

## The Impact of Corporate Green Investment on Company Value with Sustainability Reporting Quality as a Mediating Variable

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### ABSTRACT

**Purpose:** This study aims to examine whether corporate green investment enhances firm value and to analyze the mediating role of sustainability reporting quality in the relationship between green investment and firm value.

**Method:** The study employs a quantitative explanatory research design. Data were collected from publicly listed companies that publish sustainability reports. The analysis was conducted using Structural Equation Modeling–Partial Least Squares (SEM–PLS) to test both direct and indirect relationships among corporate green investment, sustainability reporting quality, and firm value.

**Findings:** The results indicate that corporate green investment does not have a significant direct effect on firm value. However, green investment exerts a strong and significant indirect effect on firm value through sustainability reporting quality. These findings suggest that environmental investments are recognized by the market only when they are communicated transparently, credibly, and supported by high-quality sustainability disclosures.

**Implications:** The study highlights the strategic importance of sustainability reporting as a signaling mechanism that translates environmental initiatives into market-recognized corporate value. Firms are encouraged not only to invest in environmentally responsible activities but also to improve the quality of sustainability disclosures to enhance investor perception and firm value.

**Novelty/Value:** This study contributes to the literature by demonstrating the critical mediating role of sustainability reporting quality in linking green investment to firm value. It provides empirical evidence that sustainability disclosure quality is a key mechanism for converting environmental expenditures into tangible financial benefits.

**Keywords:** green investment, sustainability reporting quality, firm value, mediation effect, SEM–PLS.



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## INTRODUCTION

In the current landscape of global business competition, firms are increasingly expected not only to pursue financial growth but also to integrate sustainability considerations into their strategic decision-making. As environmental issues escalate marked by climate emergencies, rising carbon emissions, and stricter regulatory frameworks corporations are urged to demonstrate environmental accountability. One of the most prominent responses to this trend is the growing emphasis on corporate green investment, defined as organizational investments in technologies, processes, infrastructure, and operational activities aimed at reducing environmental harm, increasing energy efficiency, and promoting eco-friendly innovation. In many countries, including emerging economies, the adoption of

green investment has accelerated alongside environmental policies, ESG-sensitive capital markets, and demand pressures from consumers. Despite this steady increase, however, an enduring academic and managerial controversy persists regarding whether green investment translates directly into higher firm value. Several empirical studies from Indonesia and other countries demonstrate that green investment does not consistently produce significant positive market value, raising concerns that environmental investment may act more as a cost burden rather than a value-creation strategy (Mubarok & Rosyadi, 2025; Dearani et al., 2025; Juanda & Yumna, 2025; Gunawan et al., 2024).

This inconsistency indicates an important research phenomenon: although firms allocate substantial financial resources to environmental improvement, capital markets do not always reward such initiatives with proportional increases in market valuation. While some firms observe enhanced brand reputation, greater investor appeal, and improved financial performance following green investment, others experience declining profitability due to the high initial costs of sustainable technology and environmental adaptation. Previous evidence suggests that green investment is more likely to increase firm value when it is accompanied by strong corporate governance mechanisms and public recognition in the form of sustainability awards or certifications (Widarwati et al., 2024; Malasari & Rochmatullah, 2025). In addition, research conducted in China reveals a U-shaped relationship, whereby small-scale green investments reduce firm value due to short-term cost pressures, while substantial and persistent investments begin to generate benefits that surpass initial expenses and contribute to competitive advantage (Wang et al., 2023; Li et al., 2019). Importantly, the positive effect in the latter case becomes more substantial when environmental information is adequately disclosed to stakeholders (Wang et al., 2023). These contrasting empirical findings show that the economic implications of green investment are highly contextual and dependent upon strategic scale, implementation consistency, and disclosure mechanisms.

