

The Mediating Role of Profitability in the Relationship Between Sustainability Reporting and Firm Value in Indonesia's Energy Sector

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Abstract: This study examines the effect of sustainability reporting on firm value, with profitability as a mediating variable, among energy sector companies listed on the Indonesia Stock Exchange during 2020–2024. Sustainability reporting is measured using the Sustainability Report Disclosure Index (SRDI), profitability is proxied by Return on Assets (ROA), and firm value is measured using Price-to-Book Value (PBV). This study applies a quantitative approach using secondary data from annual financial statements and sustainability reports. The sample was selected through purposive sampling, resulting in 95 observations. Data analysis was conducted using multiple linear regression and mediation testing with the Sobel test. The results indicate that sustainability reporting has a positive and significant effect on profitability and firm value. Profitability also has a positive and significant effect on firm value. Furthermore, profitability significantly mediates the relationship between sustainability reporting and firm value, demonstrating a partial mediation effect. These findings suggest that sustainability reporting enhances firm value not only through positive market perceptions but also indirectly by improving corporate profitability. The novelty of this study lies in integrating sustainability reporting, profitability, and firm value within a mediation framework in Indonesia's energy sector during the 2020–2024 period. The findings highlight the importance of improving sustainability disclosure quality, transparency, and consistency while embedding sustainability practices into business strategies to strengthen financial performance, investor confidence, and long-term sustainable value creation.

Article history:

Received: 19 July 2026

Revised: 03 September 2026

Accepted: 27 September 2026

Published: 30 September 2026

Keywords:

Sustainability Reporting, Firm Value, Sustainability Report Disclosure Index (SRDI), Return on Assets (ROA), Price-to-Book Value (PBV)

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How to cite: Prayanti, K. R. D., Suci, N. M., & Yudiaatmaja, F. (2026). The Mediating Role of Profitability in the Relationship Between Sustainability Reporting and Firm Value in Indonesia's Energy Sector. *Jurnal Ekonomi, Manajemen, dan Bisnis*, 4(3), 1616–1626. <https://doi.org/10.70716/emis.v4i3.766>

INTRODUCTION

The inconsistency in previous findings regarding the relationship between sustainability reporting and firm value indicates that the effect of sustainability disclosure may not occur solely through a direct market response. Although sustainability reporting provides stakeholders with broader information regarding corporate responsibility and long-term commitments, investors may evaluate the actual economic implications of sustainability practices through measurable financial outcomes. Therefore, the relationship between sustainability reporting and firm value may involve a more complex process rather than a simple direct association. The economic consequences of sustainability reporting may first be reflected in companies' financial performance before ultimately influencing investors' perceptions of firm value. In this context, profitability represents an important mechanism that may explain how sustainability reporting is transformed into economic value.

Sustainability reporting requires companies to demonstrate their ability to manage environmental, social, and economic responsibilities in a structured and transparent manner. Through sustainability disclosure, companies communicate their strategies, policies, and performance related to sustainability issues, including environmental management, social responsibility, governance practices, and long-term business sustainability. The implementation of these practices may encourage

companies to improve operational efficiency, optimize resource utilization, reduce potential operational risks, strengthen relationships with stakeholders, and enhance corporate reputation. These improvements may contribute to better financial performance by reducing inefficiencies, increasing stakeholder support, and creating competitive advantages. Consequently, companies with stronger sustainability practices may have greater potential to achieve improved profitability.

Furthermore, profitability reflects a company's ability to generate earnings from its available resources and represents one of the important indicators considered by investors in evaluating corporate performance. Companies that demonstrate consistent profitability are generally perceived as having stronger operational capabilities and more effective management strategies. Therefore, improved profitability resulting from sustainability-oriented practices may provide additional evidence that sustainability reporting represents a substantive business strategy rather than merely a compliance activity. Subsequently, higher profitability provides a stronger indication of the company's ability to generate returns and utilize its resources efficiently, which may increase investor confidence and lead to a higher valuation in the capital market.

The mediating role of profitability can be further explained through the integration of signaling theory and agency theory. From the signaling perspective, sustainability reporting provides information about a company's commitment to responsible and sustainable business practices. In capital markets, companies often face information differences between internal management and external stakeholders. Sustainability reporting can function as a communication mechanism that reduces uncertainty by providing additional information regarding corporate strategies, risk management, and long-term value creation. However, sustainability disclosure alone may not be sufficient to influence investors' valuation decisions when such disclosure is not supported by observable financial outcomes.

