

THE EFFECT OF SUSTAINABILITY REPORTING ON FIRM VALUE WITH FINANCIAL PROFITABILITY AS A MEDIATING VARIABLE: A CASE STUDY OF MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE DURING THE 2020–2024 PERIOD

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Abstract

This study aims to examine the effect of sustainability reporting on firm value with profitability as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period. The study adopts a quantitative approach with an explanatory design and panel data obtained through purposive sampling. Firm value is measured using Tobin's Q, sustainability reporting is measured through an ESG disclosure index, and profitability is proxied by return on assets (ROA). Data analysis is conducted using Partial Least Squares-Structural Equation Modeling (PLS-SEM). The results indicate that sustainability reporting has no significant effect on firm value. In addition, sustainability reporting has a positive but insignificant effect on firm profitability. Profitability is found to have a negative and significant effect on firm value and does not mediate the relationship between sustainability reporting and firm value. These findings suggest that during the study period, sustainability reporting primarily functions as a compliance instrument rather than as a driver of firm value. This study highlights the importance of strategically integrating sustainability practices to generate long-term economic benefits and sustainable firm value.

Keywords: Sustainability reporting, firm value, profitability, PLS-SEM.

1. INTRODUCTION

Developments in global and domestic capital markets during the 2020-2024 period indicate increasing investor attention to sustainability practices as a determinant of firm value, particularly as the COVID-19 pandemic heightened awareness of non-financial risks (Eccles et al., 2014). Sustainability reports serve as a strategic communication tool through which companies disclose their environmental, social, and governance (ESG) performance to stakeholders (Global Reporting Initiative, 2020). In Indonesia, the implementation of POJK No. 51/POJK.03/2017 has encouraged manufacturing companies listed on the Indonesia Stock Exchange to enhance the quality and consistency of sustainability reporting since 2020 (Otoritas Jasa Keuangan, 2017).

From a theoretical perspective, legitimacy theory explains that sustainability disclosure is used by companies to obtain social legitimacy, which can enhance firm value in capital markets (Deegan, 2002). Stakeholder theory further emphasizes that addressing stakeholder interests through sustainability reporting can strengthen long-term relationships and improve investors' perceptions (Freeman, 1984). Prior empirical studies have shown that sustainability reporting positively affects firm value,

as evidenced by Eccles et al. (2014) and Alareeni and Hamdan (2020), who found that companies with strong sustainability practices tend to exhibit higher market valuations.

However, several studies suggest that the effect of sustainability reporting on firm value is not always direct but may depend on a company's financial performance (Cho et al., 2015). Financial profitability is viewed as a key indicator reflecting a firm's ability to convert sustainability practices into tangible economic benefits (Brigham & Houston, 2019). Previous research by Margolis, Elfenbein, and Walsh (2009) and Porter and Kramer (2011) demonstrates that strategically managed sustainability practices can enhance profitability, which in turn positively influences firm value, thereby underscoring the relevance of profitability as a mediating variable in the relationship between sustainability reporting and firm value.

2. METHODOLOGY

This study employs a quantitative approach with an explanatory research design to examine the effect of sustainability reporting on firm value, with corporate profitability serving as a mediating variable. The data consist of panel data from manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period, selected using a purposive sampling method based on the availability of annual reports, sustainability reports, and market data. Firm value is measured using Tobin's Q as a proxy for market perceptions of a firm's future prospects, while sustainability reporting is measured using a content-based index that reflects the proportion of ESG disclosures integrated into the main financial statements and the accompanying notes. Financial profitability is measured using return on assets (ROA). To minimize potential bias, this study also incorporates control variables, including firm size, leverage, and sales growth, obtained from audited financial statements.

This study applies Partial Least Squares-Structural Equation Modeling (PLS-SEM) through the evaluation of the measurement model (outer model) and the structural model (inner model).