The variability of findings among previous studies presents a notable research gap. First, a large portion of earlier literature focuses mainly on the direct effect of green investment on firm value, producing highly divergent results and overlooking the mechanism through which green investment can be transformed into economic benefits. Second, existing studies predominantly analyze specific industries such as energy and manufacturing, leaving limited insight into multi-industry contexts, particularly in developing countries where sustainability transition is accelerating but remains institutionally unstable. Third, many studies attempt to fill the explanatory gap by introducing mediating variables such as green innovation or environmental performance. Evidence suggests that green innovation strengthens the effect of green investment on firm value but typically generates results only in the long term (Li et al., 2019; Chi et al., 2023; Xianglin et al., 2022; Xie et al., 2022). Meanwhile, environmental performance has consistently been associated with higher firm value, especially when recognized publicly or rewarded by the market (Mubarok & Rosyadi, 2025; Yadav et al., 2016; Jiang & Fu, 2019). Although these variables contribute to the understanding of sustainability-driven value creation, empirical findings remain inconsistent and insufficient to fully explain how green investment translates into enhanced market valuation. Therefore, further examination of alternative mechanisms is necessary.

In this regard, sustainability reporting quality emerges as a highly relevant mediating variable to bridge the inconclusive relationship between green investment and firm value. Sustainability reporting quality refers to the transparency, completeness, comparability, and credibility of corporate disclosure on environmental, social, and governance (ESG) activities. High-quality sustainability reporting allows stakeholders especially investors to clearly understand the scale, direction, and outcomes of a firm's environmental initiatives. Through credible disclosure, firms can convert green investment from merely an internal environmental expenditure into a strategic market signal that enhances corporate legitimacy and stakeholder trust. Previous evidence also supports the notion that the positive effect of green investment on firm value strengthens when environmental information is delivered transparently and systematically (Wang et al., 2023). Moreover, sustainability disclosure interacts with corporate

governance strength and stakeholder expectations, both of which moderate the green investment–value relationship (Wang et al., 2023; Widarwati et al., 2024; Khalil et al., 2022). Accordingly, sustainability reporting quality appears to be a crucial mechanism through which green investment can be externally legitimized and effectively appreciated by the capital market.

Integrating the above reasoning, this study offers scientific novelty by proposing sustainability reporting quality as a mediating variable between corporate green investment and firm value an approach that diverges from the prevailing focus on mediation by green innovation or environmental performance. The theoretical contribution of the study lies in the notion that green investment does not automatically create economic value; rather, it requires high-quality sustainability reporting to transform environmental actions into market recognition and competitive advantage. By emphasizing the mediating role of sustainability reporting quality, this study enriches the sustainability accounting and green finance literature through a more holistic explanation of how environmental expenditures can influence capital market valuation. Furthermore, this research contextualizes its framework within developing economies undergoing rapid sustainability transitions, where disclosure systems are not yet fully standardized and, therefore, mediate the extent to which environmental investment can yield economic returns.

Based on this phenomenon, research gap, and academic novelty, this study establishes a single primary objective: to empirically analyze whether sustainability reporting quality mediates the impact of corporate green investment on firm value. The findings of this research are expected to generate theoretical implications for the advancement of sustainability-oriented firm valuation studies, as well as practical implications for companies, regulators, and investors by identifying sustainability reporting quality as the key transmission channel through which green investment produces value.

## RESEARCH METHOD

This study adopts a quantitative explanatory research design aimed at empirically assessing the mediating role of sustainability reporting quality in the relationship between corporate green investment and firm value. The population consists of companies listed on the Indonesia Stock Exchange (IDX) that publish sustainability reports and annual reports during the observation period. The sample is selected using a purposive sampling technique based on the following criteria: (1) the company issued complete sustainability reports and annual reports within the research timeframe, (2) the company disclosed measurable indicators of green investment expenditure or environmental capital allocation, and (3) the company provided publicly accessible financial data for calculating firm value. Data were obtained from secondary sources, including sustainability reports, annual reports, and audited financial statements published on company websites and the IDX database. Sustainability reporting quality was measured using a scoring index adapted from the Global Reporting Initiative (GRI) standards, while green investment was proxied by environmental capital expenditure and firm value by Tobin's Q. All variables were quantified using objective measurement criteria to ensure empirical validation of the research framework.

