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THE EFFECT OF CAPITAL INTENSITY AND COMPANY SIZE ON THE QUALITY OF ESG DISCLOSURE WITH THE CHARACTERISTICS OF PUBLIC ACCOUNTING FIRMS AS MEDIATION VARIABLES

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Abstract

This study aims to analyze the effect of capital intensity and firm size on the quality of Environmental, Social, and Governance (ESG) disclosure, with public accounting firm characteristics as a mediating variable. This research employs a quantitative approach with an explanatory research design. The data used are secondary data in the form of panel data from consumer cyclicals sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. The sample was selected using purposive sampling, resulting in 30 companies. Data analysis was conducted using panel data regression with the assistance of EViews software, and mediation testing was performed using the Sobel test. The results show that capital intensity has a significant negative effect on the quality of ESG disclosure. In contrast, firm size has a positive and significant effect on the quality of ESG disclosure. Public accounting firm characteristics also have a positive and significant effect on ESG disclosure quality. Furthermore, capital intensity negatively affects public accounting firm characteristics, while firm size has a positive effect. The mediation test results indicate that public accounting firm characteristics significantly mediate the relationship between capital intensity, firm size, and ESG disclosure quality. Simultaneously, capital intensity and firm size also have a significant effect on ESG disclosure quality.

Keywords: Capital Intensity, Firm Size, ESG, Public Accounting Firm

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INTRODUCTION

In recent years, attention to Environmental, Social, and Governance (ESG) practices has increased significantly in line with global demands for corporate sustainability and transparency. ESG disclosures are no longer seen as complementary, but have become an important part of investor decision-making, risk management, as well as the assessment of a company's long-term performance. A study by Alexander Dyck et al. (2019) shows that institutional investors are increasingly considering ESG factors in investment decisions. In addition, research by Amir Amel-Zadeh and Serafeim (2018) revealed that the demand for ESG information has increased rapidly, but the quality of disclosure is still very diverse between companies. This raises the main problem, namely the inconsistency and low quality of the ESG information presented, thereby reducing the relevance and credibility of the report to stakeholders.

A more specific problem lies in the quality of ESG disclosures that often do not reflect the actual conditions. Many companies tend to present ESG information in the form of a general narrative without clear quantitative indicators, thus triggering *greenwashing* practices. According to research by Zhe Yang et al. (2020), greenwashing occurs when a company submits sustainability claims that are not in line with its actual performance. In addition, internal factors such as capital intensity and company size are suspected to affect the quality of ESG disclosures. Companies with large assets and a large scale of operations have greater pressure to make disclosures, but they do not necessarily result in better quality information. On the other hand, external roles such as the characteristics of public accounting firms are also important in increasing the credibility of ESG reports, especially in reducing information asymmetry and improving the reliability of reports.

Empirically, the development of ESG disclosures shows an upward trend, but it is not always followed by an improvement in quality. The Global Reporting Initiative (GRI) report shows that more than 90% of the world's large companies have disclosed ESG information, but most of it is still descriptive and not yet standardized. Research by George Serafeim (2020) also found that there is a gap between the level of disclosure and the quality of ESG information, where many companies increase the quantity of reports without improving their quality. This indicates that increased ESG disclosures do not necessarily reflect better transparency, so further analysis is needed regarding the factors that affect the quality of such disclosures.

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A number of previous studies have examined the factors that influence ESG disclosure. Research by Aaron Ferrell et al. (2016) found that companies with good ESG practices tend to have higher corporate values. Meanwhile, Elroy Dimson et al. (2015) show that investor pressure can improve the quality of ESG disclosure. In the context of company characteristics, research by Ioannis Ioannou and Serafeim (2017) states that company size has a positive effect on ESG disclosure. On the other hand, audit-related research such as that conducted by Ann Vanstraelen (2016) shows that audit quality can increase the credibility of non-financial reports. However, most of those studies still focus on the number of disclosures, not the quality.