Profitability can strengthen the credibility of the sustainability signal because it demonstrates that sustainability-oriented practices are not merely symbolic commitments but can be associated with the company's ability to generate economic benefits. When sustainability initiatives are followed by improved profitability, investors may interpret sustainability reporting as evidence of effective management and strategic capability. This interpretation can strengthen market confidence and contribute to higher firm valuation. From the agency perspective, sustainability reporting can reduce information asymmetry by providing stakeholders with broader information regarding management's activities and resource utilization. Transparent disclosure allows stakeholders to better evaluate whether management decisions align with long-term corporate objectives. Improved profitability subsequently provides an observable financial outcome that can further reduce uncertainty regarding management's effectiveness. Thus, sustainability reporting may influence firm value more strongly when it is accompanied by improved profitability.

Previous studies have examined the relationship between sustainability reporting and firm value, but their findings remain inconclusive. Some studies have documented a positive and significant relationship (Widyadi & Widiatmoko, 2023; Sadipun & Mildawati, 2022; Grewatsch & Kleindienst, 2021), whereas others have found no significant effect (Erkanawati, 2018; Sari & Wahidahwati, 2021; Putri & Mutumanikam, 2022). These inconsistencies suggest that the direct relationship between sustainability reporting and firm value does not fully explain the process through which sustainability practices create economic value. Differences in research findings may arise from variations in measurement approaches, industry characteristics, institutional environments, and the extent to which sustainability practices are integrated into corporate strategies.

Several studies have subsequently introduced financial performance or profitability as an intervening mechanism. Arif and Handayani (2024) found that profitability mediates the effects of environmental and social aspects on firm value, while Yasin et al. (2023) demonstrated that profitability mediates the relationship between sustainability reporting and firm value. Necib et al. (2024) also showed that profitability can function as a mechanism linking ESG practices to firm value. These

findings indicate that sustainability practices may generate economic value through internal improvements in corporate performance before being reflected in market valuation. Therefore, examining profitability as a mediating variable provides a more comprehensive understanding of the pathway through which sustainability reporting affects firm value.

Nevertheless, an important research gap remains. First, previous studies have predominantly focused on the direct effect of sustainability reporting or ESG practices on firm value, while fewer studies explicitly examine the complete causal mechanism in which sustainability reporting contributes to profitability and profitability subsequently affects firm value. Understanding this mechanism is important because sustainability reporting may create value through multiple channels, including operational efficiency, risk reduction, stakeholder trust, and financial improvement.

Second, although several studies have identified the mediating role of profitability, their research contexts, sustainability measures, and industry characteristics differ, limiting the generalizability of their findings to Indonesia's energy sector. Different industries face different sustainability challenges and stakeholder expectations, meaning that the economic implications of sustainability reporting may vary across sectors. Therefore, empirical evidence from specific industries is necessary to understand how sustainability disclosure operates within particular business environments.

Third, the energy sector presents a particularly relevant context because its operations are closely associated with environmental impacts, resource utilization, energy transition pressures, and substantial stakeholder scrutiny. Energy companies face increasing demands from regulators, investors, communities, and other stakeholders to demonstrate responsible resource management and sustainable business practices. In this context, sustainability reporting becomes an important tool for communicating corporate responses to environmental and social challenges. However, whether these sustainability efforts can generate economic benefits and enhance firm value through improved profitability remains an empirical question that requires further investigation.

Accordingly, this study addresses the research gap by positioning profitability as an explicit mediating variable between sustainability reporting and firm value. The proposed mechanism is that higher-quality sustainability reporting improves corporate transparency and stakeholder confidence while encouraging more effective management of environmental, social, and economic resources. These improvements are expected to contribute to higher profitability through better operational performance, stronger stakeholder relationships, and improved corporate reputation. Increased profitability then provides a tangible financial signal of corporate performance and resource efficiency, which can strengthen investor confidence and ultimately increase firm value.

In other words, the study proposes a sequential relationship in which sustainability reporting influences profitability, profitability influences firm value, and sustainability reporting may consequently affect firm value indirectly through profitability. This approach provides a broader perspective by explaining not only whether sustainability reporting affects firm value but also how such an effect occurs within corporate financial mechanisms.

