

Bridging Disclosure and Value: The Mediating Role of ESG Performance in Indonesian Manufacturing Firms

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Abstract: This research seeks to empirically analyze and assess how Environmental, Social, and Governance (ESG) performance acts as a mediator in the structural linkage between sustainability reporting and corporate value, focusing on manufacturing firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2025. Amid escalating global demands for corporate transparency and the enforcement of national sustainable finance mandates, notably POJK No. 51/POJK.03/2017, understanding the economic efficacy of non-financial disclosures is paramount. Utilizing a quantitative explanatory framework, this paper analyzes secondary panel data from a balanced sample of 45 manufacturing companies meeting strict disclosure requirements. Data analysis and hypothesis evaluation were performed through Partial Least Squares Structural Equation Modeling (PLS-SEM) utilizing SmartPLS software. The empirical results demonstrate that sustainability disclosures have a direct, positive, and statistically significant impact on both operational ESG performance and market valuation indicators. Furthermore, the analysis confirms that ESG performance functions as a vital partial mediator, demonstrating that sustainability disclosures translate into maximized shareholder wealth and market capitalization more effectively when they are genuinely underpinned by substantive internal operational improvements. Theoretically, these outcomes reinforce stakeholder theory and signaling theory within emerging market economies. Practically, the insights provide strategic guidance for corporate management to prioritize authentic sustainability execution over superficial compliance, assist institutional investors in refining fundamental risk assessments, and offer actionable frameworks for regulatory authorities.

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INTRODUCTION

Over the past decade, global enterprises have increasingly prioritized sustainability issues at the core of their strategic focus and financial landscape, fundamentally altering how corporations design long-term strategies and interact with their operational ecosystems. Companies are no longer evaluated solely based on traditional financial indicators or short-term profitability metrics, but also on how effectively they manage and mitigate their environmental, social, and governance (ESG) impacts. In Indonesia, this paradigm shift toward sustainable business practices has been substantially catalyzed by progressive regulatory developments, most prominently Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, which mandates sustainable finance practices for financial institutions, issuers, and public companies. This regulatory framework, combined with escalating pressure from institutional investors, global supply chains, and civil society, demands unprecedented levels of transparency regarding corporate non-financial activities. Furthermore, empirical evidence demonstrates that mandatory non-financial disclosures significantly shape capital market reactions and investor valuations (Grewal et al., 2019). Consequently, sustainability reports have evolved from peripheral corporate pamphlets into crucial operational and communication media through which

companies demonstrate genuine adherence to social welfare, environmental preservation, and ethical governance.

Despite significant regulatory compliance and widespread adoption across emerging markets, the exact economic efficacy of sustainability reporting in generating tangible shareholder and firm value remains a subject of ongoing academic debate. A substantial body of literature suggests that transparent sustainability reporting positively influences firm value by mitigating information asymmetry, elevating corporate reputation, and optimizing investor perceptions (Velte, 2023; Ahmed et al., 2022). This positive association is further reinforced by empirical findings demonstrating that proactive non-financial disclosure lowers capital constraints and fosters long-term market confidence (Dhaliwal et al., 2011; Lopatta et al., 2020). Nevertheless, conflicting empirical evidence demonstrates that the direct relationship between reporting and market valuation can often be ambiguous, weak, or strictly conditional upon industry characteristics and the rigorous quality of internal execution (Aboud & Diab, 2020; Przychodzen & Przychodzen, 2020). These conflicting perspectives point toward a critical missing link: external disclosures alone do not automatically translate into economic value unless they are underpinned by substantive, measurable internal improvements in operational sustainability (Fatemi et al., 2018; Velte, 2017).

This theoretical ambiguity highlights the presence of intervening operational mechanisms that bridge corporate intention and market reaction specifically, Environmental, Social, and Governance (ESG) practices, which reflect the actual realization of sustainability commitments within the firm. Within the manufacturing sector, where production processes carry heavy ecological footprints and extensive stakeholder liabilities, managing ESG risks is paramount for sustaining competitive advantages (Lu & Wang, 2022). Furthermore, systematic sustainability reporting acts as an internal governance catalyst that motivates manufacturing firms to enhance energy efficiency, strengthen labor standards, and optimize environmental risk management (Manita et al., 2018; Albitar et al., 2020). When firms successfully elevate their actual ESG practices, institutional investors respond favorably, viewing strong ESG scores as reliable proxies for organizational resilience and reduced crisis-period vulnerability (Broadstock et al., 2021; Buallay, 2022). Hence, ESG performance functions not merely as a descriptive non-financial score, but as a vital transmission channel that converts external reporting transparency into concrete market capitalization and enhanced investment efficiency (Li et al., 2023).