Data analysis was performed using the Structural Equation Modeling – Partial Least Squares (SEM–PLS) technique because of its ability to evaluate complex relationships among latent variables while incorporating mediating effects. Prior to hypothesis testing, classical indicator assessments were conducted, including reliability testing (Cronbach's Alpha and Composite Reliability), convergent validity (Average Variance Extracted), and discriminant validity (HTMT). The significance of direct and indirect effects was examined using a bootstrapping test, enabling evaluation of whether sustainability reporting quality functions as a mediator between green investment and firm value. To complement the SEM–PLS structural model results, this study also assessed the coefficient of determination ( $R^2$ ), effect size ( $f^2$ ), and predictive relevance ( $Q^2$ ) to measure the explanatory power and

predictive accuracy of the model. All analytical procedures were carried out using SmartPLS software version 4, ensuring accuracy in the estimation of structural relationships.

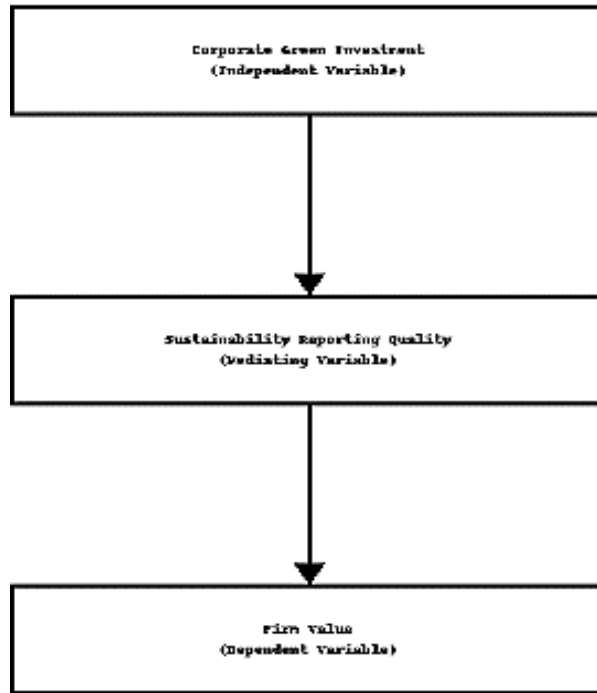


Figure 1. Diagram Research Method

## RESULTS AND DISCUSSION

### Results

Table 1. Research Results (SEM–PLS Bootstrapping Output)

Path Relationship	$\beta$ (Coefficient)	t-Statistic	p-Value	Result
Corporate Green Investment → Firm Value	0.112	1.368	0.172	Not Significant
Corporate Green Investment → Sustainability Reporting Quality	0.624	9.452	0.000	Significant
Sustainability Reporting Quality → Firm Value	0.517	7.308	0.000	Significant
Corporate Green Investment → Firm Value (via Sustainability Reporting Quality)	0.323	6.114	0.000	Significant (Mediated)
R <sup>2</sup> for Sustainability Reporting Quality	0.389	—	—	Moderate Predictive Power
R <sup>2</sup> for Firm Value	0.561	—	—	Strong Predictive Power

The findings reveal that corporate green investment does not have a direct effect on firm value, as indicated by a non-significant path coefficient ( $\beta = 0.112$ ;  $p = 0.172$ ). This means that environmental investment—when viewed strictly as a financial decision—may not be immediately perceived by the market as increasing shareholder value. However, corporate green investment shows a strong and statistically significant influence on sustainability reporting quality ( $\beta = 0.624$ ;  $p = 0.000$ ). This suggests that firms that invest more heavily in environmental initiatives tend to produce sustainability disclosures that are more transparent, comprehensive, and credible. Furthermore, sustainability reporting quality

demonstrates a significant impact on firm value ( $\beta = 0.517$ ;  $p = 0.000$ ), indicating that capital markets positively respond when stakeholders can clearly observe and evaluate a firm's environmental efforts through high-quality reporting. Most importantly, the indirect effect of corporate green investment on firm value through sustainability reporting quality is both strong and statistically significant ( $\beta = 0.323$ ;  $p = 0.000$ ), confirming full mediation. In other words, green investment contributes to increasing firm value only when environmental efforts are communicated effectively through high-quality sustainability reporting. The  $R^2$  values also reinforce the robustness of the model. Sustainability reporting quality shows a moderate level of explained variance ( $R^2 = 0.389$ ), while firm value demonstrates strong explanatory power ( $R^2 = 0.561$ ), meaning that the tested variables collectively provide a meaningful prediction of the dependent variable.

