



The Effect of Financial Performance on Company Value with Sustainability Report Disclosure as an Intervening Variable

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Abstract This study aims to analyze the influence of financial performance on company value by disclosing sustainability reports as an intervening variable in mining sector companies listed on the IDX in 2018-2022. This research population is mining sector companies listed on the IDX by disclosing sustainability reports. The research sample withdrawal technique is by using the *purposive sampling* method, where samples are selected on the basis of the suitability of sample characteristics with the specified sample selection criteria. Data analysis in this study uses SEM (*Structural Equation Modeling*) analysis using SmartPLS software version 4. The results of this study show that: 1) Financial Performance has an influence on the disclosure of sustainability reports; 2) Financial performance affects the value of the company; 3) Sustainability reports have an influence on the company's value; 4) Financial performance has no influence on the company's value through sustainability reports

Keywords: Effect, Financial Performance, Company

Introduction

The environment is closely related to society, namely in the sense of nature and social and economic, as people who carry out social activities will have an influence on each other, sustainability responsibilities related to the environment, economy and society must be clearly expressed, companies should not only focus on the economy, the balance between *profit-people-planet* can be reflected in *Sustainability Reporting* which is a report that contains information on financial and non-financial performance such as environmental and social (Jones, 2018).

Sustainability policy is seen from the environment as a management effort in preventing environmental pollution which is managed in one of the ways, namely implementing "*Green Industry*". The goal is that the impact caused by the environmental aspect is directed at "*Zero Impact*" (Auliya & Naning Margasari, 2017)

The disclosure of sustainability reports is important because the results and direct impacts of the company's activities will be detailed and in accordance with

the principles set by GRI in its guidelines and the impact on investors will reward companies that behave socially responsibly because they see their social performance as a sign of efficient management (Ching et al., 2017)

Company value is one of the important concepts considered by investors and is an indicator of how the market values a company comprehensively (Khairiyani, 2018) The value of a company is reflected in the market price of the company's shares.

Good financial performance will clearly show the company's performance, one of which is the value of *Total Assets Turnover* high indicates that the company's resources can be managed well and are able to realize high sales value (Radja & Artini, 2020)

Table 1 Profitability and Company Value Data

	2018	2019	2020	2021	2022
ROE	23,41%	29,82%	7,93%	40,08%	38,98%
NPM	7,54%	12,16%	1,69%	23,34%	27,90%
STOCK PRICE	2.306	1.882	2.161	4.288	4.312

Source: Data processed from *the Annual Report* of mining companies from 2018 to 2022.

The table shows that the ROE percentage ratio in 2019 increased by 6.41% from 2018, but the stock price in that year decreased by 424, this is the opposite of the percentage of ROE in 2020 which fluctuated by 21.89%, but the stock price in 2020 increased by 279% from the previous year.

Research by (Irma Suryani Lating, Faculty of Islamic Economics and Business et al., 2019) showed the results that there was an influence between financial performance and company value. Large-scale companies show that the company is growing so that it affects the company's profitability, increased profits tend to attract investors, which then makes the demand for company shares increase.

The quality of sustainability reports does not affect the company's value as a result of research conducted by (Ching et al., 2017) Explain with the results that there is no relationship between accounting and market-based variables and reporting quality, and although the quality of disclosure improved during the research years, the score is still low.

From the presentation of problems related to the disclosure of sustainability reports as well as several theories with different results shown from several researchers with the same variables, the researcher wanted to know and test whether there was an effect of the disclosure of sustainability reports on the value of companies with the disclosure of sustainability reports as an intervening variable in

companies listed on the Indonesia Stock Exchange (IDX) for the period 2018 to 2022.

Legitimacy theory is "*The concept of legitimacy is important in analyzing the relationships between organizations and their environments*" which means that the concept of legitimacy has an important role in reading and analyzing the relationship between both sides between organizations and their environment.

Stakeholders is a company consisting of shareholders, creditors, consumers, suppliers, employees and other communities such as the community which is part of the social environment, this theory also explains how the management of the company meets and manages the expectations of the *Stakeholders* (Freeman et al., 2004).

Ethical financial performance has demands to implicate the realization of industrial activities as a harmonious interaction between stakeholders (interested parties) and shareholders or business people themselves, To achieve the company's goals and its business will run in a corridor that is expected to carry out ethical activities as business people (Summer & Chittoor, 2023).

Disclosure *Economic, Social and Governance* (ESG) is a company's effort towards stakeholder inclusion, responding to investors, building credibility and reacting to the situation in their respective industries (Aydoğmuş et al., 2022).

The wealth of shareholders and companies is presented by the market price of the shares which is a reflection of investment, funding and asset management decisions (Gonawan & Evriani, 2022).

