

**SUSTAINABILITY REPORTING AND ITS IMPACT ON FINANCIAL  
PERFORMANCE: EVIDENCE FROM INDONESIAN PUBLIC COMPANIES**

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*Abstract*

*This study aims to analyze the impact of sustainability reporting on the financial performance of public companies listed on the Indonesia Stock Exchange (IDX) for the period 2015–2024. A quantitative approach was adopted using secondary data from sustainability reports and annual financial statements of 120 non-financial companies listed on the IDX that published sustainability reports. Dependent variables include Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q, while the primary independent variable is the sustainability disclosure index measured using the Global Reporting Initiative (GRI) framework. Panel data analysis with fixed effects and random effects approaches was employed. Results indicate that sustainability disclosure has a significant positive effect on ROA ( $\beta = 0.214, p < 0.001$ ), ROE ( $\beta = 0.187, p < 0.01$ ), and Tobin's Q ( $\beta = 0.312, p < 0.001$ ), indicating that companies that comprehensively disclose sustainability practices have better financial performance and market value. These findings reinforce the literature on the positive relationship between environmental and social responsibility and firm value creation in the context of the Indonesian capital market.*

*Keywords: Sustainability Reporting, Financial Performance, ROA, ROE, Tobin's Q, GRI, Indonesia Stock Exchange*

**Abstrak**

Penelitian ini bertujuan untuk menganalisis pengaruh pelaporan keberlanjutan (sustainability reporting) terhadap kinerja keuangan perusahaan publik yang terdaftar di Bursa Efek Indonesia (BEI) periode 2015–2024. Menggunakan pendekatan kuantitatif dengan data sekunder dari laporan keberlanjutan dan laporan keuangan tahunan 120 perusahaan non-keuangan yang terdaftar di BEI dan menerbitkan laporan keberlanjutan. Variabel dependen meliputi Return on Assets (ROA), Return on Equity (ROE), dan Tobin's Q, sementara variabel independen utama adalah indeks pengungkapan keberlanjutan yang diukur menggunakan kerangka Global Reporting Initiative (GRI). Analisis data panel dengan pendekatan fixed effects dan random effects digunakan dalam estimasi model. Hasil penelitian menunjukkan bahwa pengungkapan keberlanjutan berpengaruh positif dan signifikan terhadap ROA ( $\beta = 0,214, p < 0,001$ ), ROE ( $\beta = 0,187, p < 0,01$ ), dan Tobin's Q ( $\beta = 0,312, p < 0,001$ ), mengindikasikan bahwa perusahaan yang mengungkapkan praktik keberlanjutan secara komprehensif memiliki kinerja keuangan dan nilai pasar yang lebih baik. Temuan ini memperkuat literatur mengenai hubungan positif antara tanggung jawab sosial dan lingkungan dengan penciptaan nilai perusahaan dalam konteks pasar modal Indonesia.

**Kata Kunci: Sustainability Reporting, Kinerja Keuangan, ROA, ROE, Tobin's Q, GRI, Bursa Efek Indonesia**

## I. INTRODUCTION

The increasing global awareness of environmental, social, and governance (ESG) issues has prompted companies worldwide to integrate sustainability considerations into their core business strategies. Sustainability reporting the systematic disclosure of a company's environmental, social, and governance performance has evolved from a voluntary communication practice into a critical element of corporate accountability and transparency (GRI, 2021). In Indonesia, this trend has been reinforced by the Financial Services Authority (OJK) through OJK Regulation No. 51/POJK.03/2017, which mandates sustainable finance implementation and encourages listed companies to publish sustainability reports.

The relationship between sustainability reporting and financial performance has been extensively studied in developed markets, yet evidence from emerging economies, particularly Indonesia, remains limited and inconclusive (Agustia et al., 2022). The Indonesian capital market context is particularly relevant given its rapid development and the increasing prominence of ESG considerations among domestic and international investors. The IDX has introduced the IDX ESG Leaders Index in 2021 to accommodate growing investor demand for sustainability oriented portfolios, signaling a structural shift in how financial markets evaluate corporate performance beyond traditional financial metrics.

