interaction term is positive ($\beta = 0.247$) but statistically insignificant ($p > 0.05$), indicating that ESG disclosure does not strengthen or alter the impact of investment effectivity on firm value. Similarly, in Malaysia, although the coefficient is negative ($\beta = 0.447$; $t = -0.949$), it also fails to reach statistical significance. These findings reveal that ESG disclosure does not function as an effective mechanism to amplify or modify how investment efficiency translates into firm value in either market. This may reflect investor skepticism toward the integration of sustainability information into firms' investment decision-making processes, or a lack of perceived alignment between ESG disclosures and actual operational outcomes.

Overall, the results in Table 2 show that Malaysia presents a stronger and more consistent market response to financial reporting quality and ESG disclosure, although the moderating effects of ESG tend to weaken rather than strengthen the primary relationships. Meanwhile, in Indonesia, both moderating effects are insignificant, reinforcing the idea that the effectiveness of ESG disclosure as an informal governance mechanism is highly dependent on the institutional maturity and market expectations of each country.

Additional Test

Pearson Correlation Test

To complement the main regression analysis, an additional Pearson Correlation Test was conducted to examine the bivariate relationships among the key variables used in this study. This test provides an initial indication of the direction and strength of associations before the more comprehensive multivariate analysis. The detailed results of the Pearson correlation coefficients can be found in Table 3.

The Pearson Correlation Test in Table 3 provides an overview of the linear relationships among the study variables for Indonesia and Malaysia. In Indonesia, firm value shows only weak correlations with financial reporting quality and investment effectivity, indicating that their influence cannot be captured through simple bivariate associations alone. Meanwhile, profitability exhibits a moderate positive correlation with firm value, suggesting that more profitable firms tend to receive higher market valuations. In Malaysia, the correlation structure is comparatively stronger, with financial reporting quality showing a moderate positive relationship with firm value, reflecting investors' greater responsiveness to reporting transparency. Firm size and investment effectivity also demonstrate positive associations with firm value, although at modest levels. Overall, the correlation coefficients remain below the multicollinearity threshold, confirming that the variables are suitable for further regression analysis.

Discussions

Financial Reporting Quality and Firm Value

The results show that financial reporting quality does not have a significant influence on firm value in Indonesia, yet it has a positive and significant effect in Malaysia, reflecting different institutional and market dynamics across the two countries. The descriptive statistics further reinforce the contextual differences that shape the estimation outcomes. Indonesian firms exhibit lower average firm value and greater variability across financial reporting quality, investment effectivity, and ESG disclosure, indicating a market environment marked by

inconsistent governance practices and uneven transparency. Such heterogeneity makes it more difficult for investors to interpret financial and sustainability signals, weakening the explanatory power of these variables in the regression results. In contrast, Malaysian firms demonstrate higher mean values and tighter distributions across key indicators, particularly financial reporting quality and ESG disclosure, reflecting stronger regulatory enforcement and more standardized reporting practices. This consistency enhances the credibility of financial information and allows financial reporting quality to emerge as a significant determinant of firm value. At the same time, the more uniform landscape in Malaysia reduces the marginal influence of investment effectivity and the moderating role of ESG, as variation in these signals becomes less pronounced. These descriptive patterns help explain why the same constructs generate divergent effects across the two countries, emphasizing that institutional maturity directly shapes the value relevance of financial and sustainability disclosures.

In Indonesia, the finding reflects a stage of institutional transition, where the formal adoption of IFRS-based standards has enhanced comparability but not necessarily strengthened audit credibility or enforcement consistency ([Harjanto, 2024](#)). Many firms still treat financial reporting as a compliance formality rather than a communication tool that reflects integrity and accountability, leading investors to question the depth of transparency ([Yoro, 2024](#)). From the lens of Agency Theory by [Jensen & Meckling \(1976\)](#), the role of reporting quality as a mechanism to reduce information asymmetry remains constrained by weak monitoring and enforcement. Consequently, investors in Indonesia often rely on alternative signals, such as ownership stability, dividend policy, or ESG disclosure, when assessing managerial trustworthiness and long-term prospects ([Harjanto, 2024](#)). Meanwhile, Signaling Theory by [Morris \(1987\)](#) reminds us that information only influences perception when it is perceived as credible; in contexts where audit oversight varies, even transparent reports may lose their persuasive power.