Methods

The research method of this study is a quantitative approach using secondary data with a sample of 12 companies listed on the IDX for the period 2018 to 2022. The analysis methods used are *Structural Equation Modeling* (SEM). SEM is a method used in analyzing to examine the influence of dependent variables on independent variables both directly and indirectly. Sholihin & Ratmono (2013) stated that SEM (*Structural Equation Modeling*) is a type of multivariate analysis (*Multivariate Analysis*) in the social sciences. The stages of SEM-PLS analysis are:

Evaluation of Outer Model or Measurement Model

The outer model or often referred to as *the outer relation or measurement model* defines how each indicator block relates to its latent construct.

Evaluation of Inner Model or Structural Model

Evaluate the inner model or structural model to see the relationships between latent constructs. The stability of this estimate is evaluated using a statistical test or *p-value* obtained through a *bootstrapping procedure*.

Results and Discussion

Results of Outer Evaluation or Measurement Model

Convergent Validity

Convergent validity assessed based on the correlation between *Item Score/Component Score* with *construct score*. Individual reflexive measures are said to be high if the value of *loading factor* is more than 0.70 and is sufficient if it is between 0.50 - 0.60 (Ghozali & Latan, 2015).

Table 2 Outer Loadings

	<i>Outer Loadings</i>
GPM <- Financial Performance	-0.017
ROI <- Financial Performance	0.764
NPM <- Financial Performance	0.228
RTO <- Financial Performance	0.753
ITO <- Financial Performance	-0.211
TATO <- Financial Performance	0.920
GRI Standard <- Sustainability Report Disclosure	1.000
PBV <- Company Value	-0.348
TOBIN'SQ <- Company Values	0.955
PER <- Company Value	-0.312

Source: Secondary data processed

Gross Profit Margin (GPM) indicators, *Net Profit Margin* (NPM), *Inventory Turnover* (ITO). *Price Book Value* (PBV) and *Price Earning Ratio* (PER) must be excluded from the research model, because they have a *loading factor value* of less than 0.70. GPM, NPM, and ITO are not able to reflect financial performance. Therefore, it is necessary to do calculations on the *PLS Algorithm* (*running calculate*) Again. The results of the second phase of *convergent validity* evaluation are described in the following table

Table 3 Outer Loadings

	<i>Outer Loadings</i>
ROI <- Financial Performance	0.789
RTO <- Financial Performance	0.743
TATO <- Financial Performance	0.933
GRI Standard <- Sustainability Report Disclosure	1.000
TOBIN'SQ <- Company Values	1.000

Source : Secondary data processed

Table 3 shows that after issuing three invalid indicators (GPM, NPM, ITO, PBV and PER), it can be seen that all indicators have met *convergent validity*.

Discriminant Validity

Discriminant validity is seen from the value of *Average Variance Extracted* (AVE) and *the root of Average Variance Extracted* (AVE). *Discriminant Validity* can be fulfilled if the *Average Variance Extracted* (AVE) value is above 0.5

Table 4 Evaluation Results of Average Variance Extracted (AVE)

Latent Variables	AVE
Financial Performance	0.681
Sustainability Report Disclosure	1,000
Company Values	1,000

Source: Secondary data processed

Table 4 shows that the AVE value of Financial Performance, Sustainability Report Disclosure, and Company Value are 0.681, 1,000, 1,000, respectively, with these results interpreting that *the discriminant validity* can be met because it is above 0.5.

Composite Reliability Block Indicator

Measured by two criteria, namely *composite reliability* and *Cronbach Alpha* from the indicator block that measures the construct. A construct is declared reliable, if the value *composite reliability* and *Cronbach Alpha* more than 0 (Ghozali & Latan, 2015)

Table 5 Composite Reliability Evaluation Results

Latent Variables	Composite Reliability
Sustainability Report Disclosure	0.864
Financial Performance	1,000
Company Values	1,000

Source: Secondary data processed

Table 5 shows that the values of all constructs are above 0.70 which means that the constructs in this study have good realism.

Results of Evaluation of Inner Model or Structural Model

The evaluation of the inner model was carried out by bootstrapping test which resulted in the value of the determination coefficient of R-Square, Q-Square and hypothesis testing. The testing of the structural model in the SEM-PLS analysis is the determination coefficient (R²) to measure how far the model's motivation is in explaining the variance of the bound variance.