This research seeks to address this empirical and theoretical void by examining the mediating function of ESG performance within the structural linkage between sustainability disclosures and corporate value, with a specific focus on manufacturing firms listed on the Indonesia Stock Exchange (IDX) across the 2020–2025 timeframe. Theoretically, this paper advances existing literature by combining stakeholder theory (Freeman, 1984) and signaling theory (Spence, 1973) within a unified structural mediation model tailored for emerging market economies. Empirically, it addresses the unique contextual dynamics of Indonesia's manufacturing sector, where post-pandemic industrial recovery and green economic transitions place intense scrutiny on corporate accountability (Widyastuti et al., 2024). From a practical standpoint, the empirical insights generated are expected to guide corporate management in prioritizing substantive ESG execution over cosmetic compliance, assist investors in refining fundamental risk assessments, and provide regulatory authorities with actionable data to combat greenwashing and standardize disclosure frameworks.

Based on the preceding conceptual elaboration, the primary research questions of this study examine whether sustainability disclosures exert a direct impact on corporate value, significantly influences ESG performance, and whether ESG performance directly influences firm value or acts as a mediating variable between sustainability reporting and firm value. Correspondingly, the specific research objectives are designed to analyze and quantify the direct effect of sustainability reporting on firm value, while assessing how sustainability reporting drives improvements in ESG performance, examine the direct economic implications of ESG performance on market valuation metrics, and

identify and evaluate the mediating function of ESG performance in bridging sustainability disclosure and firm value creation.

The empirical scope of this study is strictly confined to manufacturing enterprises listed on the Indonesia Stock Exchange that maintained consistent sustainability disclosures during the 2020-2025 period, capturing the complex regulatory and economic shifts characterizing Indonesia's capital market.

Sustainability reporting reflects a corporate entity's persistent focus on transparency, governance accountability, and social stewardship. Such disclosures operate not merely as an external communication mechanism, but also as a strategic signal to investors concerning the firm's operational stability and long-term viability. According to Velte (2023) in the *Journal of Business Ethics*, the quality of sustainability reporting is positively associated with firm value because it reduces information asymmetry and enhances investor trust. This finding aligns with evidence from emerging markets reported by Ahmed et al. (2022) in the *Sustainability Accounting, Management and Policy Journal*, which demonstrates that sustainability reporting practices contribute to increasing firm value through improved reputation and market confidence. In the Indonesian context, Wulandari and Pratama (2022), writing in the *Jurnal Akuntansi dan Keuangan Indonesia*, also found that a higher level of sustainability disclosure in the manufacturing sector leads to an increase in firm valuation metrics. These findings collectively reinforce the view that sustainability reporting constitutes an integral component of a firm's long-term value creation strategy.

Sustainability reporting serves as a mechanism for companies to structure and evaluate the integration of environmental, social, and governance (ESG) standards. According to Manita et al. (2018) in the *Journal of Business Research*, systematic sustainability disclosure encourages improvements in ESG performance, as firms become more motivated to mitigate environmental impacts, enhance social welfare, and strengthen governance practices. Furthermore, Albitar et al. (2020), writing in *Business Strategy and the Environment*, found that high-quality sustainability reporting is positively correlated with ESG scores because such reporting reinforces the integration of sustainability principles into managerial and operational policies. In the national context, Sari and Yuliana (2023) in the *Jurnal Akuntansi dan Keuangan Kontemporer* demonstrated that the level of transparency in sustainability reporting significantly influences ESG scores measured by standardized evaluation indices. Therefore, sustainability reporting acts as an initiating mechanism for enhancing ESG performance, which in turn serves as a critical linkage between reporting activities and firm value creation.

