

The Moderating Role of Sharia Compliance in the Relationship between Sustainability Reporting Disclosure and Firm Value: Evidence from Mining and Energy Companies Listed on the Indonesia Stock Exchange.

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Abstract

This study examines the effect of sustainability reporting on firm value with Sharia compliance as a moderating variable in mining and energy companies listed on the Indonesia Stock Exchange (IDX). The research is grounded in Stakeholder Theory and Sustainability Theory, which emphasize that companies are responsible not only to shareholders but also to broader stakeholders, including society and the environment. Sustainability disclosure is expected to improve transparency and strengthen stakeholder trust, which may ultimately influence firm value. However, previous studies show inconsistent findings, suggesting that the relationship may depend on certain moderating factors.

This study employs a quantitative approach using multiple regression analysis with EViews. Sustainability reporting is measured using the Global Reporting Initiative (GRI) index, firm value is measured using Tobin's Q, and Sharia compliance acts as the moderating variable. Leverage (DER) and profitability (ROA) are included as control variables. The sample consists of 63 observations from 21 mining and energy companies during the period 2022–2024.

The results indicate that sustainability reporting does not have a significant effect on firm value, even when moderated by Sharia compliance. Prior to moderation, sustainability reporting shows a negative effect on firm value, while after moderation only profitability (ROA) has a significant influence. These findings suggest that sustainability disclosure alone may not be sufficient to increase firm value in the mining and energy sector.

Keywords: sustainability reporting, firm value, Sharia compliance, mining and energy companies, Indonesia Stock Exchange.

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INTRODUCTION

Companies are currently expected to be accountable not only in terms of financial performance but also in their social and environmental responsibilities. Traditionally, corporate performance was assessed based on the **single bottom line**, which focuses solely on financial outcomes. However, modern business practices emphasize the **Triple Bottom Line (TBL)** concept, which incorporates three key

dimensions: **people, profit, and planet**. This concept highlights that companies must balance economic objectives with social responsibility and environmental sustainability (Al Ahbabi & Nobanee, 2019).

In the last decade, companies and investors have increasingly recognized that corporate reporting should not be limited to financial information. Integrated reporting that combines financial and non-financial information, including social and environmental aspects, has become increasingly important. Such information is commonly presented in **sustainability reports**, which are generally prepared based on the standards developed by the **Global Reporting Initiative (GRI)**. The GRI standards provide guidelines that assist organizations in preparing sustainability reports by emphasizing reporting principles and focusing on material issues relevant to stakeholders (GRI, 2021).

In Indonesia, the disclosure of corporate social and environmental responsibility is regulated under **Government Regulation No. 47 of 2012**, which emphasizes the obligation of companies to implement social and environmental responsibility. Although companies remain focused on generating profits, they must also ensure that their operations contribute positively to society and the environment. Financial performance is therefore expected to support social and environmental initiatives that benefit employees, communities, and surrounding ecosystems. Ultimately, responsible corporate practices are expected to enhance overall firm value.

Firm value itself is influenced by several factors, including governance quality, corporate reporting, and financial performance (Eccles & Krzus, 2018). Proper and transparent reporting can positively influence investors' perceptions in capital markets as well as other stakeholders (Dhaliwal et al., 2011; Friede, Busch, & Bassen, 2015). The relationship between sustainability disclosure and firm value can be explained through several theoretical perspectives, particularly **legitimacy theory** and **signaling theory**. Sustainability disclosure can enhance corporate reputation and strengthen stakeholder trust, thereby generating both financial and non-financial benefits that ultimately improve firm value.

This research is grounded in **Stakeholder Theory** and **Sustainability Theory**, which emphasize that companies are responsible not only to shareholders but also to broader stakeholders, including society and the environment. These theories suggest that companies should align their business objectives with social and ecological well-being, which are increasingly recognized as essential elements of long-term corporate success. In this context, **sustainability reporting (SR)** serves as an important mechanism for communicating a company's social and environmental performance and demonstrating its commitment to sustainable development (Sroufe & Remani, 2019).

Operationalized through the **Triple Bottom Line framework**, sustainability reporting provides a comprehensive evaluation of corporate performance across economic, social, and environmental dimensions. This broader evaluation goes

beyond traditional financial metrics and offers a more holistic view of corporate sustainability (Sroufe & Remani, 2019; Abdi et al., 2022). Extensive sustainability disclosure is often positively perceived by investors, particularly those interested in environmentally responsible investments, as it signals lower risk and greater long-term stability (Abdi et al., 2022).

