



## The Mediating Role of Sustainability Reporting on CSR, Dividend Policy, Profitability, Firm Size and Firm Value

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### Abstract

This study examines the effects of Corporate Social Responsibility (CSR), Dividend Policy (DPR), Profitability (ROA), and Firm Size (SIZE) on Firm Value (Tobin's Q), with Sustainability Reporting (SR) as a mediating variable in manufacturing companies in Indonesia. This study employs a quantitative approach using secondary data obtained from the annual reports of manufacturing firms listed on the *Indonesia Stock Exchange (IDX)* for the 2019–2024 period. Multiple regression and path analyses were conducted to test both the direct and indirect relationships among the variables. The findings reveal that CSR, Dividend Policy, and Profitability significantly influence Firm Value, both directly and indirectly through sustainability reporting. Additionally, sustainability reporting is proven to partially mediate the association between these determinants and Firm Value, demonstrating that transparency in sustainability disclosure enhances corporate reputation and investor confidence. This study contributes to the body of literature on corporate sustainability by emphasizing the strategic role of sustainability reporting in optimizing firm value within emerging market settings.

**Keywords:** CSR, Dividend Policy, Firm Value, Profitability, Sustainability Reporting.

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## 1. INTRODUCTION

In the era of the Sustainable Development Goals (SDGs), companies are no longer solely oriented toward profit maximization but are also expected to contribute to environmental sustainability and social welfare (IS Permata, G Baharuddin, 2025)(Imang Dapit Pamungkas, Muhammad Rafi Raihan & Kristianto, 2024). This paradigm shift encourages firms to integrate sustainability considerations into their business and financial decisions. One important financial policy that reflects corporate commitment to long-term sustainability is dividend policy, as it not only determines shareholder returns but also signals financial stability and sustainable performance.

Manufacturing companies in Indonesia play a strategic role in the national economy through their contribution to employment, gross domestic product, and industrial development, while simultaneously exerting substantial environmental and social impacts. Consequently, these firms are increasingly required to adopt sustainable business practices, including responsible financial policies. Prior studies indicate that dividend policy, profitability, firm size, and Corporate Social Responsibility (CSR) are key determinants of firm value, as they influence investor perceptions and corporate reputation (Purnamasari & Trimeiningrum, 2022)(Yuliani, R., 2022). Moreover, sustainability oriented practices may enhance investor confidence by signaling transparency and long-term value creation (Sonia, 2021).

However, empirical findings on the relationship between CSR, dividend policy, profitability, firm size, and firm value remain mixed (Akhmadi, 2021),(Erwin, A. Zuliansyah, 2025). While some studies report positive effects, others document insignificant or contradictory results, particularly in emerging market contexts. In addition, most previous studies primarily examine the direct effects of these variables on firm value, with limited attention given to the underlying mechanisms through which such effects occur. Specifically, sustainability reporting is often treated as an independent outcome rather than a strategic mediating mechanism that links corporate policies and financial characteristics to firm value.

Sustainability reporting serves as a communication tool that reflects a firm's accountability and transparency regarding its economic, environmental, and social performance (Natalia et al., 2024). Through sustainability disclosure, companies may reduce information asymmetry, strengthen stakeholder trust, and enhance their legitimacy in the capital market (Arenas-parra, 2023)(Okoye et al., 2025). Nevertheless, empirical evidence on the mediating role of sustainability reporting in explaining how CSR, dividend policy, profitability, and firm size influence firm value particularly within manufacturing firms in Indonesia remains limited.

Conceptually, the relationship between Corporate Social Responsibility (CSR), dividend policy, profitability, and firm size with firm value is not limited to direct effects. Instead, these relationships also operate through communication and legitimacy mechanisms reflected in sustainability reporting. Drawing on signaling theory, financial decisions such as dividend policy (DPR) and profitability (ROA) convey internal signals regarding a firm performance and future prospects. However, the effectiveness of these signals depends serves as a signal-enhancing mechanism that strengthens the credibility of both financial and nonfinancial information, including CSR activities. Consistent with this perspective, the findings show that CSR, DPR, ROA, and firm size significantly influence sustainability reporting, which in turn has a positive effect on firm value, as measured by Tobins Q.

This study addresses this gap by examining sustainability reporting as a mediating variable in the relationship between CSR, dividend policy, profitability, and firm size on firm value. By focusing on manufacturing companies listed on the Indonesia Stock Exchange, this research offers empirical evidence from an emerging market setting and integrates financial policy variables with sustainability disclosure within a single analytical framework. Accordingly, this study aims to analyze the effects of CSR, dividend policy, profitability, and firm size on firm value, as well as to examine the mediating role of sustainability reporting in enhancing firm value among Indonesian manufacturing firms.