ESG performance reflects the extent to which a company manages sustainability-related risks and opportunities that are relevant to its economic value. ESG functions beyond a mere non-financial measure, acting as a strategic driver of investor sentiment, cost of capital, and corporate reputation. Chen and Xie (2022) found that enhanced ESG disclosure alignment significantly boosts firm valuation through institutional investor backing. Broadstock et al. (2021), in the *British Accounting Review*, revealed that companies with stronger ESG performance maintain more resilient market outcomes, particularly during crisis periods. Similarly, Buallay (2022), writing in the *academic journal Corporate Governance: The International Journal of Business in Society*, reported that strong ESG performance enhances operational efficiency and strengthens institutional investor confidence, primarily through green innovation and sound governance practices. Complementing this evidence, Li et al. (2023) in the *Asia-Pacific Journal of Accounting & Economics* confirmed that ESG performance contributes to increased firm value by reducing reputational risk and improving investment efficiency. In the Indonesian context, Tanjung and Lestari (2022) in the *Jurnal Akuntansi dan Bisnis* found a positive linkage between ESG performance and Tobin's Q, reinforcing empirical evidence that sustainability performance represents a strategic factor in augmenting a firm's market capitalization.

According to the mediation hypothesis, the relationship between sustainability reporting and firm value operates not solely as a direct path, but rather through the indirect mechanism of upgraded ESG performance. Signaling theory and stakeholder theory both support the position of ESG as a

bridge linking sustainability reporting practices with perceptions of corporate value. According to Rezaee and Tuo (2021) in the *Journal of Corporate Finance*, ESG plays a central role in converting reporting activities into tangible economic value. They found that disclosure quality enhances firm value only when supported by strong ESG performance. Similarly, Lu and Wang (2022), in the *International Review of Financial Analysis*, confirmed that ESG mediates the relationship linking sustainability reporting to organizational performance, particularly in manufacturing and environmentally sensitive industries. Within the Indonesian setting, Widyastuti et al. (2024) in the *Jurnal Akuntansi dan Keuangan Terapan* also demonstrated that ESG partially mediates the association between environmental transparency and corporate value, indicating that ESG performance amplifies the reputational effects generated by sustainability reporting.

Based on the findings of previous studies, it can be concluded that the relationship among sustainability reporting, ESG performance, and firm value generally exhibits a positive and significant pattern. However, most prior research has predominantly emphasized direct relationships, while the mediating mechanism of ESG remains relatively underexplored in the Indonesian manufacturing sector particularly in the post-pandemic period, which is characterized by heightened pressure on corporate sustainability and governance practices.

This research expands current literature by embedding sustainability reporting and ESG performance within a unified empirical mediation framework grounded in stakeholder and signaling theories, utilizing recent data from 2020 to 2025 sourced from manufacturing enterprises listed on the Indonesia Stock Exchange, while analyzing both direct and indirect pathways through the Structural Equation Modeling Partial Least Squares (SEM-PLS) methodology to strengthen the theoretical model's validity. Based on theory and previous research findings, the research hypotheses are formulated such that H1 states sustainability reporting exerts a statistically significant and positive influence on corporate value, H2 proposes that sustainability reporting significantly and positively impacts ESG performance, H3 indicates that ESG performance drives a favorable and reliable increase in market valuation, and H4 proposes that ESG performance serves as a mediator between sustainability reporting and firm value.

RESEARCH METHOD

Research Design

This study employs a quantitative explanatory research design, utilizing secondary panel data extracted from official annual reports and sustainability reports. The 2020–2025 timeframe was selected because it represents a crucial period that captures the post-pandemic economic recovery phase as well as the evolving dynamics of the regulatory landscape regarding corporate accountability and sustainable finance initiatives in developing countries.

Population and Sample

This study focuses on the target population of manufacturing companies actively listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 period. Using purposive sampling criteria, a balanced panel sample of 45 manufacturing companies that met all requirements for complete data disclosure was selected for analysis. The utilization of a balanced panel dataset over this six-year timeframe ensures that each cross-sectional unit (company) is observed across all time periods without missing data points, thereby maintaining data integrity and degrees of freedom for panel-based structural estimations.

Operational Definitions of Variables

To ensure high replicability, the variables examined in this study are explicitly defined and operationalized as follows. The independent variable, Sustainability Reporting (X), is measured via content analysis based on global disclosure metrics (such as Global Reporting Initiative /GRI Standards) combined with local regulatory disclosure items mandated by POJK No. 51/POJK.03/2017. This content analysis employs a binary coding scheme scoring 1 if a specific indicator item is disclosed and

0 if omitted to construct a Sustainability Disclosure Index (SDI), which is calculated as the total score obtained by a firm divided by the maximum expected items to provide a standardized non-financial evaluation reflecting environmental, social, and governance communication quality.