In contrast, the Malaysian results demonstrate that financial reporting quality plays a clear value-enhancing role. The positive and significant effect indicates that investors in Malaysia interpret high-quality financial reporting as a credible indicator of managerial integrity, governance strength, and reduced information risk. Supported by the Malaysian Financial Reporting Standards (MFRS), robust market regulation by the Securities Commission Malaysia (SCM), and stronger audit oversight, transparency becomes a differentiating signal of governance discipline ([Bakry et al., 2023](#)). From the lens of Signaling Theory, high financial reporting quality remains an effective signal because it is not uniformly strong across all listed firms, those that consistently maintain superior reporting standards are rewarded with higher valuation ([Morris, 1987](#)). Agency Theory also supports this finding: when governance environments are strong, improvements in reporting quality directly reduce agency costs and contribute to enhanced investor confidence ([Eugster & Wagner, 2020](#)). Investors in Malaysia therefore rely heavily on reporting quality as an assurance of financial reliability, especially in capital-intensive sectors such as manufacturing.

Together, these findings suggest that the relevance of financial reporting quality to firm value is context-dependent. In Indonesia, where governance enforcement and investor protection continue to evolve, financial reporting has yet to fully regain its role as a credible market signal. In Malaysia, transparency has become normalized, so its marginal informational value diminishes. Strengthening the ethical dimension of reporting, enhancing audit reliability, and integrating ESG narratives into financial disclosures could help both countries rebuild the interpretive link between transparency, trust, and firm value ([Nurhayati et al., 2025](#); [Silitonga et al., 2025](#)).

Investment Effectivity and Firm Value

The findings indicate that investment effectivity has a positive and significant effect on firm value in Indonesia, whereas in Malaysia the relationship is statistically insignificant. The Indonesian result is consistent with the descriptive statistics, which show higher variability in investment effectivity (Std. Dev = 0.218) and a wider distribution of investment performance. This dispersion allows efficient firms to be more easily distinguished from less efficient ones, enabling investment decisions to function as meaningful market signals. According to Agency Theory ([Jensen & Meckling, 1976](#)), this visibility reduces information asymmetry because investors can observe differences in managerial effectiveness more clearly, leading them to reward firms that manage capital prudently. Signaling Theory also explains this outcome: investment only enhances firm value when it conveys credible information about growth prospects and managerial foresight ([Tseng et al., 2019](#)). In Indonesia, where investment performance varies substantially across firms and disclosure quality remains uneven, effective investment decisions provide a strong and differentiating signal that investors regard as valuable ([Alghifari et al., 2022](#)).

In contrast, Malaysia shows no significant impact of investment effectivity on firm value. The descriptive statistics clarify this inconsistency: Malaysian firms exhibit less dispersed investment effectivity (Std. Dev = 0.134), reflecting a market where capital allocation is relatively uniform and governed by consistent internal controls. When most firms allocate resources efficiently, investment behavior loses its discriminating power as a value-relevant indicator. The Malaysian reporting environment, supported by stronger institutional oversight and higher transparency further shifts investor attention toward other signals such as financial reporting quality and ESG commitments ([Abdul Halim, 2014](#)). From the lens of Signaling Theory, a signal becomes ineffective when it is too common or insufficiently differentiated ([Morris, 1987](#)). Meanwhile, Agency Theory suggests that when governance frameworks already minimize managerial opportunism, additional improvements in investment efficiency contribute little to reducing agency costs, resulting in muted valuation effects ([Javakhadze et al., 2025](#)).