Although prior studies have examined the direct effects of CSR, dividend policy, profitability, and firm size on firm value, limited research has theoretically articulated sustainability reporting as a signaling reinforcement mechanism that translates internal corporate characteristics into market valuation. Drawing on signaling and legitimacy theory, this study argues that

sustainability reporting operates as an intermediary communication channel through which financial credibility is converted into perceived firm value. This theoretical positioning differentiates the present study from prior research that treats sustainability disclosure merely as an outcome variable.

## 2. LITERATURE REVIEW

### 2.1 Relevant Theories

#### 2.1.1 Signalling Theory

Signalling Theory emphasizes the importance for companies to disclose information to external parties to reduce information asymmetry, particularly information related to corporate social responsibility (Nabila et al., 2024)(Prasetyo et al., 2025). This theory suggests that transparent communication regarding CSR activities can serve as a signal to stakeholders, ultimately enhancing corporate reputation and building trust in the company. In the context of this study, signaling theory provides the primary explanation for why dividend policy and profitability may influence firm value indirectly through sustainability reporting. Financial strength enhances the credibility of sustainability disclosure, thereby strengthening its signaling power in the capital market.

#### 2.1.2 Legitimacy Theory

Legitimacy Theory states that companies must operate in accordance with societal expectations to gain social support and legitimacy (Retno, R. D., & Priantinah, 2012). This theory highlights the existence of a social contract between companies and the public, where businesses are expected to act responsibly and in a socially acceptable manner. Failure to meet these social expectations may result in the loss of legitimacy, which can negatively impact the company's survival and success.

#### 2.1.3 Stakeholder Theory

Stakeholder Theory, proposed by (Freeman, 1984) and discussed by (Stacia, E., 2015), emphasizes the need for organizations to consider the interests of all groups that may affect or be affected by the achievement of organizational goals. This theory expands the corporate focus beyond shareholders to include employees, customers, suppliers, and the wider community. In the context of CSR and environmental performance, Stakeholder Theory suggests that companies must engage and address the concerns of relevant stakeholders to ensure sustainable and ethical business practices.

## 2.2 Theoretical Framework and Hypothesis Development

### 2.2.1 Corporate Social Responsibility (CSR), Firm Value, and Sustainability Reporting

Corporate Social Responsibility (CSR) represents a company's responsibility toward the environment and society, with the aim of creating long-term value. Based on legitimacy theory and stakeholder theory, the implementation of CSR helps firms gain social support and meet the expectations of various stakeholders. CSR is not merely undertaken to fulfil corporate social obligations, but also serves as an important strategic tool for enhancing long term firm value. Through effective CSR practices, companies can build a positive reputation, strengthen investor and stakeholder trust, and support business sustainability, which ultimately contributes to an increase in firm value.

This perspective is also consistent with signaling theory, which suggests that CSR disclosure functions as a positive signal to investors regarding management quality and a firm future prospect. Transparent CSR disclosure can reduce information asymmetry and improve market perceptions of the firm. In addition, according to legitimacy theory, companies that actively engage in CSR are more likely to disclose these activities in order to obtain and maintain social legitimacy. This, in turn encourages firms to enhance their sustainability reporting practices.

Prior studies have shown that CSR has a positive effect on firm value, as it enhances investor confidence, strengthens corporate reputation, and fosters a sustainable corporate image (IS Permata et al, 2024), (Angela, & Yudianti, 2014), (Salim, U., & Yanti, 2022). Furthermore, firms with higher levels of CSR engagement tend to provide more extensive and higher quality sustainability reporting as a form of accountability and transparency to stakeholders. Accordingly, CSR not only has a direct

impact on firm value but also plays a role in promoting sustainability reporting as a key communication mechanism for corporate sustainability.

Based on the above discussion, the hypotheses of this study are formulated as follows

H1: Corporate Social Responsibility (CSR) has an effect on firm value.

H2: Corporate Social Responsibility (CSR) has an effect on sustainability reporting

### 2.2.2 Dividend Policy, Firm Value, and Sustainability Reporting

Dividend policy reflects management decisions regarding the distribution of profits to shareholders. According to signaling theory, high and consistent dividend payments convey a positive signal about a firm's financial stability and overall performance. Investors tend to perceive firms with sound dividend policies as financially healthy and less risky, which can increase stock demand and, in turn, enhance firm value (IS Permata, 2019),(K Heriansyah, IS Permata, 2023). Dividend policy plays an important role in increasing firm value, as dividends are viewed as a tangible return received by investors on their invested capital. Firms that are able to distribute dividends consistently are generally perceived as having stable financial performance and lower risk, thereby attracting greater investor interest and contributing to higher firm value.