Despite the many studies related to ESG, there is still a significant research gap. First, most studies place more emphasis on the quantity of ESG disclosures than their quality. Second, research examining the effect of capital intensity on the quality of ESG disclosure is still limited, especially in the context of developing countries such as Indonesia. Third, the role of public accounting firm characteristics as a moderation variable in the relationship between company characteristics and the quality of ESG disclosure is still rarely studied. Therefore, this study offers novelty by integrating internal factors of the company (capital intensity and size of the company) and external factors (characteristics of public accounting firms) in explaining the quality of ESG disclosures, while considering the credibility aspects of the report.

Based on this description, the purpose of this study is to analyze the influence of capital intensity and company size on the quality of ESG disclosure, as well as to examine the role of public accounting firm characteristics as moderation variables in strengthening or weakening these relationships. This research is expected to contribute to the development of ESG literature, especially related to the quality of disclosure, as well as provide practical implications for companies, auditors, and regulators in increasing the transparency and credibility of sustainability reports.

LITERATURE REVIEW

1. The Stakeholder Theory

Stakeholder theory explains that companies must consider the interests of all stakeholders in carrying out their business activities to achieve long-term sustainability (Freeman et al., 2020). This theory emphasizes that good relationships with stakeholders can increase the legitimacy and performance of the company. According to Harrison et al. (2019) in *the Strategic Management*

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Journal, stakeholder theory emphasizes value creation for various stakeholders, which has an impact on improving overall organizational performance, including in sustainability practices. In addition, research by Eccles et al. (2014) in *Management Science* shows that stakeholder-oriented companies have better ESG performance and transparency than non-stakeholder-oriented companies. Based on this definition, it can be concluded that stakeholder theory is the main basis in explaining the company's push to improve the quality of ESG disclosure as a form of accountability to stakeholders.

2. Signalling Theory

Signalling theory explains that companies provide information as a signal to investors to reduce information asymmetry (Connelly et al., 2019 in *the Journal of Management*). According to Spence (2017), in the modern context, signals are not only financial information but also include non-financial information such as ESG that reflects the quality of the company. Research by Amel-Zadeh and Serafeim (2018) in the *Review of Financial Studies* shows that investors use ESG information as an important signal in assessing a company's risk and prospects. Thus, it can be concluded that signalling theory explains that ESG disclosure serves as a signal of company credibility that can increase investor confidence.

3. Capital Intensity (Capint)

Capital intensity reflects the level of a company's investment in fixed assets used in operational activities (Biddle et al., 2009—still the main reference in modern studies). According to Zhang et al. (2021) in *the Journal of Cleaner Production*, companies with high capital intensity have a greater environmental impact and are therefore encouraged to increase ESG disclosure. In addition, research by Chen et al. (2020) in *Sustainability* shows that a company's asset structure affects the level of transparency and quality of ESG reporting. Based on this definition, it can be concluded that capital intensity affects the quality of ESG disclosure because it is related to the level of environmental exposure and stakeholder pressure.

$$CAPINT_{it} = \frac{PPE_{it}}{TotalAssets_{it}}$$

4. Firm Size

Company size describes the size of a company which is usually measured by total assets or market capitalization (Dang et al., 2018). According to Li et al. (2020) in *Business Strategy and the Environment*, large companies tend to have broader ESG disclosures because they have greater resources and higher public pressure. In addition, Alotaibi and Hussainey (2021) in *the Journal of Applied*

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Accounting Research found that company size has a positive effect on the quality of ESG disclosure because large companies have better reporting systems. Thus, it can be concluded that company size is an important factor in improving the quality of ESG disclosure as it relates to the company's visibility and capacity.

$$SIZE_{it} = \ln(TotalAssets_{it})$$

5. Environmental, Social, and Governance (ESG) Disclosure

ESG disclosure is the delivery of information related to environmental, social, and governance aspects that are used to assess a company's sustainability performance (Velte, 2017). According to Fatemi et al. (2018) in *the Global Finance Journal*, ESG disclosure serves to increase transparency and reduce information asymmetry between companies and investors. In addition, research by Yu et al. (2018) in *Business Strategy and the Environment* shows that ESG transparency has a positive effect on company value. Based on this definition, it can be concluded that ESG disclosure is an important tool in increasing transparency, credibility, and stakeholder trust in companies.