3. FINDINGS AND DISCUSSION

Based on the results of the outer model calculation, it is shown:

Table 1. Descriptive statistics

Name	Mean	Median	Scale min	Scale max	Standard deviation
SR	7.176.087	7.647.000	2.352.000	10.000.000	2.086.864
ROA	759.225	584.000	-1.030.000	3.480.000	888.551
TOBINSQ	361.098.125	156.000	58.000	8.093.300.000	1.191.847.609

Source: Processed data (2026)

Sustainability reporting (SR) in manufacturing companies during the 2020-2024 period has an average value of 7,176.087, a median of 7,647.000, and a standard

deviation of 2,086.864. These results indicate that, overall, the level of sustainability disclosure is relatively adequate and fairly homogeneous, in line with the increasing regulatory requirements and heightened awareness of sustainability reporting following the COVID-19 pandemic, as well as the implementation of POJK No. 51/2017. Financial profitability, proxied by return on assets (ROA), has a mean value of 759.225, a median of 584.000, and a standard deviation of 888.551, indicating substantial fluctuations in the profitability of manufacturing firms during the study period. These fluctuations are primarily attributable to rising production costs, supply chain disruptions, and an uneven economic recovery during 2020-2022, before showing improvement in 2023-2024. Meanwhile, firm value measured by Tobin's Q exhibits an average of 361,098.125, a median of 156.000, and a very high standard deviation of 1,191,847.609, reflecting significant volatility in market valuations of manufacturing firms throughout the study period. This volatility suggests increasingly divergent investor responses to firm performance and future prospects amid macroeconomic uncertainty, changes in industrial policies, and heightened market sensitivity to non-financial risks. Consequently, these findings reinforce the indication that increases in sustainability disclosure and profitability have not been consistently translated into higher firm value in the Indonesian capital market.

Meanwhile, the results of the inner model analysis indicate that:

Table 2. Hypothesis testing

Hypothesis		Original Sample	T Statistic (O/STDEV)	P Values	Description
H ₁	SR > NP	-0,024	0,143	0,886	Rejected
H ₂	SR > FP	0,193	1,956	0,051	Rejected
H ₃	FP > NP	-0,234	3,850	0,000	Accepted
H ₄	SR > FP > NP	-0,045	1,733	0,083	Rejected

Source: Processed data (2026)

Based on hypothesis testing using SmartPLS, sustainability reporting has no significant effect on firm value, as evidenced by a coefficient of -0.024 and a p-value of 0.886. This finding suggests that during the 2020-2024 period, sustainability disclosure by manufacturing firms has not been able to directly enhance firm value, as the market remains more focused on fundamental performance and post-pandemic economic uncertainty. Furthermore, sustainability reporting shows a positive effect on financial profitability, with a coefficient of 0.193, however, this effect is not statistically significant at the 5 percent significance level ($p = 0.051$), indicating that while sustainability practices have begun to influence profitability, their economic benefits have not yet been fully internalized in the short term due to rising implementation costs and operational pressures during the economic recovery phase. Financial profitability is found to have a negative and significant effect on firm value, with a coefficient of -0.234 and a p-value of 0.000, suggesting that increases in profitability during the study period were negatively perceived by the market. This negative response may be attributed to investor concerns regarding the sustainability of earnings, cost volatility,

and uncertainty surrounding the long-term outlook of the manufacturing sector. In addition, mediation testing results indicate that financial profitability does not mediate the relationship between sustainability reporting and firm value (coefficient -0.045, $p = 0.083$). Overall, these findings confirm that during the 2020-2024 period, sustainability reporting primarily served as an instrument of compliance and legitimacy rather than as a factor that directly or indirectly enhanced firm value in the Indonesian capital market.

3.1 The Effect of Sustainability Reporting on Firm Value

The results of the study indicate that sustainability reporting has no significant effect on firm value among manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period. This finding is reflected in a negative and insignificant coefficient, suggesting that increased sustainability disclosure has not been able to directly enhance firms' market valuation. This phenomenon can be explained by the condition of the Indonesian capital market during the study period, which was still in the post-COVID-19 recovery phase, during which investors tended to place greater emphasis on short-term financial performance, cash flow stability, and macroeconomic risks rather than on non-financial information. Furthermore, sustainability reports issued by many manufacturing firms remain largely normative and compliance-oriented, and thus are not yet fully perceived by investors as credible signals of value creation. Consequently, despite the continued improvement in sustainability reporting practices, such disclosures have not been able to directly shape positive market perceptions of firms' long-term prospects, resulting in a weak and insignificant relationship between sustainability reporting and firm value during the 2020-2024 period.