The relationship between dividend policy and firm value is consistent with signaling theory, which suggests that dividend distribution decisions serve as positive signals of a firm's performance and financial soundness, High and stable dividends indicate strong cash flows and favorable future prospects, which enhance investor confidence and encourage increases in stock prices. Moreover, dividend policy is also related to sustainability reporting practices, as firms with strong financial performance have greater capacity and incentives to disclose sustainability related information more extensively and transparently.

Prior empirical studies indicate that dividend policy has a positive effect on firm value, as it enhances investor confidence and strengthens a firm's image in the capital market. At the same, firms that adopt sound dividend policies tend to be more transparent in disclosing nonfinancial information, including sustainability reporting, as a form of accountability and transparency to stakeholders. Accordingly, dividend policy not only has a direct effect on firm value but also plays a role in promoting sustainability reporting as a key communication mechanism for corporate sustainability.

Based on the above discussion, the hypotheses of this study are formulated as follows:

H3: Dividend policy has an effect on firm value

H4: Dividend policy has an effect on sustainability reporting

### 2.2.3 Profitability (ROA), Firm Value, and Sustainability Reporting

Profitability indicates a company's ability to generate earnings from all its resources within a certain period (IS Permata, 2018). Higher profitability, measured by indicators such as Return on Assets (ROA), reflects corporate sustainability and positive future prospects (Sonnya & Wardhani, 2026).

The relationship between profitability and firm value is consistent with signaling theory, which suggests that high profit levels serve as a positive signal of a firm's performance and future prospects. Favorable profitability information provides confidence to investors that the firm has the ability to sustain growth and generate stable cash flows. In addition, profitability is also closely related to sustainability reporting practices, as firms with higher profit levels possess greater resources and stronger incentives to disclose sustainability information more extensively and with higher quality.

Several prior studies indicate that profitability has a positive effect on firm value, as it reflects management's success in efficiently managing the firm's assets and operations. On the other hand, highly profitable firms tend to be more active in preparing sustainability reports as a form of accountability and transparency to stakeholders. More extensive sustainability reporting also functions as a means of strengthening corporate reputation and demonstrating the firm's commitment to long term business sustainability.

Based on the above discussion, the hypotheses of this study are formulated as follows:

H5: Profitability has an effect on firm value.

H6: Profitability has an effect on sustainability reporting.

## 2.2.4 Firm Size (SIZE), Firm Value, and Sustainability Reporting

Firm Size, measured by total assets, reflects the scale of corporate operations and the ability to manage activities (Kusnanto & Qalbia, 2024). Larger firms with substantial assets tend to be more stable and capable of generating higher profits compared to smaller companies with limited assets (Wahyuni & Kristanti, 2024).

The relationship between firm size and firm value can be explained through signaling theory, where firm size is perceived as a signal of financial strength, stability, and a firm's ability to manage business risks. Larger firms are also subject to greater public scrutiny, which creates stronger incentives to demonstrate good performance and maintain a high level of transparency. Moreover, based on legitimacy theory, firms with larger operational scales tend to face greater social and regulatory pressure to disclose their sustainability activities, thereby encouraging them to prepare and publish sustainability reports more extensively.

Several prior studies suggest that firm size has a positive effect on firm value, as it reflects a firm's maturity and its capability to create long term value. On the other hand, larger firms are also more likely to adopt more comprehensive sustainability reporting practices as a form of accountability and transparency to stakeholders. Such disclosures are used by firms to maintain social legitimacy and to strengthen corporate reputation in the eyes of investors and the public.

Based on the above discussion, the hypotheses of this study are formulated as follows:

H7: Firm size has an effect on firm value

H8: Firm size has an effect on sustainability reporting

## 2.2.5 The Role of Sustainability Reporting on Firm Value and as a Mediating Variable

Sustainability reporting represents the disclosure of a firm's economic, environmental, and social performance to its stakeholders. From the perspective of signaling theory, sustainability reporting functions as a positive signal to investors regarding management quality, business sustainability, and the firm's future prospects. More extensive and higher quality sustainability disclosures can reduce information asymmetry and enhance investor confidence, which ultimately contributes to an increase in firm value. Meanwhile, according to legitimacy theory, sustainability reporting is used by firms to demonstrate compliance with social norms and stakeholder expectations. Accordingly, sustainability reporting can improve investors' perceptions and strengthen firm value (Iriansyah et al., 2023).

In the context of indirect relationships, sustainability reporting also serves as a mechanism that bridges the effects of Corporate Social Responsibility (CSR), dividend policy, profitability, and firm size on firm value. Firms that actively engage in CSR, exhibit strong financial performance, and operate on a larger scale tend to have greater incentives and capacity to disclose sustainability information in a more comprehensive manner. Such disclosures reinforce the positive signals derived from corporate policies, and firm characteristics, enhance investor perceptions, and ultimately lead to higher firm value.

Therefore, sustainability reporting not only has a direct effect on firm value but also functions as a mediating variable that explains how CSR, dividend policy, profitability, and firm size are translated into improvements in firm value. This dual role highlights sustainability reporting as a strategic instrument in creating sustainable firm value.