$$ESGDQ_{it} = \frac{\sum Score_{it}}{MaxScore} \times 100$$

6. Public Accounting Firm (Audchar)

Public accounting firms are independent parties that play a role in increasing the credibility of company reports through the audit process (DeFond & Zhang, 2014 in *the Journal of Accounting and Economics*, still the main reference). According to Velte and Stawinoga (2017) in *the Journal of Cleaner Production*, audit quality has a significant influence on the quality of non-financial disclosures including ESG. In addition, research by Kılıç et al. (2021) in *Corporate Social Responsibility and Environmental Management* shows that companies audited by Big 4 auditors have better quality ESG disclosures than non-Big 4. Thus, it can be concluded that public accounting firms play a role as an external oversight mechanism that improves the quality and credibility of ESG disclosures.

$$BIG4 = \begin{cases} 1, & \text{jika diaudit oleh KAP Big 4} \\ 0, & \text{jika non Big 4} \end{cases}$$

7. Framework of Thought and Hypothesis

This research is based on stakeholder theory and signaling which explains that companies are encouraged to improve the quality of ESG disclosure as a form of responsibility to stakeholders and as a positive signal to investors. In this context, company characteristics such as capital intensity and company size are important factors that affect the quality of ESG disclosures. Companies with high capital intensity have greater levels of environmental exposure, so they face

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higher pressure from stakeholders to increase transparency, especially in ESG disclosures. Therefore, companies with high capital intensity tend to improve the quality of ESG disclosures. In addition, company size also plays a role in determining the quality of ESG disclosures. Large companies have higher visibility, more adequate resources, and pressure from investors and regulators, so they tend to present higher quality ESG information than smaller companies. However, these relationships are not always consistent because they are influenced by external factors, namely the characteristics of a public accounting firm (AUDCHAR). High-quality auditors (e.g. Big 4, industry specialization, and optimal tenure) are able to increase the credibility of reports and encourage companies to present more accurate and verifiable ESG information. Thus, the characteristics of public accounting firms play a role as a moderation variable that can strengthen or weaken the influence of capital intensity and company size on the quality of ESG disclosure.

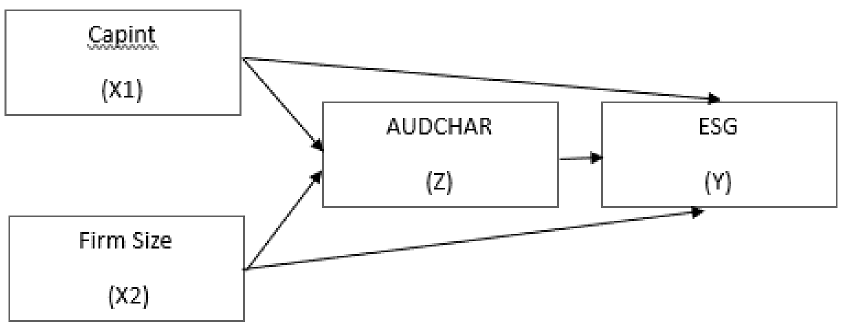

Figure 1.
Frame of Mind

The hypotheses in this study are described as follows.

1) The effect of capital intensity on the quality of ESG disclosure

Companies with high capital intensity have a large proportion of fixed assets, so they have the potential to have a more significant environmental impact. This condition increases pressure from stakeholders to increase ESG transparency. Research shows that companies with high environmental exposure tend to improve the quality of ESG disclosure as a form of accountability (Zhang et al., 2021; Chen et al., 2020). In addition, from the perspective of signaling theory, better ESG disclosure is used as a signal that companies are able to manage environmental risks effectively (Velte, 2021).

H1: There is an effect of capital intensity on the quality of ESG disclosure

2) The effect of company size on the quality of ESG disclosure

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The size of the company reflects the level of visibility and external pressures the company faces. Large companies tend to have more adequate resources to prepare quality ESG reports as well as face higher transparency demands from investors and regulators. Research shows that company size has a positive effect on the quality of ESG disclosures (Li et al., 2020; Alotaibi & Hussainey, 2021; Kılıç et al., 2021).