Based on this framework, the novelty of this study lies not merely in examining the direct relationship between sustainability reporting and firm value, but in explaining the financial mechanism through which sustainability reporting can contribute to firm value by positioning profitability as a mediating variable. The study further contributes empirical evidence from energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period, a context characterized by increasing sustainability pressures and significant environmental and social risks. By integrating signaling theory and agency theory, this study provides a more comprehensive explanation of how sustainability disclosure can move beyond its informational function and contribute to measurable financial performance and market valuation.

Therefore, this study aims to examine the effect of sustainability reporting on profitability and firm value, the effect of profitability on firm value, and the mediating role of profitability in the

relationship between sustainability reporting and firm value among energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

RESEARCH METHOD

This study employed a quantitative approach with a causal-associative and explanatory research design. The study aimed to examine the relationships among sustainability reporting, profitability, and firm value. Sustainability reporting was positioned as the independent variable, profitability as the mediating variable, and firm value as the dependent variable. This study used secondary data obtained from companies' annual reports and sustainability reports for the 2020–2024 period. The population consisted of 91 energy sector companies listed on the Indonesia Stock Exchange (IDX). The sample was selected using purposive sampling based on predetermined criteria. This sampling technique was applied because not all companies in the population provided complete and comparable information required to measure sustainability reporting, profitability, and firm value consistently throughout the observation period. The criteria included energy sector companies listed on the IDX during the 2020–2024 period, companies that published annual reports and/or sustainability reports containing the information required for the study variables, and companies with complete financial data needed to calculate ROA and PBV. Based on these criteria, 19 companies were selected, yielding 95 firm-year observations over the five-year study period.

Sustainability reporting was measured using the Sustainability Report Disclosure Index (SRDI) based on 91 indicators derived from the Global Reporting Initiative (GRI) G4 framework. The GRI G4 indicators were selected because they provide a structured and comprehensive framework for assessing corporate sustainability disclosures across economic, environmental, and social dimensions. The use of standardized indicators also enables the extent of sustainability disclosure to be assessed consistently across companies and observation periods. The SRDI was calculated through content analysis of the sustainability information disclosed in the companies' annual reports and sustainability reports. The content analysis involved identifying each of the 91 predetermined GRI G4 indicators in the relevant corporate reports. Each indicator that was explicitly disclosed and contained relevant information was assigned a score of 1, whereas an indicator that was not disclosed was assigned a score of 0. The scores were then summed and divided by the total number of applicable indicators to obtain the SRDI score for each company-year observation. A higher SRDI score indicates a greater extent of sustainability information disclosed by the company.

Profitability was measured using Return on Assets (ROA), which reflects the company's ability to generate profit from the assets it controls. Firm value was measured using Price to Book Value (PBV), which reflects the market's valuation of a company relative to its book value. These measures were selected because ROA provides an accounting-based indicator of financial performance, while PBV captures the market's perception of corporate value.

Data analysis was conducted using SPSS. Prior to hypothesis testing, classical assumption tests were performed, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The relationships among the variables were then analyzed using path analysis through two regression models. The first regression model examined the effect of sustainability reporting on profitability. The second regression model examined the effects of sustainability reporting and profitability on firm value. This two-equation approach was employed to identify both the direct relationships among the variables and the indirect effect of sustainability reporting on firm value through profitability. Hypothesis testing was conducted at a 5% significance level.

The mediating role of profitability was examined using the Sobel test. The Sobel test was selected because the research model specifically seeks to determine whether the effect of sustainability reporting on firm value is transmitted through profitability. The test evaluates whether the indirect effect represented by the product of the path from sustainability reporting to profitability and the path from profitability to firm value is statistically significant. Thus, the Sobel test provides a

basis for determining whether profitability functions as a statistically significant intervening mechanism between sustainability reporting and firm value. The nature of the mediation effect was subsequently assessed using the Variance Accounted For (VAF). A VAF value above 80% indicates full mediation, a value between 20% and 80% indicates partial mediation, and a value below 20% indicates no mediation effect.