Furthermore, the mediator variable (M) represents ESG Performance, evaluated using composite ESG disclosure ratings and performance indices compiled from independent ESG performance data provider metrics or Bloomberg/Refinitiv composite scores applicable to Indonesian publicly listed firms, thereby capturing actual substantive internal operational execution rather than mere reporting text. Finally, the dependent variable (Y) is Firm Value, which is proxied specifically by Tobin's Q , calculated as the sum of the market value of equity (closing share price multiplied by total shares outstanding) plus total debt, divided by total assets, serving as the definitive market-to-book valuation metric representing investor expectations and overall firm market capitalization.

Data Analysis Techniques

Data analysis and hypothesis testing utilized Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS software. PLS-SEM is highly advantageous for handling complex predictive models involving multiple latent constructs, reflective indicators, and mediating paths without requiring strict multivariate normality assumptions in underlying data distributions. Because the research utilizes a balanced panel dataset spanning 2020–2025 (pooling cross-sectional observations over time), the structural estimation controls for potential temporal dynamics by pooling company-year observations ($N \times T = 45 \times 6 = 270$ observations), treating structural relationships stably across the post-pandemic recovery window while evaluating pooled latent variance.

The evaluation framework follows a rigorous two-stage protocol. First, the Outer Model Assessment is evaluated for convergent validity through outer loadings (≥ 0.7) and Average Variance Extracted ($AVE \geq 0.5$), alongside internal consistency reliability established via composite reliability (≥ 0.7). Second, the Inner Model Assessment is evaluated by examining structural path coefficients (β), explanatory power (R^2), predictive relevance (Q^2), and bootstrapping significance assessed through t -values and p -values ($p < 0.05$).

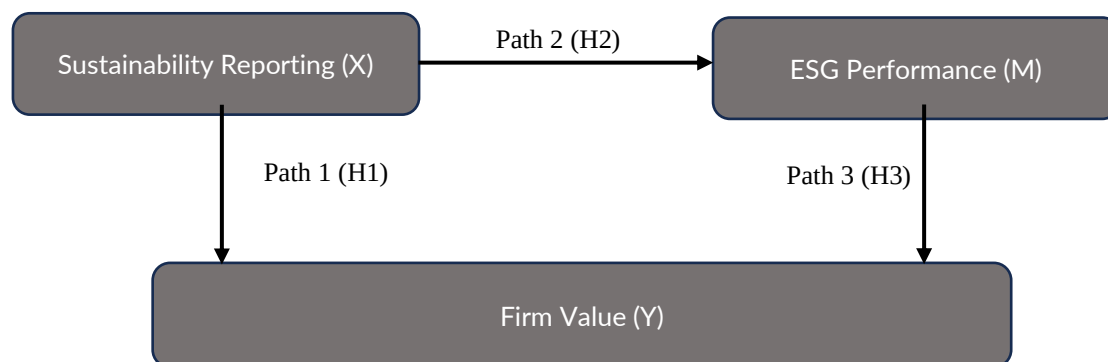


Figure 1. Structural Research Model for Direct and Mediating Pathways

Source: Based on the author's data processing

*Note: Path 4 (H4) examines the indirect effect of Sustainability Reporting (X) on Firm Value (Y) through ESG Performance (M).

RESULTS AND DISCUSSION

Results

Based on the analysis of 45 publicly listed manufacturing corporations operating on the Indonesia Stock Exchange (IDX) throughout the 2020–2025 timeframe, the descriptive analysis demonstrates an escalating pattern of annual sustainability disclosures, signaling enhanced corporate conformity with the mandates of POJK Regulation No. 51/POJK.03/2017. The average ESG disclosure

index reflects an upper-moderate score, where the environmental dimension demonstrates the most prominent progress particularly in energy efficiency and waste management while governance dimensions remain stable. Prior to structural evaluation, an outer model assessment was conducted to verify the reliability and validity of the constructs. Convergent validity was evaluated through outer loadings and Average Variance Extracted (AVE). As presented in Table 1, every indicator demonstrates outer loading values exceeding the established threshold of 0.7, ranging from 0.752 to 0.889 for Sustainability Reporting, 0.721 to 0.867 for ESG Performance, and 0.768 to 0.904 for Firm Value. Furthermore, the AVE values for all constructs 0.611 for Sustainability Reporting, 0.583 for ESG Performance, and 0.652 for Firm Value exceed the minimum criterion of 0.5. Internal consistency reliability is also established, evidenced by Composite Reliability (CR) coefficients of 0.894, 0.879, and 0.901, respectively, each exceeding the 0.7 benchmark.