H2: There is a positive influence of company size on the quality of ESG disclosures

3) The influence of public accountant characteristics on the quality of ESG disclosure

The characteristics of public accounting firms, such as Big 4 affiliations and industry specialties, reflect the quality of audits that can increase the credibility of corporate reports. High-quality auditors are able to increase transparency and reduce manipulative practices such as greenwashing. Research shows that audit quality has a positive effect on the quality of ESG disclosure (Velte & Stawinoga, 2020; Kılıç et al., 2021; García-Sánchez et al., 2022).

H3: There is a positive influence of the characteristics of public accountants on the quality of ESG disclosure

4) The effect of capital intensity on the characteristics of public accountants

Companies with high capital intensity have higher operational complexity, so they need more competent auditors. This encourages companies to choose public accounting firms with high quality. Research shows that the complexity of companies affects the selection of high-quality auditors (Habib et al., 2021; Salehi et al., 2022).

H4: There is an influence of capital intensity on the characteristics of public accountants

5) The effect of company size on the characteristics of public accountants

Large companies have a higher need for the credibility of reports and tend to choose high-quality auditors like the Big 4. In addition, large companies have the financial ability to use the services of better auditors. Research shows that company size has a significant effect on the selection of high-quality auditors (Knechel et al., 2021; Alfraih, 2021).

H5: There is a positive influence of company size on the characteristics of public accountants

6) The effect of capital intensity on the quality of ESG disclosure with the characteristics of public accountants as a mediating variable

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The influence of capital intensity on the quality of ESG disclosure can occur through the role of auditors. Companies with high capital intensity tend to choose high-quality auditors, who then improve the quality of ESG disclosures through stricter oversight. Research shows that quality audits can be a mechanism that improves the quality of ESG reporting (García-Sánchez et al., 2022; Velte, 2021).

H6: There is an influence of capital intensity on the quality of ESG disclosure with the characteristics of public accountants as a mediating variable

7) The effect of company size on the quality of ESG disclosure with the characteristics of public accountants as a mediating variable

Large companies tend to use high-quality auditors, which ultimately improves the quality of ESG disclosures. This shows that auditors act as intermediaries in the relationship between company size and the quality of ESG disclosures. Research supports that quality audits increase the credibility of ESG reports (Kılıç et al., 2021; García-Sánchez et al., 2022).

H7: There is an influence of company size on the quality of ESG disclosure with the characteristics of public accountants as a mediating variable

8) The effect of capital intensity and company size on the quality of ESG disclosure

Simultaneously, capital intensity and company size are important factors that affect the quality of ESG disclosures. Companies with high capital intensity and large sizes have greater stakeholder pressure and more adequate resources to improve ESG transparency. Research shows that company characteristics collectively affect the quality of ESG disclosure (Velte, 2021; Kılıç et al., 2021).

H8: The effect of capital intensity and company size on the quality of ESG disclosure

RESEARCH METHOD

This study uses a quantitative approach with the type of explanatory research, which aims to analyze the causal relationship between independent variables, mediating variables, and dependent variables. The independent variables in this study are capital intensity and company size, the dependent variable is the quality of ESG disclosure, and the mediation variable is the characteristics of public accounting firms. The data used is secondary data in the form of data panels, which is a combination of *time series* and *cross section* data, with an observation period during 2019–2023. The population in this study is all companies listed on the Indonesia Stock Exchange (IDX), with the research

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sample focused on companies in the consumer cyclicals sector. The sampling technique used purposive sampling, with the following criteria: (1) companies in the consumer cyclicals sector that were listed consecutively during the 2019–2023 period, (2) companies that published complete annual reports, (3) companies that have ESG-related information both in sustainability reports and in annual reports, (4) companies that have complete data according to the research variables, and (5) did not experience delisting during the research period. Data is obtained through documentation methods from annual reports, sustainability reports, and official sources such as the Indonesia Stock Exchange website and the company website. The data analysis technique in this study uses the help of EViews software with the panel data regression method.