RESULT AND DISCUSSION

This study used 95 observations from 19 energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Firm value, as measured by *Price to Book Value* (PBV), had an average value of 1.09433. This indicates that, on average, energy sector companies had market values exceeding their book values, although market valuations varied across companies depending on their respective conditions and prospects. Profitability, as measured by *Return on Assets* (ROA), had an average value of 0.06989, or approximately 6.99%. This result indicates that, in general, the energy sector companies in the sample were able to generate profits from their assets. Meanwhile, sustainability reporting had an average disclosure level of 0.26158, or approximately 26.16%. This relatively low level indicates that sustainability disclosure among the sampled companies remained limited. This condition suggests that the growing attention to sustainability reporting has not yet been fully accompanied by a high level of disclosure among energy sector companies. Prior to hypothesis testing, the model was subjected to classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The results confirmed that all required assumptions were satisfied, indicating that the model was appropriate for further analysis.

Table 1. Summary of Hypothesis Testing Results

Relationship			B	Beta	T-statistic	p-value	Result
Sustainability	Sustainability	Reporting → Firm Value	2.305	0.322	3.141	0.002	Significant
Sustainability	Reporting → Profitability		0.587	0.637	7.960	0.000	Significant
Profitability	→ Firm Value		3.084	0.397	3.875	0.000	Significant

The results show that sustainability reporting has a positive and significant effect on firm value, with a regression coefficient of 2.305 and a significance value of 0.002. This finding indicates that greater sustainability disclosure is associated with higher firm value among energy sector companies. Sustainability disclosure provides investors with broader information to assess how companies manage the impacts and risks arising from their operational activities. This is particularly important in the energy sector, where production, exploration, and resource utilization activities are closely associated with environmental and social risks. Information regarding emissions management, waste management, land reclamation, occupational safety, energy efficiency, and regulatory compliance can assist investors in assessing a company's ability to maintain long-term business sustainability.

This finding is consistent with *signaling theory*, which explains that information disclosed by companies can serve as a signal for investors in assessing corporate conditions and prospects. Greater sustainability disclosure provides signals regarding transparency, corporate responsibility, and the company's ability to manage long-term risks. Such signals can reduce information uncertainty and strengthen investor confidence. When investors perceive that a company has better risk management and more sustainable business prospects, their interest in the company's shares may increase, which can subsequently be reflected in higher firm value.

This result is consistent with Velte (2022) and Whelan et al. (2021), who explain that sustainability disclosure can enhance investor valuation by reflecting a company's ability to manage risks, maintain its reputation, and create long-term value. The finding is also supported by Sadipun and Mildawati (2022); Atmadja and Saputra (2021); and Ramadhani and Nugroho (2024), who reported a positive effect of sustainability disclosure on firm value. This finding also helps explain the research

phenomenon in which increased sustainability disclosure does not always move in the same direction as changes in PBV for every company and in every period. The positive relationship identified in this study reflects an overall tendency, while market responses to individual companies may still be influenced by information quality, financial conditions, business risks, and corporate prospects. Therefore, sustainability reporting is likely to provide greater value to the market when the disclosed information reflects credible sustainability practices that are relevant to long-term business continuity.

Sustainability reporting also has a positive and significant effect on profitability. The regression coefficient of 0.587, with a significance value of 0.000, indicates that greater sustainability disclosure is associated with an increased ability of companies to generate profits. This finding suggests that the benefits of sustainability are not limited to how companies are perceived by the market but may also be associated with their financial performance. Sustainability reporting in this study covers disclosures related to economic, environmental, and social aspects. More extensive disclosure may reflect greater corporate attention to resource management, environmental risks, occupational safety, and stakeholder relations. In the operational context of the energy sector, such practices may support more efficient use of energy and raw materials, reduce the risk of operational disruptions, and minimize potential costs arising from environmental and social issues. Improved efficiency and risk management may ultimately strengthen the company's ability to generate profits and improve ROA.

This relationship is consistent with *stakeholder theory*, which places corporate sustainability within the context of a company's relationships with its various stakeholders. Companies that are able to address the expectations of investors, employees, communities, customers, and regulators may gain support that contributes to the continuity of their business activities. *Legitimacy theory* further explains that companies require social acceptance to sustain their operations. For energy sector companies with relatively high environmental and social exposure, such legitimacy is particularly important for reducing conflicts, maintaining a social license to operate, and preserving relationships with relevant stakeholders.