Based on the above discussion, the hypotheses of this study are formulated as follows

H9 : Sustainability reporting has an effect on firm value

H10: Sustainability reporting mediates the relationships between Corporate Social Responsibility (CSR) and firm value.

H11: Sustainability reporting mediates the relationships between dividend policy and firm value

H12: Sustainability reporting mediates the relationships between profitability (ROA) and firm value

H13: Sustainability reporting mediates the relationships between firm size and firm value

## 3. RESEARCH METHOD

### 3.1 Research Design

This study employs a quantitative explanatory research design, which aims to test hypotheses and examine causal relationships among variables based on existing theories. The explanatory approach is used to explain how Corporate Social

Responsibility (CSR), dividend policy, profitability, and firm size influence firm value, both directly and indirectly through sustainability reporting as a mediating variable.

The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) over six periods, from 2019 to 2024. The selection of this period is based on data availability, regulatory consistency, and the need to capture medium term trends in sustainability disclosure and financial performance. This period also reflects the increasing adoption of sustainability reporting practices among listed companies in Indonesia.

This study utilizes panel data obtained from secondary sources, including annual reports and sustainability reports published by companies and available on the official IDX website. The data analysis technique applied in this study is structural equation modelling (SEM) using the Partial Least Squares (PLS) approach, which is suitable for testing complex models involving mediation relationships and does not require strict data normality assumptions.

### 3.2 Operational Definition of Variables

This study includes one dependent variable (firm value), four independent variables (CSR, Dividend Policy, ROA, and Firm Size), and one mediating variable, Sustainability Reporting (SR).

**Tabel 1 | Operational Variables**

Variable	Measurement	Scale
<b>Dependent</b>		
Firm Value (Y)	$\text{Tobin's Q} = \frac{\text{Market Capitalization} + \text{Total debt}}{\text{Total Assets}}$	Ratio
<b>Independent</b>		
Corporate Social Responsibility (X1)	$\text{CSR} = \frac{\sum \text{CSR disclosure items}}{\text{Total expected disclosure items}}$	Ratio
Dividend Policy (X2)	$\text{DPR} = \frac{\text{Cash dividends}}{\text{EAT}}$	Ratio
Profitability (X3)	$\text{ROA} = \frac{\text{EAT}}{\text{Total Assets}}$	Ratio
Firm Size (X4)	Total Assets = Logaritma Total Assets	Rasio
<b>Mediating</b>		
Sustainability Report (Z)	SR = Environmental Performance Score	Ratio

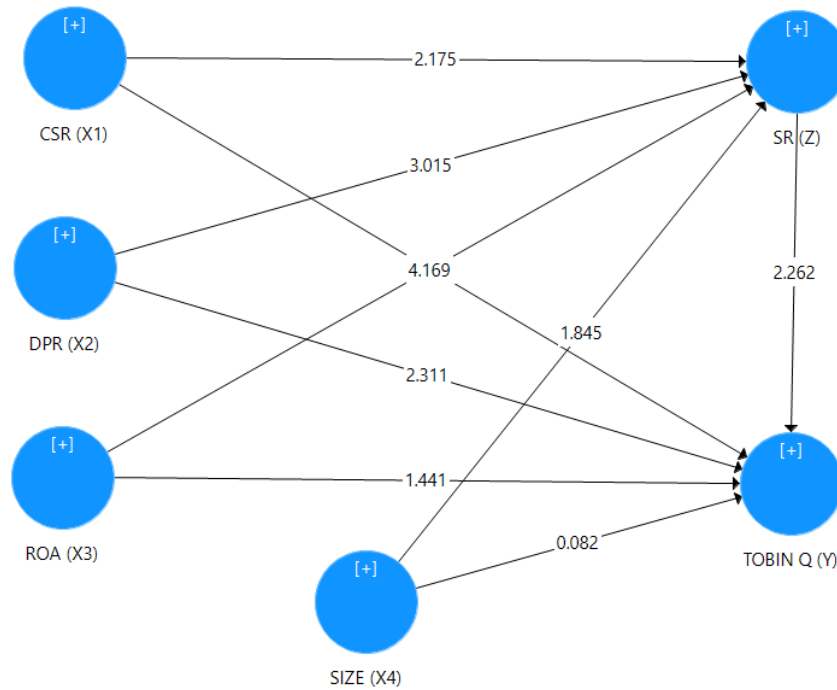
Source: Data Processed (2025)

## 4. RESULTS AND DISCUSSION

### 4.1 RESULTS

#### 4.1.1. Hypothesis Testing

The hypothesis testing in this study was conducted using SEM analysis, and the results were compared with the predetermined threshold values. The following presents the results of the full model testing and the hypotheses proposed in this study:



**Figure 1.** Full Structural Model Results (Standardized Output) – Bootstrapping

*Source: SmartPLS Data Processing Results, 2025*

The research results are presented in the following table, which contains a summary of the p-value and decisions regarding each hypothesis based on the testing criteria used:

**Table 2 |** Bootstrapping Test of Direct Effects

	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Value
CSR → Tobin Q	0.027	0.038	0.086	0.319	0.375
DPR → Tobin Q	0.321	0.325	0.139	2.311	0.011
ROA → Tobin Q	0.180	0.182	0.125	1.441	0.076
SIZE → Tobin Q	0.008	0.000	0.094	0.082	0.467
SR → Tobin Q	-0.139	-0.137	0.062	2.262	0.013
CSR → SR	0.246	0.251	0.113	2.175	0.016
DPR → SR	-0.256	-0.256	0.085	3.015	0.002
ROA → SR	-0.288	-0.291	0.069	4.169	0.000
SIZE → SR	-0.159	-0.166	0.086	1.845	0.034

Source: Data Processed (2025)

Based on the results in Table 2, the following findings are obtained:

**A. Hypothesis 1 explains the effect of Corporate Social Responsibility (CSR) on Firm Value.**

Based on the data processing results, the path coefficient value is 0.375, the t-statistic is  $0.319 < 1.96$ , and the p-value is  $0.375 > \alpha 0.05$ . Therefore, H0 is accepted and H1 is rejected, indicating that this hypothesis is not supported.

**B. Hypothesis 2 explains the effect of Dividend Policy on Firm Value.**

The path coefficient value is 0.011, the t-statistic is  $2.311 > 1.96$ , and the p-value  $< \alpha 0.05$ . Therefore, H0 is rejected and H2 is accepted, meaning the hypothesis is supported.

**C. Hypothesis 3 explains the effect of Profitability (ROA) on Firm Value.**

The data results show a path coefficient of 0.076, a t-statistic of  $1.441 < 1.96$ , and a p-value of  $0.076 > \alpha 0.05$ . Therefore, H0 is accepted and H3 is rejected. This indicates that profitability has no significant effect on firm value.

**D. Hypothesis 4 explains the effect of Firm Size (SIZE) on Firm Value.**

The path coefficient value is 0.467, the t-statistic is  $0.082 < 1.96$ , and the p-value is  $0.467 > \alpha 0.05$ . Thus, H0 is accepted and H4 is rejected. This indicates that firm size does not affect firm value.

**E. Hypothesis 5 explains the effect of Sustainability Reporting (SR) on Firm Value.**

The path coefficient value is 0.013, the t-statistic is  $2.262 > 1.96$ , and the p-value is  $0.013 < \alpha 0.05$ . Therefore, H0 is rejected and H5 is accepted, indicating that this hypothesis is supported. This means sustainability reporting significantly influences firm value.

**F. Hypothesis 6 explains the effect of Corporate Social Responsibility on Sustainability Reporting.**

The data results show a path coefficient of 0.016, a t-statistic of  $2.175 > 1.96$ , and a p-value of  $0.016 < \alpha 0.05$ . Thus, H0 is rejected and H6 is accepted, indicating that CSR significantly influences sustainability reporting.

**G. Hypothesis 7 explains the effect of Dividend Policy on Sustainability Reporting.**

The path coefficient is 0.002, the t-statistic is  $3.015 > 1.96$ , and the p-value is  $0.002 < \alpha 0.05$ . Therefore, H0 is rejected and H7 is accepted. The results indicate that dividend policy significantly influences sustainability reporting.

**H. Hypothesis 8 explains the effect of Profitability on Sustainability Reporting.**

The path coefficient is 0.000, the t-statistic is  $4.169 > 1.96$ , and the p-value is  $0.000 < \alpha 0.05$ . Thus, H0 is rejected and H8 is accepted. This means profitability significantly affects sustainability reporting.

**I. Hypothesis 9 explains the effect of Firm Size on Sustainability Reporting.**

The data results show a path coefficient of 0.034, a t-statistic of  $2.845 > 1.96$ , and a p-value of  $0.034 < \alpha 0.05$ . Therefore, H0 is rejected and H9 is accepted, indicating that firm size significantly affects sustainability reporting.

**Table 3 | Bootstrapping Test of Indirect Effects**

	<b>Original Sample</b>	<b>Sample Mean</b>	<b>Standard Deviation</b>	<b>T Statistics</b>	<b>P Value</b>
CSR → SR → Tobin Q	-0.034	-0.038	0.023	1.466	0.073
DPR → SR → Tobin Q	0.036	0.034	0.020	2.777	0.039
ROA → SR → Tobin Q	0.040	0.039	0.019	2.111	0.019
SIZE → SR → Tobin Q	0.022	0.022	0.015	1.498	0.069

Source: Data Processed (2025)

The results of the indirect effect testing indicate:

**J. Hypothesis 10 explains the mediating role of Sustainability Reporting on the relationship between CSR and Firm Value.**

The path coefficient is 0.073, the t-statistic is  $1.466 < 1.96$ , and the p-value is  $0.073 > \alpha 0.05$ . Therefore, H0 is accepted and H10 is rejected. This indicates that sustainability reporting does not mediate the relationship between CSR and firm value.