Regarding reliability, the Composite Reliability (CR) coefficients likewise exhibit robust internal consistency, with coefficients of 0.894, 0.879, and 0.901, with every coefficient outperforming the standard 0.7 requirement, thereby affirming that the respective indicators reliably reflect a unified underlying dimension. Furthermore, discriminant validity was evaluated through the Fornell–Larcker criterion to verify that each construct shares a greater variance with its designated indicators than with any other construct. Overall, these results indicate that the measurement model exhibits sufficient validity and reliability to support rigorous structural model evaluation. Thus, the measurement indicators used for Sustainability Reporting, ESG Performance, and Firm Value are empirically sound and appropriate for application in structural model evaluation.

Table 1. Outer Model Evaluation

Construct	Indicator Range	Outer Loading (≥ 0.7)	AVE (≥ 0.5)	Composite Reliability (≥ 0.7)
Sustainability Reporting (SR)	SR1–SR5	0.752–0.889	0.611	0.894
ESG Performance (ESG)	ESG1–ESG6	0.721–0.867	0.583	0.879
Firm Value (FV)	FV1–FV3	0.768–0.904	0.652	0.901

Source: Based on the author's data processing

Every outer loading coefficient surpasses 0.7, while all Average Variance Extracted (AVE) figures exceed 0.5, thereby demonstrating satisfactory convergent validity. Moreover, all constructs meet the reliability thresholds, confirming internal consistency. The inner model is used to evaluate the hypothesized associations among the study variables via the evaluation of path coefficients and the coefficient of determination (R^2), and the significance levels obtained from bootstrapping. Referring to the statistical evaluation summarized in Table 2, all hypothesized relationships are significant, with p-values below 0.05. The direct association between Sustainability Reporting (SR) and Firm Value (FV) (H1) reveals a path coefficient of 0.285, accompanied by a t-statistic of 2.756 ($p = 0.006$), signifying that sustainability disclosure exerts a positive and statistically significant impact on firm value. Additionally, the second hypothesis (H2) reveals that SR maintains a robust positive influence on ESG performance, yielding a coefficient of 0.612 and a t-statistic of 6.438 ($p = 0.000$), which implies that heightened levels of sustainability reporting correspond to superior ESG outcomes.

Furthermore, the test results for the third hypothesis (H3) reveals that ESG performance likewise exerts a positive and statistically significant impact on firm value, with a path coefficient of 0.497 accompanied by a t-statistic of 4.132 ($p = 0.001$). Meanwhile, the mediation test (H4) shows that the indirect effect of SR on the impact of sustainability reporting on firm value through ESG yields a coefficient of 0.304 and a t-statistic of 3.928 ($p = 0.000$), signifying that ESG performance functions as a partial mediator in this association. Therefore, the inner model analysis supports all proposed

hypotheses and confirms that sustainability reporting practices contribute to the enhancement of firm value both directly and indirectly through improved ESG performance.

Table 2. Inner Model Results (Path Coefficients and Significance)

Hypothesis	Path	Coefficient (β)	t-statistic	p-value	Result
H1	SR $\rightarrow$ FV	0.285	2.756	0.006	Supported
H2	SR $\rightarrow$ ESG	0.612	6.438	0.000	Supported
H3	ESG $\rightarrow$ FV	0.497	4.132	0.001	Supported
H4	SR $\rightarrow$ ESG $\rightarrow$ FV	0.304 (indirect)	3.928	0.000	Supported

Source: Based on the author's data processing

Model Fit:

- 1) R^2 (ESG) = 0.374 $\rightarrow$ Sustainability Reporting explains 37.4% of the variance in ESG performance.
- 2) R^2 (Firm Value) = 0.528 $\rightarrow$ Combined, Sustainability Reporting and ESG Performance explain 52.8% of the variance in Firm Value.
- 3) Q^2 (predictive relevance) = 0.412 $\rightarrow$ indicates strong predictive accuracy.

Discussion

The empirical findings of this investigation demonstrate that sustainability disclosure exerts a positive and statistically significant impact on both ESG performance and firm value, and that ESG performance serves as a partial mediating variable linking sustainability disclosure with corporate valuation. These findings reinforce the perspective that sustainability disclosure practices serve not merely as an external communication instrument, but rather as a strategic lever that fosters enhancements in a firm's environmental, social, and governance (ESG) performance, ultimately culminating in elevated market valuation.