This finding is consistent with Yulianty and Nugrahanti (2020); Yuniarta and Sinarwati (2021); and Dewi and Sudana (2022), who found that sustainability reporting has a positive effect on profitability. The result is also supported by Velte (2022) and Zhang et al. (2022), who explain that sustainability practices may contribute to financial performance through resource efficiency, risk management, and improved governance. However, this study did not separately examine changes in costs, revenues, or operational efficiency. Therefore, these mechanisms provide a theoretical explanation for the observed relationship, while the empirical evidence of this study specifically demonstrates a positive association between the level of sustainability disclosure and ROA.

The results further indicate that profitability has a positive and significant effect on firm value. The regression coefficient of 3.084, with a significance value of 0.000, indicates that higher profitability is associated with higher firm value. High profitability reflects the company's ability to generate earnings by effectively utilizing its assets. This condition fosters positive investor perceptions of the company's performance and future prospects. Increased investor confidence may stimulate demand for the company's shares, which can subsequently be reflected in higher share prices and firm value, as measured by *Price to Book Value (PBV)*. Thus, the company's ability to generate profits serves as an important consideration for investors when assessing firm value.

This finding further supports *signaling theory*. High profitability provides a positive signal regarding a company's ability to generate earnings and maintain its financial performance. In the energy sector, this signal becomes particularly important given the volatility of commodity prices, substantial capital requirements, and high operational and regulatory risks faced by companies. The ability to maintain profitability indicates that a company has the capacity to manage its resources effectively and respond to industry dynamics. This condition can strengthen investor expectations regarding the company's future prospects and ultimately enhance its market valuation.

This result is consistent with Suarmanayasa (2018); Rachmat et al. (2019); and Putra and Suarmanayasa (2021), who found that profitability has a positive effect on firm value. The finding is also supported by Velte (2022); Zhang et al. (2022); and Gamar and Widoretno (2024), who demonstrate that profitability reflects the effectiveness of resource management and a company's ability to create value. Therefore, the ability to generate profits not only reflects a company's internal performance but also provides an important basis for investors in forming expectations regarding its future prospects and value.

The relationships among these three variables provide the basis for explaining the role of profitability as a mechanism linking sustainability reporting to firm value.

Table 2. Results of the Profitability Mediation Test

Test	Result	Integretation
Direct Effect: Sustainability Reporting → Firm Value	0.322	Positive and significant
Indirect Effect through Profitability	0.253	Positive and significant
Total Effect	0.575	-
Sobel Test Statistic	3.481	Significant
Two-tailed Probability	0.000499	< 0.05
Variance Accounted For (VAF)	44%	Partial Mediator

The mediation test results indicate that the Sobel test statistic was 3.481 with a two-tailed probability of 0.000499, confirming that the indirect effect of sustainability reporting on firm value through profitability is statistically significant. The VAF value of 44% indicates partial mediation, meaning that profitability explains part, but not all, of the relationship between sustainability reporting and firm value. In other words, sustainability reporting affects firm value through two pathways: a direct pathway and an indirect pathway through profitability. The direct effect of sustainability reporting on firm value remains significant after profitability is included in the model, while the significant indirect effect shows that improved profitability also contributes to the transmission of sustainability reporting benefits to firm value.

The finding of partial mediation indicates that the effect of sustainability reporting on firm value cannot be explained solely by improvements in profitability. Sustainability disclosure may directly influence investors' perceptions by providing information about environmental, social, risk management, and governance practices. At the same time, sustainability-related practices may contribute to better profitability through more efficient resource management, improved risk management, and stronger stakeholder relationships. The resulting improvement in profitability then provides an additional financial signal that can strengthen investor confidence and increase firm value. Therefore, profitability functions as an important but not exclusive mechanism through which sustainability reporting contributes to firm value.

This result is consistent with Yulianty and Nugrahanti (2020), who found that profitability can serve as an intervening variable in the relationship between sustainability reporting and firm value. Dewi and Sudana (2022) similarly demonstrated that ROA can mediate the relationship between sustainability reporting and firm value. Lestari and Wahyudi (2023) further supported this finding by demonstrating the partial mediating role of profitability in the relationship between ESG disclosure and firm value. These findings reinforce the argument that sustainability reporting creates firm value not only through direct market responses to non-financial information but also through its association with financial performance.

Thus, the mediation result strengthens the overall model by demonstrating that sustainability reporting has both a direct effect on firm value and an indirect effect through profitability. The partial mediation also implies that energy sector companies should not view sustainability reporting merely as a disclosure requirement. Instead, sustainability practices should be integrated into operational and business strategies so that they can contribute to improved profitability while simultaneously strengthening transparency, investor confidence, and long-term firm value.