Furthermore, sustainability reports provide valuable insights that assist investors in making more informed investment decisions, which may ultimately increase firm value (Zhou et al., 2022). Transparent environmental policies disclosed in sustainability reports can enhance a firm's competitive advantage by reducing uncertainty and minimizing the risk of regulatory penalties or litigation. Conversely, limited disclosure may increase perceived risk and potentially reduce future cash flows (Saha, 2024). Several empirical studies have demonstrated that comprehensive sustainability reporting can generate economic benefits and is associated with higher stock prices (Abdi et al., 2022; Ammer et al., 2020; Bhattacharya & Sharma, 2019; El-Deeb et al., 2023; Saha, 2024; Zhou et al., 2022).

However, the relationship between sustainability reporting and firm value is not always positive. Some empirical studies have found insignificant or even negative relationships, particularly in emerging markets. In many developing economies, sustainability reporting remains largely voluntary, and investors tend to prioritize short-term financial performance over non-financial disclosures. Consequently, the impact of sustainability reporting on firm value may depend on several moderating factors, such as profitability, firm size, leverage, and other qualitative variables.

One potential moderating factor is **Sharia compliance (SC)**. Companies that adhere to Sharia principles are generally expected to maintain higher levels of ethical conduct, transparency, and accountability. As a result, such companies may gain greater trust from investors and creditors. Sharia compliance also emphasizes accountability not only to stakeholders but also to broader ethical and moral principles (Haniffa & Hudaib, 2007; Farook, Hassan, & Lanis, 2011). Therefore, Sharia compliance may strengthen the relationship between sustainability reporting and firm value.

H1: Sharia compliance moderates the relationship between sustainability reporting and firm value in a positive and significant manner.

METHODOLOGY

This study employs a quantitative research approach using empirical statistical testing to examine the proposed hypotheses. The research adopts an inductive approach by analyzing mining and energy companies listed on the Indonesia Stock Exchange (IDX). This study uses secondary data obtained from the official websites of publicly listed companies and the official website of the Indonesia Stock Exchange (IDX). The data collection technique used in this study is documentation. Data were collected from annual reports and sustainability reports of mining and energy

companies listed on the Indonesia Stock Exchange. The sample was selected using purposive sampling with the following criteria: Companies that published sustainability reports for three consecutive years (2022-2024). Companies included in the Sharia Securities List (DES) based on IDX announcements during the period 2022-2024. The data were analyzed using inferential statistical analysis. The analysis began with classical assumption tests, followed by Moderated Regression Analysis (MRA) to examine the moderating role of Sharia compliance. The statistical analysis was conducted using EViews software.

Table 1 : Research Variable Measurement

Variables	Indicators	Measurement Scale
Firm Value (Y)	Measured using Tobin's Q , which reflects the market's perception of company performance.	Ratio
Sustainability Reporting (X1)	Measured using the GRI Index , calculated as the ratio of disclosed GRI items to the total applicable GRI items.	Ratio / Proportion
Leverage (Control)	Measured using the Debt to Equity Ratio (DER) , indicating the proportion of assets financed by debt.	Ratio
Profitability (Control)	Measured using Return on Assets (ROA) , calculated as Net Income divided by Total Assets.	Ratio
Sharia Compliance (Z)	Measured based on the Sharia Securities List (DES) issued by the Financial Services Authority, using a dummy variable (1 = Sharia-compliant, 0 = non-Sharia).	Dummy

RESULTS AND DISCUSSION

Regression and Moderation Test Results

Based on the results of data testing using moderated panel regression analysis with EViews, a comparison was obtained between the main model (without moderating interaction) and the moderated model (with interaction). The comparison is summarized in Table 2.

Table 2. Results of Multiple Linear Regression and Moderation Tests

Statistical Indicators	Main Effects Model	Moderation Model (Interaction)
R-squared	0.9637	0.3099
Adjusted R-squared	0.9392	0.2493
F-statistic (Prob.)	39.33 (0.0000)	5.11 (0.0006)
Durbin-Watson Statistic	2.0965	0.2099
Significant Variables	X1 (GRI Index) - Negative	X4 (ROA) - Positive
Interaction Coefficient (X1 × Z)	-	1.5269 (Prob. = 0.2704)
Hypothesis	-	Rejected

Source: Processed Data (2025)

The results indicate that the GRI Index, which measures sustainability reporting, initially showed a significant negative effect on firm value. However, after the interaction with the Sharia compliance variable, the effect became statistically insignificant. This finding suggests that sustainability reporting does not significantly contribute to market valuation in the observed companies. A substantial decline in the R-squared value from 0.9637 to 0.3099 occurred after the moderating variable was introduced. This indicates that the inclusion of the

interaction variable weakened the model's explanatory power in explaining variations in firm value. In other words, the moderation model did not improve the explanatory strength of the regression model.