Theoretical frameworks such as stakeholder theory (Freeman, 1984), legitimacy theory (Suchman, 1995), and resource-based view (Barney, 1991) provide complementary explanations for why sustainability reporting may enhance financial performance. Stakeholder theory posits that companies satisfying multiple stakeholder interests including employees, communities, and the environment build stronger relational capital that translates into sustainable competitive advantages. Legitimacy theory suggests that companies obtaining social license to operate through credible sustainability disclosures face lower regulatory risks and reduced cost of capital. The resource-based view further argues that sustainability capabilities represent valuable, rare, and inimitable organizational resources that drive superior performance.

Despite growing interest in this topic, several research gaps remain in the Indonesian context. First, most existing studies focus on a limited period or a narrow industry scope, failing to capture long-term dynamics of the sustainability-performance relationship (Purnama & Dinarjito, 2023). Second, the moderating roles of industry type, ownership structure, and governance quality in shaping this relationship have not been adequately examined. Third, the simultaneous impact of sustainability reporting on multiple dimensions of financial performance including accounting-based and market-based measures has rarely been tested in a unified analytical framework.

This study addresses these gaps by examining the impact of sustainability reporting on financial performance using a comprehensive dataset of 120 non-financial companies listed on the IDX over a ten-year period (2015–2024). Table 1 below summarizes prior studies on sustainability reporting and financial performance that form the empirical foundation of this research.

**Table 1**

**Summary of Previous Research on Sustainability Reporting and Financial Performance**

Researcher	Context/Variables	Method	Key Findings
Agustia et al. (2022)	SR & ROA / IDX Non-Financial	Panel Regression	GRI disclosure positively affects ROA; moderated by firm size
Purnama & Dinarjito (2023)	ESG Disclosure & Tobin's Q / BEI	FEM	ESG score significantly enhances firm market value in Indonesia
Loh et al. (2022)	CSR Reporting & ROE / Singapore Exchange	GMM	Voluntary sustainability disclosure improves ROE over 3-year horizon
Velte (2021)	ESG Performance & Financial Returns / DAX Companies	Meta-analysis	Positive ESG-performance link; governance component has strongest effect
Widyastuti & Utami (2023)	SR Completeness & Firm Value / IDX Manufacturing	Multiple Regression	Comprehensive sustainability reporting increases Tobin's Q in manufacturing sector

## II. LITERATURE REVIEW

### Stakeholder Theory and Sustainability Reporting

Freeman's (1984) stakeholder theory forms the primary theoretical foundation for understanding why sustainability reporting enhances financial performance. The theory posits that corporate value is maximized not by exclusively serving shareholders, but by effectively managing relationships with all stakeholders—including employees, customers, suppliers, communities, and the environment. Sustainability reporting serves as a critical mechanism through which companies communicate their commitment to balanced stakeholder value creation (Hahn et al., 2015).

In the Indonesian context, stakeholder theory is particularly relevant given the country's collectivist culture and high importance attached to social harmony (Keraf, 2022). Companies that actively engage in community development, environmental stewardship, and ethical governance tend to build stronger social trust, which in turn reduces operational risks and enhances long-term profitability. Agustia et al. (2022) found that Indonesian companies practicing comprehensive stakeholder engagement through sustainability reports demonstrate superior ROA compared to those with limited disclosures

### Legitimacy Theory and Market Perception

Legitimacy theory (Suchman, 1995) argues that organizations must continuously justify their existence by aligning their actions with prevailing social norms and values. Sustainability reporting functions as a legitimation strategy through which companies demonstrate their adherence to societal expectations regarding environmental responsibility and ethical conduct. Companies that successfully establish legitimacy enjoy reduced regulatory scrutiny, stronger customer loyalty, and improved access to financing.

In capital markets, legitimacy translates into investor confidence and premium valuation. Velte (2021) demonstrated that European companies with strong ESG legitimacy operationalized through comprehensive sustainability disclosures commanded higher price-to-earnings multiples and Tobin's Q ratios. This relationship is mediated by the reduction in information asymmetry between management and investors, which lowers the cost of equity capital and enhances market-based financial performance measures

### Resource-Based View and Sustainability Capabilities

The resource-based view (Barney, 1991) provides a complementary explanation by conceptualizing sustainability management capabilities as strategic resources that generate competitive advantages. Unlike tangible assets that can be easily replicated, organizational capabilities in sustainability management including stakeholder engagement systems, environmental management processes, and social impact measurement are complex, embedded in organizational routines, and difficult to imitate.