These empirical outcomes align closely with the conclusions reported by Hussain et al. (2018) and Michelin and Rodrigue (2020), which assert that companies with comprehensive sustainability reporting practices tend to exhibit better ESG performance. Transparent reporting encourages firms to manage environmental impacts, strengthen social relationships, and improve governance to be more accountable. Theoretically, these findings support Stakeholder Theory (Freeman, 1984), in which sustainability disclosure functions as an instrument to fulfill stakeholders' demands concerning social and environmental responsibility. Within manufacturing firms on the Indonesia Stock Exchange from 2020 to 2025, sustainability reports also function as a mechanism for building reputation in the capital market, which increasingly emphasizes non-financial factors as indicators of corporate performance.

The finding that sustainability reporting positively affects firm value aligning with prior evidence documented by Dhaliwal et al. (2011) and Lopatta et al. (2020), which highlights how sustainability reporting effectively lowers information asymmetry, enhances investor confidence, and ultimately increases firm valuation. Within the framework of Signaling Theory (Spence, 1973), the publication of a credible sustainability report serves as a positive signal that the company has a long-term strategy attentive to sustainability and the mitigation of environmental and social risks. This is particularly important in Indonesia, where investor awareness of ESG factors continues to rise alongside the development of OJK regulations and the enforcement of POJK No. 51/POJK.03/2017 concerning Sustainable Finance.

The mediating role of ESG performance demonstrates that sustainability disclosure enhances firm value only when accompanied by actual improvements in ESG performance. In other words, high-quality reporting without strong ESG performance is insufficient to significantly increase firm value. These results corroborate the work of Fatemi et al. (2018) and Velte (2017), who asserted that corporate valuation increases solely when ESG reporting is supported by tangible implementation. In this context, ESG functions as a transmission mechanism between intention (reporting) and outcome (economic value).

Within the context of the Resource-Based View (Barney, 1991), ESG performance can be regarded as a valuable, rare, and inimitable intangible asset, capable of generating sustainable competitive advantage. Firms that successfully integrate ESG factors into their business operations gain long-term benefits, including enhanced efficiency, positive reputation, and stakeholder loyalty all of which contribute to increased firm value.

Critically, these findings indicate that sustainability reporting practices in Indonesia have evolved from mere compliance formalities into strategic tools for value creation. Nevertheless, their efficacy remains heavily contingent upon the quality and credibility of the foundational ESG performance. Within the framework of Indonesia's transitioning green economy and post-pandemic economic recovery, major challenges include greenwashing and misalignment between reporting and actual performance. Therefore, regulators and investors need to promote ESG disclosure standardization and strengthen external assurance mechanisms to ensure the validity of sustainability reports.

Furthermore, for corporate management, these findings provide evidence that integrating ESG aspects into corporate strategy is not merely a form of social responsibility, but also a long-term investment that can strengthen competitiveness and market confidence. For investors, the results imply that investment analysis should no longer be limited to financial indicators alone, but should also incorporate ESG variables as a critical component in assessing risk and long-term prospects.

CONCLUSION

Based on the empirical investigation utilizing Partial Least Squares Structural Equation Modeling (PLS-SEM) concerning manufacturing firms listed on the Indonesia Stock Exchange (IDX) across the 2020–2025 timeframe, several definitive inferences are derived. First, sustainability disclosure maintains a positive and statistically significant impact on ESG performance, validating Stakeholder Theory by demonstrating that comprehensive reporting acts as a robust corporate accountability mechanism that satisfies transparency expectations. Second, sustainability disclosure exerts a direct, positive, and statistically significant impact on corporate valuation, reinforcing Signaling Theory as non-financial disclosures signal long-term corporate stability and effective risk mitigation to the market. Third, ESG performance functions as a crucial partial mediator in the linkage between sustainability disclosure and corporate valuation. This verifies that external disclosures drive optimal market value only when backed by substantive, tangible improvements in internal operational ESG execution. The practical implications of these findings indicate that corporate management must prioritize genuine ESG integration rather than perceiving adherence to POJK No. 51/POJK.03/2017 as a purely symbolic obligation. For institutional investors, operational ESG scores serve as an essential analytical metric to evaluate long-term risk and market resilience. Meanwhile, regulators such as the OJK and IDX are encouraged to enforce standardized and verifiable ESG disclosure frameworks to mitigate greenwashing risks. Finally, future research should expand the empirical scope beyond the manufacturing sector, incorporate longer longitudinal datasets, or examine moderating variables such as institutional ownership and corporate governance quality to provide deeper insights into sustainable value creation.

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