Furthermore, the regression results show that profitability (ROA) is the only variable that remains statistically significant (Prob. < 0.0001). This result suggests that investors still prioritize actual financial performance rather than sustainability disclosures when evaluating firm value. The findings indicate a gap between sustainability disclosure and market valuation. Although theory suggests that sustainability reporting (SR) should serve as a positive signal to investors, the empirical results in the Indonesian mining sector show a different pattern.

From the perspective of Signaling Theory, sustainability reporting is expected to reduce information asymmetry by signaling corporate transparency and responsibility. Ideally, this signal should be positively interpreted by investors and reflected in higher Tobin's Q values. However, in the context of emerging markets, the effectiveness of this signal may be weakened. One explanation is the distinction between substantive disclosure and symbolic disclosure, often associated with the concept of greenwashing. If sustainability reporting does not correlate with firm value, investors may perceive such disclosures as merely formal or administrative compliance rather than genuine commitments to sustainability.

Sharia compliance was included in this study as a moderating variable based on the concept of ethical and transcendental accountability. Firms that comply with Sharia principles are assumed to adopt more ethical governance practices and maintain accountability not only to shareholders but also to broader moral principles. In theory, this status should strengthen investor trust in sustainability disclosures. However, the empirical results show that Sharia compliance does not significantly moderate the relationship between sustainability reporting and firm value. Several factors may explain these findings in the Indonesian mining sector:

1. Regulatory Effect

In Indonesia, Government Regulation No. 47 of 2012 requires companies operating in natural resource sectors to implement social and environmental responsibility. When sustainability disclosure becomes a regulatory requirement, it may lose its function as a voluntary strategic signal. Investors may therefore perceive sustainability reporting merely as regulatory compliance rather than a value-creating initiative.

2. Investor Short-Term Orientation

Investors in the mining sector often focus on short-term financial performance, as reflected in the significance of the ROA variable. Investment decisions in this sector are heavily influenced by fluctuations in global commodity prices rather than by the quality of sustainability disclosures.

3. Limited Sample Size

Although the interaction coefficient between sustainability reporting and Sharia compliance is positive, it is statistically insignificant. This may be influenced by the relatively small sample size (N = 63). Consequently, Sharia compliance has not yet functioned as a strong validating factor for sustainability reporting in investors' valuation models.

4. Disclosure Quality Issues

Another explanation is related to the quality of sustainability disclosure. Investors may be skeptical of extensive but generic sustainability reports. Without clear evidence of operational efficiency, risk reduction, or financial impact, sustainability disclosures may not generate positive market responses.

These findings are consistent with previous studies, such as Susianto and Wirakusuma (2024), Nugrahani et al. (2023), and Oktaviani and Inayati (2025), which also found that sustainability disclosure does not always significantly influence firm value in emerging markets.

CONCLUSION

Based on the empirical analysis for the 2022–2024 period, it can be concluded that profitability remains the primary determinant of firm value in Indonesia's mining and energy sector. The results show that Sharia compliance does not moderate the relationship between sustainability reporting and firm value, indicating that the combination of Sharia labeling and ESG disclosure has not yet generated additional value in the perspective of capital market investors. Among the examined variables, profitability (ROA) is the only factor that significantly influences firm value, while leverage (DER) and the GRI Index do not show significant effects in the moderated model. In addition, the moderation model indicates technical limitations, particularly the presence of high autocorrelation (Durbin-Watson = 0.209), suggesting that the relationship between variables should be interpreted cautiously and may reflect market volatility toward non-financial disclosures. Based on these findings, it is recommended that company management move beyond compliance-driven reporting, which merely fulfills regulatory requirements such as Government Regulation No. 47 of 2012, toward value-driven sustainability reporting. Sustainability reports should clearly demonstrate how environmental and social initiatives contribute to financial outcomes, such as reducing the cost of capital or improving operational efficiency. Without clear financial integration, sustainability reporting may continue to be perceived as an additional operational cost rather than a strategic investment that enhances long-term firm value.

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