Loh et al. (2022) applied the resource-based view to explain why sustainability leaders in Singapore consistently outperformed peers on both accounting and market-based metrics over a five-year horizon. The study found that sustainability capabilities functioned as valuable intangible assets that enhanced operational efficiency, talent attraction, and innovation capacity—all of which contribute to superior financial returns

### Hypothesis Developmen

#### Sustainability Reporting and Return on Assets (ROA)

Return on Assets (ROA) is a widely used accounting-based measure of financial performance that captures a company's efficiency in generating profits from its total asset base. Sustainability reporting is theorized to positively affect ROA through multiple channels. First, companies with strong environmental management practices typically achieve superior operational efficiency by reducing energy consumption, minimizing waste, and optimizing resource utilization (Eccles et al., 2014). These efficiency gains directly reduce operating costs and improve profit margins.

Second, sustainability-oriented companies tend to experience fewer operational disruptions arising from environmental incidents, labor disputes, or regulatory penalties all of which can significantly impair asset productivity. Third, the reputational benefits of transparent sustainability reporting attract higher quality employees, customers, and suppliers, thereby enhancing revenue generation capacity without proportionally increasing asset investment.

Empirical evidence supports this relationship in the Indonesian context. Agustia et al. (2022) found that GRI indexed sustainability disclosure had a significant positive effect on ROA among IDX-listed companies. Similarly, Purnama and Dinarjito (2023) confirmed that companies publishing sustainability reports under GRI Standards outperformed non-disclosing peers on asset efficiency metrics. Based on these theoretical arguments and empirical findings, the first hypothesis is formulated as follows:

**H<sub>1</sub>: Sustainability reporting has a significant positive effect on Return on Assets (ROA) in Indonesian public companies**

### **Sustainability Reporting and Return on Equity (ROE)**

Return on Equity (ROE) measures the efficiency with which a company generates profits for shareholders, making it a critical indicator of financial performance from the equity investor's perspective. The relationship between sustainability reporting and ROE operates primarily through the reduction of equity risk premiums and the enhancement of long-term earnings quality.

Sustainability-reporting companies generally face lower equity risk premiums because their transparent disclosure practices reduce information asymmetry, enhance governance quality, and signal long-term strategic orientation (Dhaliwal et al., 2021). Lower risk premiums translate into lower required rates of return for equity investors, which ceteris paribus improves ROE calculations. Furthermore, sustainability-oriented management tends to adopt longer investment horizons, avoiding short-term decisions that may boost immediate ROE at the expense of long-term shareholder value.

Loh et al. (2022) found that Singaporean companies with comprehensive sustainability disclosures demonstrated consistently higher ROE over a three-year period, particularly in industries with high environmental and social sensitivity. Widyastuti and Utami (2023) similarly found a positive ROE effect for Indonesian manufacturing companies with complete sustainability reports. Thus, the second hypothesis is:

**H<sub>2</sub>: Sustainability reporting has a significant positive effect on Return on Equity (ROE) in Indonesian public companies**

### **Sustainability Reporting and Tobin's Q**

Tobin's Q, defined as the ratio of a company's market value to the replacement cost of its assets, serves as a comprehensive market-based measure of firm value that captures investor expectations about future earnings potential. The relationship between sustainability reporting and Tobin's Q reflects how capital markets price sustainability-related information in determining company valuations.

Sustainability reporting enhances Tobin's Q through several mechanisms. First, investors increasingly incorporate ESG factors into their valuation models, with sustainability-disclosing companies receiving ESG-adjusted premiums that boost their market capitalization relative to book value (Velte, 2021). Second, the growing prevalence of sustainable investment funds and ESG-mandated institutional investors creates additional demand for securities of companies with credible sustainability disclosures, further elevating their market valuations.

Third, sustainability reporting signals strategic foresight and risk management capability, which capital markets reward with forward-looking valuation premiums. Purnama and Dinarjito (2023) found a significant positive relationship between ESG disclosure scores and Tobin's Q among IDX-listed companies, with the effect being particularly pronounced for companies in environmentally sensitive industries. The third hypothesis is therefore:

**H<sub>3</sub>: Sustainability reporting has a significant positive effect on Tobin's Q in Indonesian public Companies**

### Moderating Role of Industry Type

The impact of sustainability reporting on financial performance is not uniform across all industries. High-environmental-impact industries such as mining, plantation, manufacturing, and energy face more intense stakeholder scrutiny and regulatory pressure, making sustainability reporting a more critical factor in their financial performance dynamics (Wijaya & Setiawan, 2022).