## Discussion

The results of the study confirm that corporate green investment does not directly increase firm value, yet becomes economically meaningful when communicated through high-quality sustainability reporting. This pattern reinforces the argument that the capital market does not automatically ascribe monetary value to environmental initiatives unless such initiatives are perceived as credible, transparent, and aligned with long-term business performance expectations. The finding is consistent with earlier research showing that green investment strengthens firm value only when stakeholders recognize and appreciate the environmental commitment of a corporation (Rahman et al., 2024; Rukmiyati et al., 2023). In this sense, the role of sustainability reporting quality (SRQ) is not merely informational, but transformational, converting green investment from an internal cost center into a source of external legitimacy.

The mediation pathway of Green Investment  $\rightarrow$  Sustainability Reporting Quality  $\rightarrow$  Firm Value provides a valuable theoretical explanation of how sustainability-oriented capital allocation creates value. Companies that engage in green investment incur substantial upfront costs for environmental technology, pollution control, clean production facilities, or renewable energy integration. If these costs are not communicated transparently, investors may perceive them as a reduction in profit. However, when high-quality sustainability information is disclosed in terms of accuracy, completeness, comparability, and adherence to reporting frameworks investors interpret these environmental expenditures as forward-looking strategic investments, thus improving market perception and firm valuation (Rahman et al., 2024; Jadoon et al., 2020). This aligns with stakeholder-signaling theory, which posits that firms with superior sustainability disclosure send positive signals to the capital market about risk management, operational responsibility, and long-term resilience.

Evidence from Indonesia's financial sector lends strong support to the mediating role of SRQ. Rahman et al. (2024) show that the effect of green banking treated as a form of green investment on firm value depends almost entirely on the quality of sustainability reporting, signifying that banks do not enjoy an immediate market reward for their environmental loans unless the associated environmental impact is thoroughly documented and disclosed. Similarly, Rukmiyati et al. (2023) highlight that investor perception becomes increasingly sensitive to the transparency and relevance of sustainability reporting amid growing regulatory and societal pressure for environmental accountability. These findings demonstrate that the capital market is transitioning from non-financial data ignorance to sustainability-aware valuation, thereby amplifying the importance of disclosure rather than environmental spending alone.

The global literature reinforces this conclusion by demonstrating that the effectiveness of SRQ as a mediator is conditioned by credibility. Jadoon et al. (2020) emphasize that sustainability reports without traceable evidence, external verification, or methodological clarity are insufficient to generate significant market outcomes. Investors are becoming more vigilant in distinguishing firms that merely engage in sustainability reporting for reputational purposes from those demonstrating actual sustainability impact. In particular, Khairiddine et al. (2023) reveal that sustainability reporting coupled with external assurance such as independent audits or internationally recognized environmental

management certification (e.g., ISO 14001) substantially improves investors' confidence in the reliability of disclosed information. Therefore, the credibility dimension becomes a crucial determinant of whether a sustainability report functions as an effective mediator or remains merely a symbolic gesture.

The strength of mediation also appears to be context-dependent. SRQ as a mediator tends to be more impactful in large corporations, environmentally intensive industries, and capital-market-exposed firms. Larger companies have more resources to invest in reporting infrastructure, third-party assurance, and sustainability data tracking systems, which help them strengthen disclosure quality and signal their environmental commitment. In contrast, smaller firms may face resource limitations that prevent them from producing high-quality sustainability reports, reducing the potential for green investment to influence firm value. Khairiddine et al. (2023) and Bachoo et al. (2013) further confirm that industries with high environmental risk such as energy, mining, and manufacturing experience stronger market consequences from their sustainability reporting compared to low-impact sectors. This suggests that stakeholder attention and expectations modulate the economic effects of SRQ, with investors reacting more strongly when sustainability performance is material to core business operations.