**K. Hypothesis 11 explains the mediating role of Sustainability Reporting on the relationship between Dividend Policy and Firm Value.**

The results show a path coefficient of 0.039, the t-statistic is  $2.777 > 1.96$ , and the p-value is  $0.039 < \alpha 0.05$ . Therefore, H0 is rejected and H11 is accepted, which means the hypothesis is supported. Sustainability reporting strengthens the relationship between dividend policy and firm value.

**L. Hypothesis 12 explains the mediating effect of Sustainability Reporting on the relationship between Profitability and Firm Value.**

The path coefficient is 0.019, the t-statistic is  $2.111 > 1.96$ , and the p-value is  $0.019 < \alpha 0.05$ . Thus, H0 is rejected and H12 is accepted. This suggests profitability affects firm value through sustainability reporting.

**M. Hypothesis 13 explains the mediating role of Sustainability Reporting on the relationship between Firm Size and Firm Value.**

The path coefficient is 0.069, the t-statistic is  $1.498 < 1.96$ , and the p-value is  $0.069 > \alpha 0.05$ . Therefore, H0 is accepted and H13 is rejected.

## 4.2 DISCUSSION

### 4.2.1. Effect of Corporate Social Responsibility (CSR) on Firm Value (H1)

The finding that CSR does not have a significant direct effect on firm value challenges the core assumptions of stakeholder theory and legitimacy theory, which posit that socially responsible activities enhance firm value through improved legitimacy and stakeholder support. This result indicates a potential gap between theoretical expectations and market realities, particularly in emerging markets where financial performance may dominate investment considerations. In the Indonesian capital market context, this suggests that CSR may not yet be fully internalized by investors as economically value relevant information. Rather than functioning as a strategic value driver, CSR appears to be perceived as compliance oriented or symbolic. This interpretation supports the view that symbolic CSR, without strong integration into corporate strategy, may fail to generate measurable market valuation effects.

#### **4.2.2. Effect of Dividend Policy on Firm Value (H2)**

In contrast, dividend policy demonstrates a strong positive effect on firm value, reinforcing signaling theory. The market appears to respond more strongly to tangible and immediate financial signals, such as dividend distribution, compared to nonfinancial disclosures. This finding suggests that dividend payments serve as a more credible and observable signal in environments characterized by information asymmetry. The dominance of financial signaling over social signaling reflects a pragmatic investor orientation within the Indonesian capital market. Thus, financial credibility may function as a prerequisite for the market to appreciate broader sustainability commitments.

#### **4.2.3. Effect of Profitability (ROA) on Firm Value (H3)**

The absence of a significant direct effect of profitability on firm value further complicates the theoretical debate. While traditional financial theory assumes that profitability directly enhances firm value, the findings indicate that profitability alone may not guarantee higher market valuation. This implies that investors may question the persistence and quality of earnings, especially when profitability is not accompanied by transparent disclosure and long-term strategic positioning. Thus, Profitability may require complementary mechanisms, such as sustainability reporting, to strengthen its credibility in the eyes of the market.

#### **4.2.4. Effect of Firm Size (SIZE) on Firm Value (H4)**

Firm size does not exhibit a direct impact on firm value, contradicting the conventional assumption that larger firms enjoy valuation advantages due to stability and diversified operations. This result refines signaling theory by suggesting that structural characteristics alone are insufficient to generate valuation premiums without substantive performance evidence. Investors may evaluate firms based on efficiency, governance quality, and transparency rather organizational scale.

#### **4.2.5. Effect of Sustainability Reporting (SR) on Firm Value (H5)**

The results of this study indicate that sustainability reporting has a significant positive effect on firm value. This finding supports both signaling theory and legitimacy theory. Sustainability reporting provides more transparent information regarding a company's environmental, social, and governance practices. Such disclosure reduces information asymmetry between companies and investors and enhances market confidence in the firm. Unlike CSR activities, which are sometimes perceived as symbolic, sustainability reporting offers more systematic and structured information. Therefore, it tends to be more highly valued by investors. Importantly, sustainability reporting emerges as a significant determinant on firm value, supporting both signaling theory and legitimacy theory.