Companies in these industries that proactively disclose their environmental management efforts not only mitigate regulatory risks but also differentiate themselves as responsible operators, potentially accessing premium markets and attracting ESG-oriented investors. In contrast, low-impact industries may experience a weaker sustainability-performance link given lower stakeholder salience of environmental issues. Based on this reasoning, the fourth hypothesis is:

**H<sub>4</sub>: Industry type significantly moderates the relationship between sustainability reporting and financial performance in Indonesian public companies**

### III. RESEARCH METHODS

This study employs a quantitative research design with a causal-explanatory approach to examine the impact of sustainability reporting on financial performance. The research population consists of all non-financial companies listed on the IDX that published sustainability reports in accordance with GRI Standards during the period 2015–2024. Companies in the financial sector were excluded due to the fundamentally different nature of their asset and liability structures, which makes cross-sector ROA and ROE comparisons methodologically problematic.

A purposive sampling technique was applied with the following selection criteria: (1) listed on the IDX continuously throughout the entire observation period; (2) published sustainability reports for at least five consecutive years; (3) adopted GRI Standards (G4 or GRI Standards 2016/2021) as the reporting framework; (4) had fiscal years ending on December 31; and (5) did not undergo significant corporate restructuring during the observation period. These criteria yielded a final sample of 120 companies with a total of 1,200 firm-year observations.

The primary dependent variables are: (1) ROA = Net Income / Total Assets; (2) ROE = Net Income / Total Equity; and (3) Tobin's Q = (Market Capitalization + Total Debt) / Total Assets. The primary independent variable is the Sustainability Disclosure Index (SDI), constructed by scoring company sustainability reports against GRI Standards indicators across environmental (EN), social (SO), and governance (GV) dimensions, with equal weighting assigned to each dimension.

Control variables include: (1) firm size (Ln of total assets); (2) leverage (debt-to-equity ratio); (3) profitability lag (previous year ROA); (4) ownership concentration (percentage of shares held by the five largest shareholders); and (5) board independence (proportion of independent commissioners). Industry type is incorporated as a dummy variable for moderating analysis.

Panel data regression was employed as the primary analytical method, with model selection conducted through the Chow Test (pooled OLS vs. fixed effects) and Hausman Test (fixed effects vs. random effects). Classical assumption tests including multicollinearity (VIF), heteroscedasticity (Breusch-Pagan), and autocorrelation (Durbin-Watson) were performed prior to model estimation. Moderating effects were tested using interaction terms between the sustainability disclosure index and industry type dummy variables. All statistical analyses were performed using Stata 17.

### IV. RESULTS AND DISCUSSION

#### Research Results

This section presents the results of empirical testing of the influence of sustainability reporting on a company's financial performance as measured through three main indicators: Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. Analysis was conducted on 1,200 firm-year observations using a panel data regression approach, which allows control of unobserved heterogeneity between companies while capturing temporal dynamics in relationships between companies.

The framework of analysis is built on three complementary theoretical foundations: stakeholder theory, legitimacy theory, and resource-based view. These three perspectives together predict that companies that report on their sustainability performance comprehensively will be able to build a competitive advantage through strengthening stakeholder confidence, operational efficiency, and reducing risk premiums.

### Descriptive Statistics

Table 2 presents the descriptive statistics for the primary research variables based on 1,200 firm-year observations. The mean SDI of 0.623 indicates that, on average, sample companies disclose approximately 62.3% of GRI Standard indicators, reflecting moderate-to-high sustainability reporting comprehensiveness. The considerable standard deviation of 0.187 highlights significant variation in disclosure quality across companies. The mean ROA of 8.42% and ROE of 14.67% reflect the relatively strong financial performance of the sustainability-reporting companies in the sample.