RESULTS AND DISCUSSION

The object of this research is a consumer cyclicals sector company listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Based on the purposive sampling criteria, 30 companies were obtained that qualified as research samples. The data used was panel data consisting of several companies during five years of observation. The consumer cyclicals sector was chosen because this sector has consumption characteristics that are sensitive to economic conditions and has the potential to be related to sustainability issues, especially in environmental and social aspects. Therefore, ESG disclosure in this sector is important to analyze.

Table 1.
Test Results

Variable	Coeffisient	St. Error	t-count	Prob.	Remarks
Capint – ESG	-0.06392	0.02159	-2.93	0.004	Significant
Firm Size – ESG	0.049779	0.019894	2.5	0.013	Significant
Audchar – ESG	0.593465	0.136052	4.36	0,000	Significant
Capint – Audchar	-0.28392	0.12159	-2.33	0.021	Significant
Firm Size – Audchar	0.491827	0.167185	2.94	0.004	Significant

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Capint – Audchar – ESG	2,37	-	-	-	Proven Mediation
Firm Size – Audchar – ESG	2,80	-	-	-	Proven Mediation
Capint and Firm Size – ESG		-	-	0.0002 (F-test)	Simultaneous Significance

1) The effect of capital intensity on the quality of ESG disclosure

The results showed that capital intensity (CAPINT) had a significant effect on the quality of ESG disclosure (ESGDQ) with a probability value of 0.0349 (< 0.05). However, the resulting regression coefficient is negative (-0.063915), which indicates that the higher the company's capital intensity, the quality of ESG disclosure tends to decrease. Theoretically, companies with high capital intensity have a large level of fixed asset use in their operations, so they have the potential to have a more significant environmental impact. Based on the perspective of stakeholder theory, this condition should encourage companies to increase transparency and accountability through better quality ESG disclosures to meet stakeholder demands. However, the results of this study actually show a negative direction of the relationship, which indicates a mismatch between theoretical expectations and empirical conditions.

This phenomenon can be explained by the fact that companies with high capital intensity generally face greater operational complexity as well as high investment needs in fixed assets. This condition causes companies to focus more on operational efficiency and asset management compared to improving the quality of ESG reporting. In addition, companies with these characteristics tend to face high cost pressures, so ESG disclosures are more minimalist or even symbolic.

In this context, the possibility of *greenwashing* practices is also relevant, where companies with high environmental impacts do not fully improve the quality of disclosure, but only convey narrative information without the support of measurable data. This is in line with Velte's (2021) research that environmental pressures are not always directly proportional to the quality of ESG disclosures, especially when companies face limited resources or weak external oversight. In

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addition, research by Chen et al. (2020) in *Sustainability* also shows that companies with complex asset structures tend to have lower reporting quality.

Thus, the results of this study show that capital intensity is not always a driving factor for improving the quality of ESG disclosures, but can be an obstacle due to the high operational complexity and cost pressures faced by companies. Therefore, although statistically significant, the negative direction of the relationship suggests that an increase in capital intensity has not been followed by an improvement in the quality of ESG transparency.

2) The effect of company size on the quality of ESG disclosure

The results showed that firm size had a positive and significant effect on the quality of ESG disclosure with a coefficient value of 0.049779, a t-calculation value of 2.50, and a probability of 0.013 (< 0.05). This shows that the larger the size of the company, the higher the quality of ESG disclosures carried out. Theoretically, the size of a company reflects the level of visibility and external pressures faced by the company. Large companies tend to be in the spotlight of the public, investors, regulators, and the media, so they have a greater obligation to maintain reputation and legitimacy through information transparency, including in ESG disclosures. Based on stakeholder theory, large companies have more interested parties, which encourages companies to present more complete and quality information.

In the perspective of signaling theory, large companies use ESG disclosures as a means to provide positive signals to investors regarding the company's performance and sustainability commitments. Quality ESG disclosures can increase investor confidence and reduce information asymmetry between management and external parties.