#### **4.2.6. Effect of Corporate Social Responsibility on Sustainability Reporting (H6)**

The results of this study indicate that Corporate Social Responsibility (CSR) has a significant effect on sustainability reporting. This suggests that companies actively engaged in CSR activities tend to disclose these activities in their sustainability reports. This finding is consistent with Legitimacy Theory, which states that companies seek to maintain their legitimacy by demonstrating social responsibility to society through information disclosure.

#### **4.2.7. Effect of Dividend Policy on Sustainability Reporting (H7)**

Dividend policy also has a significant effect on sustainability reporting. Companies with strong dividend policies generally have stable financial conditions, enabling them to engage in sustainability activities and disclose them through sustainability reports. This indicates that companies with strong financial performance are more capable of implementing sustainability practices and enhancing transparency for investors.

#### **4.2.8. Effect of Profitability on Sustainability Reporting (H8)**

Profitability has a significant effect on sustainability reporting. Companies with higher levels of profitability have greater resources to implement sustainability activities and prepare sustainability reports. In addition, more profitable companies tend to use sustainability reporting as a means to enhance their corporate reputation and strengthen relationships with stakeholders.

#### **4.2.9. Effect of Firm Size on Sustainability Reporting (H9)**

Firm size also has a significant effect on sustainability reporting. Large companies usually face greater public and

regulatory pressure, which encourages them to be more transparent in disclosing sustainability information. In addition, large companies tend to have more complex operations and a greater number of stakeholders, which increases the need for broader information disclosure.

#### 4.2.10. The Mediating Role of Sustainability Reporting (H10 - H13)

The mediating analysis further deepens the theoretical implications. Sustainability reporting does not mediate the CSR – firm value relationship, suggesting that CSR disclosures may lack substantive depth or investor relevance. This finding highlights a possible decoupling between CSR implementation and sustainability communication, where disclosure does not necessarily translate into perceived economic value. However, sustainability reporting significantly mediates the relationships between dividend policy and firm value, as well as between profitability and firm value. These results imply that strong financial fundamentals enhance the credibility of sustainability disclosure, which subsequently strengthens market valuation through reduced information asymmetry and improved investor trust.

Conversely, sustainability reporting fails to mediate the relationship between firm size and firm value, indicating that disclosure alone cannot compensate for the absence of substantive performance quality. This suggests that sustainability reporting functions effectively as a value enhancing mechanism only when supported by meaningful financial and operational strength.

Overall, these findings suggest that in emerging markets such as Indonesia, financial signals remain more dominant than social signals in influencing firm value. However, when sustainability reporting is credible and supported by solid financial performance, it becomes a strategic channel through which firms translate internal strengths into external market value. This nuanced outcome contributes to the ongoing debate regarding the economic consequences of sustainability practices in developing capital markets.

## 5. CONCLUSION

Based on the results of hypothesis testing, it can be concluded that Corporate Social Responsibility (CSR), Profitability (ROA), and Firm Size (SIZE) do not have a significant direct effect on firm value. These findings indicate that such factors are not yet primary considerations for investors in assessing firm value. Instead, investors tend to focus more on financial indicators that provide immediate and measurable returns.

In contrast, dividend policy has a positive and significant effect on firm value, confirming that dividend distribution serves as an important financial signal for investors in evaluating a firm's financial condition and future prospects. In addition, sustainability reporting also has a positive and significant effect on firm value, suggesting that transparency in sustainability disclosure enhances investor confidence and strengthens firm value in the capital market.

Furthermore, the results reveal that CSR, dividend policy, profitability, and firm size significantly influence sustainability reporting. This implies that companies with stronger social responsibility engagement, better financial performance, larger organizational scale, and more stable dividend policies tend to disclose sustainability information more extensively.

Overall, the findings emphasize that dividend policy and sustainability reporting are key determinants that directly enhance firm value, while CSR, profitability, and firm size play a more indirect role through their influence on sustainability disclosure. Therefore, firms are encouraged to strategically integrate financial and non-financial performance—particularly through credible dividend policies and transparent sustainability reporting—to strengthen investor trust and achieve sustainable firm value in the long term.

This study contributes to the corporate sustainability and financial signaling literature by demonstrating that sustainability reporting functions as a selective mediating mechanism. Specifically, the findings refine signaling theory by showing that financial signals such as dividend policy and profitability gain stronger market relevance when reinforced by credible sustainability disclosure, whereas structural and social signals alone (CSR and firm size) are insufficient to generate valuation effects. This nuanced evidence extends the debate on the economic consequences of sustainability practices in emerging market contexts.

Based on the results of testing the indirect effects through Sustainability Reporting (SR) on firm value (Tobin's Q), it can be concluded that not all independent variables are able to influence firm value through the sustainability reporting mechanism.