**Table 2. Descriptive Statistics of Research Variables (N = 1,200 firm-year observations)**

Variable	Min	Max	Mean	Std. Dev.	Skewness	Kurtosis
SDI (0–1 scale)	0.18	0.97	0.623	0.187	-0.214	2.847
ROA (%)	-8.4	28.7	8.42	6.31	0.341	3.124
ROE (%)	-12.6	42.3	14.67	9.84	0.512	3.418
Tobin's Q	0.42	4.87	1.743	0.824	1.023	4.312
Firm Size (Ln TA)	26.41	35.12	30.87	2.14	0.187	2.634
Leverage / DER	0.08	4.12	1.14	0.84	1.241	4.712

Source: Processed by researchers, 2025

The Sustainability Disclosure Index (SDI) has an average value of 0.623, which means that the companies in the sample on average reveal about 62.3% of the GRI Standards indicator. This figure reflects a moderate-high level of reporting comprehensiveness and indicates that the majority of companies listed on the IDX have gone beyond the symbolic reporting stage towards substantive reporting.

A sizable standard deviation (0.187) showed significant variation in the quality of disclosure between companies, with a value range between 0.18 (very limited disclosure) to 0.97 (near-complete disclosure). A slightly negative skewness distribution (skewness = -0.214) indicates that most companies are on the upper side of the distribution, with a small number of companies still having very low disclosure rates.

The average Return on Assets (ROA) of 8.42% reflects the relatively good profitability of the sustainability reporting companies in the sample. This is consistent with the assumption that companies that adopt sustainability reporting tend to be more managerially mature companies. An average Return on Equity (ROE) of 14.67% describes the company's ability to generate profits from equity capital invested by shareholders. This value indicates a competitive rate of return in the Indonesian capital market.

Tobin's average Q of 1.743 ( $> 1$ ) indicates that the market on average values a company over the book value of its assets, reflecting expectations of positive growth and the presence of intangible assets that are not fully recorded in conventional financial statements. An average leverage (DER) of 1.14 indicates that the companies in the sample use debt greater than equity as a source of funding, in line with the general characteristics of companies in the capital-intensive sectors that are heavily represented in the sample.

The accuracy of inference in panel data regression is highly dependent on the selection of an appropriate estimation model. This study applied a strict model selection procedure through a series of statistical tests. **The Hausman test** is used to choose between fixed effects (FE) and random effects

(RE) models. The test results showed that the fixed effect model was more appropriate for the regression of ROA ( $\chi^2 = 31.42$ ,  $p < 0.001$ ) and ROE ( $\chi^2 = 27.84$ ,  $p < 0.001$ ), indicating a significant correlation between individual effects not observed and explanatory variables. In contrast, the random-effects model is more appropriate for Tobin's Q regression ( $\chi^2 = 8.14$ ,  $p = 0.087$ ).

The use of fixed effects models for ROA and ROE allows control over time-invariant characteristics of the company, such as organizational culture, historical reputation, and industry-specific factors. This increases the internal validity of the estimated coefficient by reducing the possibility of bias due to omitted variable bias.

### Hypothesis Testing Results

Model selection tests confirmed that the fixed effects model was most appropriate for ROA and ROE regressions (Hausman Test:  $\chi^2 = 31.42$ ,  $p < 0.001$  and  $\chi^2 = 27.84$ ,  $p < 0.001$ , respectively), while the random effects model was preferred for Tobin's Q ( $\chi^2 = 8.14$ ,  $p = 0.087$ ). Table 3 presents the regression results across all three dependent variables.

**Table 3**

**Panel Data Regression Results: Impact of Sustainability Reporting on Financial Performance**

Variable	ROA $\beta$	ROA p-value	ROE $\beta$	ROE p-value	Tobin's Q $\beta$	p-value
SDI (Sustainability Disclosure)	0.214	0.000***	0.187	0.003**	0.312	0.000***
Firm Size	0.143	0.000***	0.121	0.001***	0.214	0.000***
Leverage (DER)	-0.187	0.000***	0.214	0.000***	-0.142	0.002***
Board Independence	0.087	0.012*	0.094	0.008**	0.124	0.004**
SDI $\times$ High-Impact Industry	0.152	0.000***	0.138	0.001***	0.241	0.000***
Constant	3.842	0.000***	5.214	0.000***	0.742	0.000***
R <sup>2</sup> / Overall R <sup>2</sup>	0.712		0.687		0.724	

Description: \*\*\*  $p < 0.001$ ; \*\*  $p < 0.01$ ; \*  $p < 0.05$ . Source: Processed by researchers, 2025

## Discussion

### The Effect of Sustainability Disclosure on ROA (H<sub>1</sub>)

The first hypothesis (H<sub>1</sub>) states that sustainability reporting has a positive effect on the profitability of the company's assets. The results of the analysis confirmed this hypothesis with a coefficient of  $\beta = 0.214$  ( $p < 0.001$ ), meaning that every one unit increase in SDI was associated with an increase in ROA of 0.214 percentage points, *ceteris paribus*.