The results of this study are in line with the research of Li et al. (2020) which stated that company size has a positive effect on the quality of ESG disclosure. Research by Kılıç et al. (2021) also shows that large companies tend to have higher levels of ESG disclosure because they are supported by more adequate resources and better reporting systems. In addition to external pressure factors, large companies also have stronger internal capacities in terms of human resources, technology, and reporting systems, so they are able to prepare ESG reports in a more structured, quantitative, and verifiable manner. This is in contrast to small companies that tend to have limitations in compiling sustainability reports. Thus, the results of this study show that company size is an important factor in improving the quality of ESG disclosure, both in terms of stakeholder pressure and the company's internal capacity.

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3) The influence of public accountant characteristics on the quality of ESG disclosure

The results showed that the characteristics of public accounting firms (AUDCHAR) had a positive and significant effect on the quality of ESG disclosure with a coefficient value of 0.593465, a t-calculation value of 4.36, and a probability of 0.000 (< 0.05). This shows that the better the auditor characteristics used by the company, the higher the quality of ESG disclosures produced.

Theoretically, the existence of auditors is part of the *corporate governance* mechanism that functions to increase the credibility and reliability of company reports. Auditors with high reputations, such as Big 4 public accounting firms or auditors with industry specializations, tend to have stricter auditing standards and better ability to detect errors and information manipulation practices.

The results of this study are in line with the research of García-Sánchez et al. (2022) which stated that audit quality has a positive influence on the transparency and credibility of ESG disclosures. In addition, Velte (2021) also found that companies audited by high-quality auditors tended to have better quality ESG disclosures than companies that used lower-quality auditors.

From a signaling theory perspective, the use of high-quality auditors is also a positive signal for investors that the company is committed to transparency and good governance. This can increase investor confidence in the ESG information submitted by the company.

Thus, it can be concluded that the characteristics of public accounting firms have an important role in improving the quality of ESG disclosures, both through increasing the credibility of reports and through pressure on management to present more transparent information.

4) The effect of capital intensity on the characteristics of public accountants

The results showed that capital intensity (CAPINT) had a significant effect on the characteristics of public accounting firms (AUDCHAR) with a coefficient value of -0.28392, a t-calculation value of 2.33, and a probability of 0.021 (< 0.05). However, the direction of the resulting relationship is negative, which shows that the higher the capital intensity of the company, it tends to lower the quality of the characteristics of the auditor chosen. Theoretically, companies with high capital intensity have large fixed assets as well as a higher level of operational complexity. This condition should encourage companies to choose more qualified auditors to ensure the credibility of reports and minimize the risk of reporting

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errors. However, the results of this study show a different condition, where companies with high capital intensity do not always use high-quality auditors.

This phenomenon can be explained by the fact that companies with large fixed asset investments tend to face high cost pressures, both in terms of operations and asset maintenance. As a result, companies are more focused on cost efficiency, including in the selection of auditors. High-quality auditors, such as the Big 4, generally have higher audit costs, so companies with high cost pressures tend to choose lower-cost auditors.

In addition, capital-intensive companies often have complex and specific operational structures, so they do not always need auditors with a global reputation, but rather auditors who better understand local conditions or specific industries. This can also be one of the reasons why the resulting relationship is negative.

The results of this study are in line with the research of Salehi et al. (2022) which states that cost pressures and operational characteristics of companies can influence decisions in choosing auditors. In addition, Habib et al. (2021) also showed that the complexity of the company is not always directly proportional to the quality of the auditor chosen, especially if there are cost efficiency considerations.

Thus, it can be concluded that capital intensity affects the characteristics of public accounting firms, but with a negative relationship direction, which shows that cost and efficiency factors are the main considerations in the selection of auditors.

5) The effect of company size on the characteristics of public accountants

The results showed that firm size had a positive and significant effect on the characteristics of public accounting firms (AUDCHAR) with a coefficient value of 0.491827, a t-calculation value of 2.94, and a probability of 0.004 (< 0.05). This shows that the larger the size of the company, the higher the tendency of the company to choose auditors with more qualified characteristics. Theoretically, large companies have a high level of visibility as well as face greater pressure from investors, regulators, and the public. This condition encourages companies to increase the credibility of financial and non-financial statements, including ESG disclosures, through the use of high-quality auditors. From the perspective of stakeholder theory, large companies have more interested parties so they need a higher level of transparency and accountability.