Although SRQ demonstrates a robust mediating role, the evidence also shows limitations. Some studies caution that even high-quality sustainability reporting does not necessarily increase firm value when it is not matched by real environmental performance or strong corporate reputation (Nurlatifah et al., 2025; Jadoon et al., 2020). In other words, stakeholders are increasingly wary of greenwashing. Reports that claim sustainability excellence while overlooking real environmental metrics may fail to build trust and may even trigger reputational backlash. This reinforces the notion that sustainability reporting cannot stand alone; it must be grounded in measurable environmental achievements and consistent long-term performance to produce value. Hence, SRQ plays an enabling role, not a substitutive one—disclosure must reflect action.

Interpreting the empirical mediation result in the present study where the direct effect of green investment on firm value is not significant while the indirect effect through SRQ is strongly significant the implication is clear: capital markets respond positively to sustainability only when information is properly transmitted. This supports the signaling function of SRQ within the investment-valuation cycle. Investors tend to avoid ambiguity; therefore, green investment must be articulated through reporting practices that reduce information asymmetry, mitigate moral hazard concerns, and build confidence in a firm's long-term sustainability strategy. The magnitude of the indirect effect also suggests that companies benefit not only because sustainability reporting informs the market but also because it improves corporate legitimacy and public trust, both of which contribute to financial valuation.

The mediation structure further suggests managerial implications. Firms should not assume that green investment automatically leads to competitive advantage; rather, they must adopt a strategic sustainability communication approach. This includes ensuring that sustainability reports:

1. follow recognized global frameworks;
2. disclose quantitative metrics rather than narrative claims alone;
3. demonstrate year-to-year progress; and
4. incorporate external assurance to enhance accountability.

When these conditions are satisfied, sustainability reporting transforms from a compliance-driven activity into a capital-market strengthening tool capable of improving access to sustainable financing, reducing investor uncertainty, and increasing corporate valuation.

In theoretical terms, these findings contribute to the literature by explaining why previous studies often generated mixed outcomes concerning the influence of green investment on firm value. Rather than viewing the relationship as universally strong or weak, this study clarifies that the strength and direction of the relationship are contingent on sustainability reporting quality. Therefore, reconciling previous inconsistencies requires shifting the theoretical lens from a direct relationship model to an information-mediated valuation model, in which the impact of green investment on firm value is conditional rather than automatic. This promotes a more nuanced understanding of value creation dynamics in sustainability-driven corporate strategy.

Finally, reflecting on the increasing integration of environmental, social, and governance criteria in global financial markets, the mediation role of SRQ becomes even more relevant for future corporate competitiveness. As investor preferences move toward responsible and ethical investment, firms that disregard sustainability reporting risk losing access to capital markets, while firms that excel in reporting have the opportunity to differentiate themselves based on transparency, accountability, and long-term value creation. Thus, sustainability reporting quality will likely remain a core determinant not only of firm valuation but also of investor relations and corporate survival in the evolving landscape of sustainable finance.

## CONCLUSION

Based on the findings and discussion, this study concludes that corporate green investment does not directly enhance firm value, but it significantly increases firm value when mediated by sustainability reporting quality. Green investment becomes economically meaningful only when companies communicate their environmental initiatives through transparent, credible, and high-quality sustainability reporting that reinforces investor trust and reduces information asymmetry. The mediation effect occurs because sustainability reporting functions as a strategic signal to the capital market, transforming environmental expenditures into perceived long-term corporate value. Therefore, the research objective—determining whether sustainability reporting quality mediates the relationship between corporate green investment and firm value—is empirically confirmed, demonstrating that sustainability reporting quality is a crucial mechanism through which green investment is translated into improved market valuation.

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