However, the partial nature of the mediation indicates that profitability is not the only mechanism linking sustainability reporting to firm value. Investors may also respond directly to information concerning emissions management, environmental compliance, occupational safety, land reclamation, corporate governance, and social risks, even when the economic benefits of these practices have not yet been fully reflected in current earnings. Such information can reduce perceived risks and strengthen investor confidence in the company's prospects. This explains why sustainability reporting continues to have a direct effect on firm value even after profitability is taken into account.

This finding is consistent with Yulianty and Nugrahanti (2020), who found that profitability can serve as an intervening variable in the relationship between sustainability reporting and firm value. Dewi and Sudana (2022) similarly demonstrated that ROA can mediate the relationship between sustainability reporting and firm value. The findings of Lestari and Wahyudi (2023) further support the results of this study by demonstrating the partial mediating role of profitability in the relationship between ESG disclosure and firm value. These consistent findings indicate that the benefits of sustainability reporting for firm value are not generated solely through investors' direct responses to non-financial information, but are also partly transmitted through improvements in financial performance.

Overall, the findings demonstrate an interconnected mechanism among sustainability reporting, profitability, and firm value. Greater sustainability disclosure can generate a positive direct market response while also being associated with increased profitability. Profitability, in turn, strengthens investors' valuation of the company and serves as one of the mechanisms through which sustainability reporting affects firm value. These findings indicate that the value of sustainability lies not only in the information disclosed to the public but also in a company's ability to translate its sustainability commitments into tangible economic benefits. Therefore, energy sector companies need to integrate sustainability into their business strategies and operational activities so that sustainability disclosure goes beyond mere compliance with reporting requirements and contributes to stronger financial performance, investor confidence, and sustainable firm value.

CONCLUSION

This study concludes that sustainability reporting has a positive and significant effect on both firm value and profitability, while profitability has a positive and significant effect on firm value among energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Profitability also partially mediates the effect of sustainability reporting on firm value, with a VAF value of 44%. These findings indicate that sustainability reporting can enhance firm value through two pathways: directly through investors' positive responses to corporate transparency and sustainability commitments, and indirectly through increased profitability. Thus, value creation in the energy sector depends not only on a company's ability to disclose sustainability information but also on its ability to translate sustainability practices into economic benefits reflected in financial performance.

The findings provide several practical implications for energy sector companies. Companies should improve the quality of sustainability reporting by ensuring that disclosures are complete, consistent, transparent, and supported by measurable information. In particular, companies should disclose clear and comparable information regarding their environmental impacts, energy and resource consumption, emissions, employee and community programs, governance practices, sustainability targets, and progress toward achieving those targets. Companies should also maintain consistency in reporting these indicators across reporting periods so that investors and other stakeholders can evaluate changes in sustainability performance over time. Where possible, sustainability information should be supported by quantitative indicators, specific targets, and explanations of the company's actual achievements rather than relying primarily on general qualitative statements.

Furthermore, sustainability reporting should be integrated into the company's core business and operational strategies rather than treated merely as a compliance or reporting requirement. Energy

sector companies can strengthen this integration by linking sustainability targets with operational efficiency, resource management, risk management, and financial performance. Such an approach can help companies translate sustainability initiatives into economic benefits, thereby improving profitability while simultaneously strengthening stakeholder confidence and firm value. Management should therefore establish clear internal responsibilities for sustainability reporting, coordinate sustainability information across relevant departments, and periodically evaluate the achievement of sustainability targets to ensure that reported information reflects actual corporate performance.

For investors, the findings suggest that sustainability reporting should be considered together with profitability when assessing corporate performance, risks, and long-term prospects. Sustainability disclosure provides information about the company's non-financial performance and commitments, while profitability indicates the extent to which corporate resources and sustainability-related strategies generate financial outcomes.

Future research may extend the model by incorporating other determinants of firm value, such as firm size, capital structure, leverage, corporate governance, and corporate risk. Further studies may also expand the research period and sector coverage, employ panel data analysis, and use more recent sustainability measurement frameworks, such as updated GRI Standards or ESG indicators, to provide a more comprehensive assessment of corporate sustainability practices.

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