The findings show that Corporate Social Responsibility (CSR) does not have a significant effect on firm value through sustainability reporting. This is reflected in a t-statistic value of 1.466 ( $< 1.96$ ) and a p-value of 0.073 ( $> 0.05$ ). These results indicate that CSR activities, even when disclosed in sustainability reports, are not yet perceived by investors as value-relevant information in assessing firm value. Therefore, sustainability reporting does not mediate the relationship between CSR and firm value.

In contrast, dividend policy (DPR) has a positive and significant effect on firm value through sustainability reporting. The t-statistic value of 2.777 ( $> 1.96$ ) and the p-value of 0.039 ( $< 0.05$ ) indicate that sustainability reporting successfully mediates the relationship between dividend policy and firm value. This suggests that firms with stable dividend policies tend to have greater capacity and incentives to disclose sustainability information, which ultimately enhances investor confidence and firm value.

Moreover, profitability (ROA) also has a positive and significant effect on firm value through sustainability reporting, with a t-statistic of 2.111 ( $> 1.96$ ) and a p-value of 0.019 ( $< 0.05$ ). This finding implies that strong financial performance encourages firms to engage in more extensive sustainability disclosure, which is subsequently appreciated by the market and contributes to an increase in firm value. Accordingly, sustainability reporting mediates the relationship between profitability and firm value.

Meanwhile, firm size (SIZE) does not have a significant effect on firm value through sustainability reporting, as indicated by a t-statistic of 1.498 ( $< 1.96$ ) and a p-value of 0.069 ( $> 0.05$ ). This suggests that company scale alone is insufficient to enhance firm value through sustainability disclosure. Investors appear to place greater emphasis on the quality and substance of sustainability disclosure rather than on firm size itself.

Overall, these results confirm that sustainability reporting serves as an effective mediating variable in strengthening the effects of dividend policy and profitability on firm value, but does not mediate the effects of CSR and firm size on firm value. This finding indicates that the capital market is more responsive to sustainability signals supported by strong financial performance than to social activities or firm scale alone.

## 6. LIMITATION AND IMPLICATION

### 6.1. LIMITATION

This study has several limitations that should be acknowledged when interpreting the findings. First, the sample is limited to manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2024 period. As a result, the findings may not be fully generalizable to firms in other industries or to companies operating in different institutional and regulatory environments. The characteristics of manufacturing firms, particularly their capital intensity and environmental impact, may influence sustainability reporting practices and firm value differently compared to other sectors.

Second, this study focuses on a selected set of variables, namely Corporate Social Responsibility, dividend policy, profitability, firm size, sustainability reporting, and firm value. Other factors that may also influence firm value—such as corporate governance quality, ownership structure, market competition, macroeconomic conditions, and ESG ratings—are not included in the model. Excluding these variables may limit the explanatory power of the analysis.

Third, this research relies on secondary data obtained from annual reports and sustainability reports, which may be subject to disclosure bias. Companies may differ in the quality, depth, and credibility of their sustainability disclosures, potentially affecting the measurement of sustainability reporting. In addition, the use of quantitative methods and SEM analysis captures statistical relationships but does not fully reflect managerial motivations or stakeholder perceptions behind sustainability disclosure practices.

Finally, time and data availability constraints may limit the observation of long-term effects, particularly for variables such

as CSR and sustainability reporting, whose impacts on firm value may materialize over a longer horizon. Therefore, the results should be interpreted with caution.

## 6.2. IMPLICATION

Despite these limitations, this study offers several important theoretical and practical implications. From a theoretical perspective, the findings contribute to the corporate sustainability and financial policy literature by highlighting the strategic role of sustainability reporting as a mediating mechanism between financial performance and firm value. The results partially support signaling theory by demonstrating that dividend policy and profitability enhance firm value through sustainability disclosure, while CSR and firm size do not exhibit the same mediating effect. This suggests that financial credibility strengthens the value relevance of sustainability reporting in emerging market contexts.

From a managerial standpoint, the results highlight that sustainability reporting should be strategically aligned with strong financial performance to maximize firm value. Managers should integrate dividend stability, profitability management, and transparent sustainability disclosure as complementary strategies rather than isolated initiatives. Firms cannot rely solely on CSR engagement or organization scale; instead, they must ensure that sustainability communication is credible, substantive, and supported by solid financial fundamentals to gain investor trust.

For regulators and investors, the findings imply that sustainability reporting frameworks and disclosure standards play a critical role in enhancing the credibility of nonfinancial information. Investors are encouraged to evaluate sustainability disclosures in conjunction with financial strength, while policymakers may strengthen reporting standards to improve comparability and value relevance in the capital market.

Finally, this study provides directions for future research. Further studies may expand the sample to include other sectors or cross-country comparisons to improve generalizability. Future research may also incorporate qualitative approaches, alternative sustainability measures, or longer observation periods to better capture the long-term value implications of sustainability practices. By addressing these areas, future studies can deepen the understanding of how sustainability reporting and financial policies jointly influence firm value.

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