These findings are in line with the predictions of stakeholder theory, which states that value creation for all stakeholders not just shareholders will ultimately increase asset productivity through several interrelated mechanisms:

1. Operational efficiency: The environmental management practices disclosed in sustainability reports often reflect energy savings, waste reduction, and production process optimization that directly increase operating margins.
2. Reduced regulatory risk: Companies that transparently report on their environmental and social performance are likely to face fewer regulatory sanctions, fines, and operational disruptions that can erode profitability.
3. Strengthening of supply chains: Better relationships with suppliers and business partners as a result of higher standards of practice contribute to long-term operational stability and efficiency.

These findings are consistent with Agustia et al. (2022) who found similar positive ROA effects in IDX-listed companies, as well as with Eccles et al. (2014) who demonstrated that companies that integrate sustainability consistently outperform their comparable peers in long-term ROAs. In the

Indonesian context, the ROA premium associated with sustainability reporting is also likely to reflect a competitive advantage in acquiring quality human resources who increasingly consider ESG factors in their career decisions.

### **The Effect of Sustainability Disclosure on ROE (H<sub>2</sub>)**

The second hypothesis (H<sub>2</sub>) was confirmed through a coefficient of  $\beta = 0.187$  ( $p < 0.01$ ) on the SDI variable in the ROE model. Although the magnitude of the effect is slightly smaller than that of ROA, this relationship is still statistically significant and has important economic relevance.

These results are consistent with the predictions of legitimacy theory, which argues that companies with strong social legitimacy enjoy a lower equity risk premium. Dhaliwal et al. (2021) similarly found that voluntary sustainability disclosures reduce implicit equity capital costs, which mechanically increases ROE as lower financing costs increase the net profit available to shareholders.

This effect has very relevant implications in the context of the Indonesian capital market. Since the launch of the IDX ESG Leaders Index in 2021, institutional investors have increasingly integrated ESG considerations into their portfolio allocation decisions. Companies with high ESG scores—which are reflected in the quality of sustainability disclosures tend to attract a more stable and long-term investor base, which in turn reduces volatility and the cost of equity capital.

It is important to note that the Leverage coefficient (DER) in the ROE model shows positive and significant values ( $\beta = 0.214$ ,  $p < 0.001$ ), in contrast to its negative mark in the ROA model. This reflects the effect of financial leverage: the use of higher debt can indeed depress net asset margins (ROA), but it can simultaneously leverage the return on equity (ROE) through the financial multiplier effect a pattern consistent with Modigliani-Miller's theory of capital structure under imperfect market conditions.

### **The Effect of Sustainability Disclosure on Company Value — Tobin's Q (H<sub>3</sub>)**

The strongest influence of sustainability reporting was observed on Tobin's Q ( $\beta = 0.312$ ,  $p < 0.001$ ), supporting H<sub>3</sub> and confirming that the capital market provides a significant valuation premium to companies with credible sustainability disclosures.

The higher magnitude of the effect on Tobin's Q compared to the accounting-based measures (ROA and ROE) is a finding rich in theoretical implications. This indicates that capital markets are more sensitive to sustainability reporting signals than operational efficiency metrics alone. The most plausible interpretation is that markets internalize the future value of intangible assets related to sustainability including brand reputation, social capital, quality of stakeholder relationships, and long-term resilience that are not fully reflected in conventional financial statements.

These findings are consistent with Purnama and Dinarjito (2023) and Velte (2021), who demonstrate that the quality of ESG disclosure is a significant predictor of market-based company value. From a signaling theory perspective, comprehensive sustainability reporting serves as a credible signal of management's commitment to long-term value creation, which in turn reduces information asymmetry between management and investors and lowers the level of discounts that the market applies to future cash flows.

The practical implications of these findings are particularly significant for Indonesian companies considering the adoption or enhancement of sustainability reporting: investment in sustainability reporting is not just a compliance cost, but rather a strategic investment with measurable returns in the form of increased market valuation.