3.2 The Effect of Sustainability Reporting on Firm Profitability

The results of the study indicate that sustainability reporting has a positive but insignificant effect on the profitability of manufacturing companies during the 2020-2024 period. This finding suggests that improvements in the quality of sustainability disclosure tend to be accompanied by better earnings performance, although the effect is not statistically strong. This phenomenon reflects the conditions faced by firms during the post-COVID-19 economic recovery, in which the implementation of sustainability practices was often associated with higher operational costs, environmental investments, and production process adjustments that exerted short-term pressure on profit margins. On the other hand, the economic benefits of sustainability reporting such as operational efficiency, enhanced corporate reputation, and increased stakeholder trust are generally long-term in nature and therefore have not been fully reflected in profitability during the study period. Consequently, the relationship between sustainability reporting and firm profitability during the 2020-2024 period exhibits a positive tendency but has not yet generated a significant impact on the financial performance of manufacturing firms in Indonesia.

3.3 The Effect of Firm Profitability on Firm Value

The results of the study indicate that firm profitability has a negative and significant effect on the value of manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period. This finding suggests that an increase in a firm's ability to generate profits is not always positively perceived by the capital market. This phenomenon can be explained by post-pandemic economic conditions characterized by volatility in production costs, inflationary pressures, and demand uncertainty, which lead investors to perceive high profitability as temporary and potentially unsustainable. Moreover, in the manufacturing sector, profit increases during the study period were often achieved through short-term efficiency measures or cost adjustments that may constrain long-term investment, thereby reducing market expectations regarding firms' growth prospects. Consequently, the negative relationship between profitability and firm value reflects a more cautious investor attitude in assessing the quality and sustainability of earnings during the 2020-2024 period, indicating that higher profitability does not necessarily translate into higher firm value in the Indonesian capital market.

3.4 The Effect of Sustainability Reporting on Firm Value with Firm Profitability as a Mediating Variable

The results of the study indicate that firm profitability does not mediate the effect of sustainability reporting on firm value among manufacturing companies listed on the Indonesia Stock Exchange during the 2020-2024 period, as reflected by a negative and insignificant indirect effect. This finding suggests that although sustainability reporting tends to improve profitability, such improvements are not sufficiently strong or stable to be translated into higher firm value in the capital market. This condition is influenced by the characteristics of the study period, which remained in the post-COVID-19 economic recovery phase, during which investors were more focused on macroeconomic risks, earnings sustainability, and cash flow resilience than on the long-term benefits of sustainability practices. Moreover, the implementation of sustainability reporting in many manufacturing firms is still perceived as a regulatory obligation, and therefore has not yet been able to generate a credible economic signal for investors. Consequently, the relationship between sustainability reporting and firm value through profitability during the 2020-2024 period has not been effectively established, indicating that the mediating role of profitability is not supported in this study.

4. CONCLUSION

Based on the results of this study, it can be concluded that sustainability reporting has not been able to enhance firm value, either directly or indirectly through firm profitability. Although, descriptively, the level of sustainability disclosure is relatively adequate and fairly homogeneous, its effect on firm value is found to be negative and

insignificant, indicating that the capital market has not fully appreciated sustainability information as a key determinant of firm valuation. Sustainability reporting also exhibits a positive but insignificant effect on firm profitability, suggesting that the economic benefits of sustainability practices have not yet been optimally internalized in short-term financial performance. In contrast, firm profitability has a negative and significant effect on firm value, reflecting a more cautious investor attitude in assessing the quality and sustainability of earnings amid post-pandemic economic uncertainty. Consequently, profitability is not proven to serve as a mediating variable in the relationship between sustainability reporting and firm value, indicating that during the study period sustainability reporting primarily functioned as an instrument of compliance and legitimacy rather than as a driver of firm value in the Indonesian capital market.

This study suggests that companies should not merely treat sustainability reporting as a regulatory compliance requirement, but should strategically integrate sustainability practices into their operational activities and business decision-making processes in order to generate sustainable economic benefits and create tangible impacts on profitability and firm value. For investors, the findings highlight the importance of not only evaluating profitability and sustainability disclosures quantitatively, but also considering the quality, consistency, and long-term sustainability of corporate earnings. Meanwhile, future research is encouraged to incorporate additional variables such as corporate governance quality, risk management, or corporate reputation, as well as to employ longer study periods or more sector-specific approaches, in order to capture the dynamics of the relationship between sustainability reporting and firm value more comprehensively.

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