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In addition, large companies also have better financial ability to use the services of highly reputable auditors, such as the Big 4 public accounting firms. Auditors with a high reputation generally have stricter audit standards, more complete resources, and a wider range of experience, so they are able to improve the quality of company reports.

The results of this study are in line with the research of Knechel et al. (2021) which states that the size of the company has a significant effect on the selection of high-quality auditors. Alfraih's research (2021) also shows that large companies are more likely to use Big 4 auditors than small companies. From the perspective of signaling theory, the use of high-quality auditors by large companies is also a form of signal to investors that the company has good governance and trustworthy reports. This can increase investor confidence in the information submitted by the company.

Thus, it can be concluded that the size of the company is an important factor in determining the characteristics of the chosen public accounting firm, as it relates to the need for the credibility of the report and the financial capabilities of the company.

6) The effect of capital intensity on the quality of ESG disclosure with the characteristics of public accountants as a mediating variable

The results show that the characteristics of public accounting firms (AUDCHAR) are able to mediate the relationship between capital intensity (CAPINT) and the quality of ESG disclosure (ESGDQ). This is proven by the results of the Sobel test which shows a statistical value of 2.37 (> 1.96), so that the mediation is declared significant. Empirically, these results show that the influence of capital intensity on the quality of ESG disclosure does not only occur directly, but also through intermediary mechanisms in the form of auditor characteristics. High capital intensity will influence the company's decision to select auditors, which in turn impacts the quality of ESG disclosures produced.

Although direct testing found that capital intensity has a negative relationship with the quality of ESG disclosures, the presence of high-quality auditors is able to improve the quality of these disclosures. Auditors play a role in increasing the credibility of reports by encouraging companies to present more complete, accurate, and verifiable ESG information.

From the perspective of *agency theory*, auditors function as independent parties that reduce conflicts of interest between management and stakeholders. High-quality auditors will increase transparency and reduce the possibility of manipulation or *greenwashing* practices in ESG disclosures. In addition, in

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signaling theory, the use of high-quality auditors is also a positive signal to investors that the information submitted by the company can be trusted.

The results of this study are in line with García-Sánchez et al. (2022) who stated that audit quality can increase the credibility of ESG reports and strengthen the relationship between company characteristics and sustainability transparency. Velte (2021) also found that auditors have an important role in improving the quality of non-financial disclosures.

Thus, it can be concluded that the characteristics of public accounting firms play a significant mediator in the relationship between capital intensity and the quality of ESG disclosures. This shows that the existence of auditors can be a strengthening mechanism in increasing ESG transparency, especially in companies with a high level of capital intensity.

7) The effect of company size on the quality of ESG disclosure with the characteristics of public accountants as a mediating variable

The results show that the characteristics of public accounting firms (AUDCHAR) are able to mediate the relationship between firm size (Firm Size) and the quality of ESG disclosure (ESGDQ). This is proven by the results of the Sobel test which shows a statistical value of 2.80 (> 1.96), so that mediation is declared significant. Empirically, these results show that the influence of company size on the quality of ESG disclosure occurs not only directly, but also through the role of auditors as an intermediary variable. Companies with large sizes tend to choose auditors with higher quality, which then contributes to improving the quality of ESG disclosures through a more rigorous and credible audit process.

In the perspective of stakeholder theory, large companies have higher pressure from various stakeholders to maintain their reputations and increase transparency. Therefore, large companies not only improve the quality of ESG disclosures directly, but also through the use of high-quality auditors as a form of increasing the credibility of reports.

In addition, in signaling theory, the use of high-quality auditors by large companies is a positive signal to investors that the company has good governance and trustworthy reports. Auditors play a role in ensuring that the ESG information presented is not only narrative, but also supported by relevant and verifiable data.

The results of this study are in line with Kılıç et al. (2021) who showed that large companies tend to use high-quality auditors, which in turn improves the

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quality of ESG disclosures. In addition, García-Sánchez et al. (2022) also stated that auditors play a role as a mechanism that strengthens the transparency of sustainability reports.