### **The Role of Industry Type Moderation (H<sub>4</sub>)**

The most distinctive finding of the study is perhaps the confirmation of H<sub>4</sub>: that industry type significantly moderates the relationship between sustainability reporting and financial performance. Significant SDI interaction coefficients  $\times$  High-Impact Industries ( $\beta = 0.152$  for ROA;  $\beta = 0.138$  for ROE;  $\beta = 0.241$  for Tobin's Q; all  $p < 0.001$ ) indicate that companies in high-impact industries including mining, plantation, and heavy manufacturing benefit substantially greater financial performance from sustainability reporting than companies in lower-impact sectors.

This pattern is consistent with the argument of Wijaya and Setiawan (2022) that sustainability reporting is a more critical strategic asset in industries where environmental and social risks are more material. The most coherent interpretation includes several dimensions:

1. Legitimacy differentiation: In high-impact industries, comprehensive sustainability reporting differentiates companies from competitors operating to lower standards, creating a significant reputational advantage.
2. High exposure risk management: Mining and plantation companies face the risk of lawsuits, environmental liabilities, and much greater community rejection. Transparent reporting serves as a risk mitigation mechanism that directly increases the company's valuation.

Forward investment signals: For investors in extractive and heavy manufacturing sectors, the quality of sustainability reporting is a more reliable proxy for assessing management's ability to cope with the risks of the energy transition and increasingly stringent climate policies.

## V. CONCLUSIONS AND SUGGESTIONS

### Conclusion

This study provides comprehensive empirical evidence that sustainability reporting positively and significantly impacts financial performance across multiple dimensions for Indonesian public companies over the period 2015–2024. The panel data analysis demonstrates that companies with higher sustainability disclosure indices achieve superior ROA, ROE, and Tobin's Q, even after controlling for firm size, leverage, board governance, and industry characteristics. These findings hold robustly across different model specifications and across the ten-year observation period.

The most pronounced effect was found for Tobin's Q, indicating that capital markets place a premium on sustainability-reporting companies that exceeds the purely operational efficiency gains captured by accounting-based performance measures. This suggests that the financial value of sustainability reporting is partly forward-looking, reflecting investor expectations of lower future risks, stronger competitive positioning, and greater resilience to ESG-related regulatory changes.

The moderation analysis further reveals that the sustainability-performance link is significantly stronger in high-environmental-impact industries, underscoring the importance of context-specific sustainability strategies. Companies in mining, plantation, energy, and heavy manufacturing sectors derive disproportionately greater financial benefits from credible and comprehensive sustainability disclosures.

From a theoretical perspective, these findings validate the complementary explanatory power of stakeholder theory, legitimacy theory, and the resource-based view in the Indonesian sustainability reporting context. Practically, the results have important implications for corporate managers, investors, and policymakers in designing sustainability reporting frameworks that maximize value creation in the Indonesian capital market

### Suggestions

Based on the research findings, several recommendations are offered. First, corporate managers of IDX-listed companies particularly those in high-environmental-impact industries are encouraged to invest in comprehensive, GRI-aligned sustainability reporting systems as part of their core strategic management. The positive ROA and ROE effects confirm that sustainability reporting is not merely a compliance exercise but a genuine value creation mechanism.

Second, for the OJK and IDX, the findings provide strong empirical justification for strengthening sustainability reporting requirements for all listed companies, potentially through mandatory GRI-aligned disclosure standards similar to those implemented in Singapore and the European Union. The consistent positive financial performance effects across the ten-year observation period suggest that such requirements would benefit both individual companies and the overall capital market efficiency.

Third, for investors and analysts, sustainability disclosure indices should be integrated into financial valuation models as significant predictors of long-term financial performance, particularly for companies in environmental-sensitive sectors. The Tobin's Q findings suggest that current market

valuations may still underestimate the full economic value of superior sustainability reporting, presenting potential investment opportunities.

Finally, for future research, it is recommended to examine the causal mechanisms linking sustainability reporting to financial performance using quasi-experimental designs, such as the introduction of OJK Regulation 51/2017 as a natural experiment. Additionally, exploring the role of sustainability report assurance, external verification quality, and stakeholder engagement intensity as moderating variables would provide more granular insights into the sustainability-performance relationship in Indonesia.

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