Taken together, these findings demonstrate that the value relevance of investment effectivity is highly dependent on market heterogeneity and transparency structures. In Indonesia, where investment outcomes vary widely and disclosure practices are less standardized, efficient investment provides a strong evaluative signal that investors reward. In Malaysia, where investment patterns are more homogeneous and governed by mature oversight mechanisms, investment effectivity offers limited incremental informational value. These results underscore the importance of aligning investment decisions with transparent communication financial and sustainability-related, to enhance market recognition and long-term valuation outcomes ([Mousa et al., 2021](#)).

ESG Disclosure, Financial Reporting Quality, and Firm Value

The moderating test results show that ESG disclosure does not significantly strengthen the relationship between financial reporting quality and firm value in Indonesia, while in Malaysia the effect is statistically significant but negative. In Indonesia, the insignificance of ESG disclosure as a moderating factor suggests that sustainability transparency has not yet developed into a reliable complement to financial reporting. The descriptive statistics support this interpretation: Indonesian firms exhibit low average ESG disclosure (mean = 13.77) with extremely wide variation (range 0–81.87), indicating inconsistent and often symbolic reporting practices. Such heterogeneity reduces investors' ability to interpret ESG information as a credible reinforcement of financial transparency. As noted by ([Harjanto,](#)

2024), many Indonesian firms treat ESG reporting primarily as compliance rather than strategic communication. From the standpoint of Agency Theory (Jensen & Meckling, 1976), this inconsistency prevents ESG disclosure from functioning as an effective monitoring tool that reduces information asymmetry. Similarly, Signaling Theory (Morris, 1987) explains that weak, selective, or noisy ESG disclosure fails to strengthen the credibility of financial reporting, leaving investors to rely on clearer indicators such as profitability or firm size when assessing valuation.

In Malaysia, however, the moderating effect of ESG disclosure is significant but negative, indicating that higher levels of sustainability disclosure actually weaken the relationship between financial reporting quality and firm value. The descriptive statistics provide an important clue: although Malaysian firms report higher average ESG disclosure (mean = 19.894) with more stable dispersion (Std. Dev = 2.625), this relative uniformity suggests that ESG practices have become more standardized. When ESG disclosure becomes common across firms, it may lose its power as a differentiating credibility signal. Moreover, a negative moderating effect may indicate that investors perceive an imbalance between ESG narratives and financial reporting, possibly raising concerns about over-disclosure, impression management, or excessive emphasis on sustainability communication without proportional financial performance (Zainon et al., 2020). From an Agency Theory perspective, overly standardized ESG disclosure may reduce its usefulness as a mechanism for identifying managerial discipline. Likewise, Signaling Theory highlights that when a signal becomes too homogeneous or misaligned with financial outcomes, it may be interpreted with skepticism, diminishing rather than enhancing investor confidence (Eugster & Wagner, 2020).

Taken together, these findings emphasize that the moderating role of ESG disclosure is shaped not only by institutional maturity but also by the distribution and credibility of ESG information within each market. In Indonesia, inconsistent and uneven ESG reporting limits its interpretive value, resulting in no significant moderating effect. In Malaysia, stronger governance and more uniform ESG practices create a paradox: while sustainability reporting is well established, its homogenization and possible mismatch with financial outcomes leads to a negative moderating influence. This comparison underscores the importance of ensuring that ESG disclosure reflects authentic, performance-linked sustainability practices; only when ESG narratives genuinely align with financial behavior can they reinforce transparency and enhance investor trust (Khaled et al., 2021; Nurhayati et al., 2025).

ESG Disclosure, Investment Effectivity, and Firm Value

The moderating analysis shows that ESG disclosure does not significantly influence the relationship between investment effectivity and firm value in either Indonesia or Malaysia. In Indonesia, the insignificance of the interaction term suggests that sustainability disclosure has not yet evolved into a credible interpretive filter through which investors evaluate the quality of investment decisions. The descriptive statistics support this finding: Indonesian firms exhibit wide variation in ESG disclosure (range 0–81.87; Std. Dev = 17.315), indicating that reporting practices remain inconsistent and often symbolic rather than strategic. Under such conditions, ESG information fails to reinforce investors' confidence in whether capital allocation decisions reflect prudence, responsibility, or long-term strategic alignment. This aligns with Signaling Theory (Morris, 1987), which emphasizes that signals must be coherent, consistent, and credible to affect market perception. From an Agency Theory perspective (Jensen & Meckling, 1976), the lack of standardized and reliable ESG disclosure means it cannot function as an informal governance mechanism to reduce information asymmetry around managerial investment decisions.