Thus, it can be concluded that the characteristics of public accounting firms play a significant role as a significant mediator in the relationship between company size and the quality of ESG disclosures. This shows that the role of auditors is not only as a supervisor, but also as a factor that strengthens the relationship between company characteristics and the quality of ESG reporting.

8) The effect of capital intensity and company size on the quality of ESG disclosure

The results showed that capital intensity (CAPINT) and company size (Firm Size) simultaneously had a significant effect on the quality of ESG disclosure (ESGDQ) with an F-test probability value of 0.0002 (< 0.05). This suggests that the two independent variables are able to together explain variations in the quality of ESG disclosures. Conceptually, the capital intensity and size of the company are internal characteristics of the company that have an important role in determining the level of transparency and accountability of the company. Capital intensity reflects the extent of the company's involvement in the use of fixed assets that have the potential to have environmental impacts, while the size of the company reflects the capacity of resources as well as the level of external pressures the company faces.

The results of this study show that although partial capital intensity has a negative influence on the quality of ESG disclosures, in combination with company size, both variables still have a significant influence. This shows that company size can be a balancing factor that strengthens ESG transparency, despite operational pressures stemming from capital intensity.

In the perspective of stakeholder theory, the combination of company size and capital intensity reflects the level of exposure of the company to stakeholder pressure. Large companies with high capital intensity will face greater demands to maintain legitimacy through ESG disclosures. Meanwhile, from the point of view of signaling theory, companies with these characteristics will tend to increase transparency as a form of positive signal to investors and the public.

The results of this study are in line with Velte (2021) who stated that company characteristics simultaneously affect the quality of ESG disclosure. In addition, Kılıç et al. (2021) also found that a combination of internal factors of companies has a significant influence on ESG transparency.

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Thus, it can be concluded that capital intensity and company size together play a role in improving the quality of ESG disclosures, although the direction of influence of each variable may differ.

CONCLUSION

Based on the results of the analysis and discussion of the influence of capital intensity and company size on the quality of ESG disclosure with the characteristics of public accounting firms as a mediating variable in companies in *the consumer cyclicals sector* on the Indonesia Stock Exchange for the 2019–2023 period, it can be concluded that partially capital intensity has a significant effect on the quality of ESG disclosure, but in a negative direction, which shows that the higher the intensity corporate capital is not necessarily followed by an improvement in the quality of ESG disclosures. In contrast, company size has been shown to have a positive and significant effect on the quality of ESG disclosures, indicating that companies on a larger scale tend to have a better level of ESG transparency. The characteristics of public accounting firms have also been proven to have a positive and significant effect on the quality of ESG disclosures, so auditors play an important role in increasing the credibility of sustainability reports. In addition, capital intensity and company size have been shown to have an effect on the characteristics of public accounting firms, where the size of the company has a positive influence, while capital intensity shows a negative influence. The results of the mediation test using the Sobel test showed that the characteristics of public accounting firms were able to mediate the relationship between capital intensity and company size on the quality of ESG disclosure significantly. Simultaneously, capital intensity and company size have also been shown to have a significant effect on the quality of ESG disclosures. Thus, the quality of ESG disclosure is influenced by a combination of the company's internal factors and external oversight mechanisms through auditors.

Based on this conclusion, some suggestions that can be given are for companies, especially the *consumer cyclical* sector, it is expected to improve the quality of ESG disclosure more comprehensively and not only symbolically, especially for companies with high capital intensity that have a large environmental impact. Companies are also advised to use the services of a public accounting firm that has high quality to increase the credibility of ESG reports. For investors, the results of this research can be used as a consideration in making investment decisions by paying attention to the quality of ESG disclosures and the reputation of the company's auditors. For regulators, it is hoped that it can

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strengthen policies and standards related to ESG reporting so that it is more structured and comparable between companies. Furthermore, for subsequent researchers, it is recommended to add other variables such as profitability, leverage, or corporate governance, as well as use more complex analysis methods such as SEM or dynamic *panel* approaches to obtain more comprehensive results. In addition, further research can also expand the industry sector and research period to obtain broader generalizations.

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