In Malaysia, the moderating effect is also statistically insignificant, though the pattern differs in interpretation. Malaysian firms display more uniform ESG disclosure (mean = 19.894; Std. Dev = 2.625), which suggests that sustainability reporting is relatively standardized and aligned with mandatory expectations from Bursa Malaysia. While this consistency reflects a mature reporting environment, it also reduces the incremental signaling value of ESG disclosure. When all firms report ESG information at relatively similar levels, investors treat it as a baseline compliance requirement rather than a differentiating indicator of managerial foresight or responsible investment behavior (Bakry et al., 2023; Kang et al., 2023). From the viewpoint of Signaling Theory, ESG disclosures in such environments lose their power to amplify other signals. Likewise, Agency Theory indicates that when formal oversight institutions already enforce reporting discipline, voluntary ESG narratives contribute little additional informational value (Ewert & Wagenhofer, 2025). As a result, Malaysian investors may rely more on tangible performance measures such as profitability, innovation intensity, or operational efficiency rather than ESG framing when evaluating the value impact of investment decisions.

Taken together, these findings show that ESG disclosure does not enhance the value relevance of investment decisions in markets where sustainability reporting is either too inconsistent (Indonesia) or too uniform (Malaysia). The descriptive patterns suggest that the effectiveness of ESG as a moderating factor depends on its ability to fill an interpretive gap: in Indonesia, the gap is wide but ESG lacks credibility; in Malaysia, the gap is small because ESG has become standardized. These results highlight that ESG disclosure generates value not merely by its existence but by its contextual authenticity and its capacity to provide meaningful, differentiated insight into how firms manage investments for long-term, sustainable growth (Sohdi et al., 2024).

CONCLUSION

The findings reveal contrasting dynamics between Indonesia and Malaysia in how financial and non-financial factors shape firm value. In Indonesia, financial reporting quality, investment effectivity, and ESG disclosure alone do not appear to influence how the market perceives corporate value. Financial reporting quality has no impact on firm value in Indonesia but is significantly value-enhancing in Malaysia, reflecting stronger governance and more credible reporting practices. Conversely, investment effectivity significantly increases firm value in Indonesia where its variability makes it a meaningful signal of managerial capability, yet shows no influence in Malaysia due to more uniform investment performance. ESG disclosure demonstrates limited moderating power in both countries: it does not strengthen the effect of financial reporting quality in Indonesia and even weakens it in Malaysia, while it fails to moderate the investment value relationship in either market. These patterns indicate that financial and sustainability signals create value only when they are credible, differentiated, and aligned with investor expectations, underscoring the importance of authentic reporting and consistent governance mechanisms in enhancing market confidence and long-term firm value.

This study is not without limitations. The analysis relies on secondary data obtained from annual and sustainability reports, which may contain variations in disclosure quality and interpretation across firms and years. Such dependence on publicly available information introduces potential reporting bias, as not all companies disclose their financial or ESG information with the same depth, accuracy, or timeliness. Moreover, the study focuses on manufacturing firms in Indonesia and Malaysia, which may limit the generalizability of the findings to other sectors or emerging markets with different regulatory and cultural

environments. Future research could address these limitations by combining quantitative and qualitative approaches, such as interviews or content validation to capture the nuances of managerial judgment and stakeholder interpretation. Expanding the analysis to include regional comparisons, longer observation periods, or firm-level governance variables could also provide a deeper understanding of how transparency, ethics, and sustainability interact in shaping corporate value across different stages of institutional development.

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