R- Square

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Testing of the structural model is carried out by looking at the value of the *R-Square* which is a test *Goodness of Fit Model* (Ghozali & Latan, 2015). Evaluation results *R-Square* can be seen in the following table

Table 6 R-Square

Latent Variables	<i>R-Square</i>
Company Values	0,728
Sustainability Report Disclosure	0,087

Source: Secondary data processed

Table 6 shows that the variability of the Company Value construct (Tobin's Q) can be explained by the variability of the Financial Performance construct (ROI, RTO and TATO) of 72.8% while the remaining 27.2% is explained by other variables outside the model of this study. The variability of the Sustainability Report Disclosure (GRI Standard) structure can be explained by Financial Performance (ROI, RTO and TATO) of only 8.7%, while the remaining 91.2% is explained by other variables outside this research model.

Q Square

A model is considered to have a relevant predictive value if the Q square value is greater than 0 (> 0). The predictive-relevance value is obtained by the following formula. The predictive-relevance value is obtained by the formula:

$$Q^2 = 1 - (1 - R^2_{12}) (1 - R^2_{22})$$

$$Q^2 = 1 - (1 - 0.728^2) (1 - 0.087^2)$$

$$Q^2 = 1 - (1 - 0.529984) (1 - 0.007569)$$

$$Q^2 = 1 - (0.470016)(0.992431)$$

$$Q^2 = 1 - 0.46645845$$

$$Q^2 = 0.153354155$$

The result of the Q square calculation in this study is 0.153354155 > 0, meaning that the model in this study is considered *predictive* or *relevant*.

Direct Effect

In the PLS SEM analysis, the value of the structural model in this study can be seen from the value of *direct effects* or the term is also called *path coefficient*.

Table 7 Direct Effects

Influence	Path Coefficient
Financial Performance Company → Value	0.785
Financial Performance → Sustainability Report Disclosure	-0,294
Disclosure of → Corporate Value Sustainability Report	-0.174

Source: Secondary data processed

Table 7 The direct effect of Financial Performance on the Company's Value is 0.785, which means that if the Financial Performance increases by one unit, the Company's Value increases by 78.5%. This influence is positive.

The test of the direct influence of Financial Performance on Sustainability Report Disclosure is -0.294. This means that if Financial Performance increases by one unit, the Disclosure of Sustainability Reports decreases by 29.4%.

Testing the direct effect of Sustainability Report Disclosure on the company's value is -0.174 This means that the Sustainability Report Disclosure increases by one unit, the Company's Value will decrease by 17.4%. This influence is negative.

Indirect Effect

To find out the indirect effects in this study, you can see the following table:

Table 8 Indirect Effect

Influence	Path Coefficient
Financial Performance → Disclosure of Sustainability Report Company Value	0.051

Source : Secondary data processed

The indirect influence of Financial Performance on the Company's Value through the Disclosure of the Sustainability Report is 0.051, which means that if the Financial Performance increases by one unit, the Company's Value will increase indirectly through the Disclosure of the Sustainability Report by 5.1%. This influence is positive

Hypothesis Test

Testing and evaluation of the inner model was carried out for the hypothesis of the influence of exogenous variables on endogenous variables by comparing the results of the p value of the path coefficient with a significance level of $\alpha = 0.05$.

Table 9 Hypothesis Test

	Original Sample (O)	Average Sample (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Financial Performance Company → Value	0.785	0.782	0,341	2.306	0,022
Financial Performance → Sustainability Report Disclosure	-0.294	-0.308	0.141	2.084	0,038

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Disclosure of → Corporate Value Sustainability Report	-0.174	-0.0109	0.084	2.061	0,040
Financial Performance → Disclosure of → Sustainability Report Company Value	0.051	0.037	0.028	1.847	0.065

Source : Secondary data processed

Hypothesis Test of the Influence of Financial Performance on Sustainability Report Disclosure (H₁)

Financial Performance has a positive effect on the Disclosure of Sustainability Reports. The t-statistical value of Financial Performance to Sustainability Report Disclosure is 0.141 < the t-table is 1.96 and the P Values are 0.038 less than 0.05 with a path coefficient value of 0.785 So H_a is accepted and H₀ is rejected. This means that Financial Performance has a positive effect on the Disclosure of Sustainability Reports (H₁ received).

Hypothesis Test of the Influence of Financial Performance on Company Value (H₂)

Financial Performance has a negative effect on the Company's Value. The t-statistical value of Financial Performance to Company Value is 0.341 > t-table is 1.96 and the P Values are 0.022 smaller than 0.05 with a line coefficient value of -0.294. So H_a is accepted and H₀ is rejected. This means that Financial Performance has a negative effect on the Company's Value (H₂ Accepted).

Hypothesis Test on the Effect of Sustainability Report Disclosure on Company Value (H₃).

Negative Financial Performance Disclosure has an effect on the Company's Value. The t-statistical value of Financial Performance to Company Value is 0.084 < t-table is 1.96 and the P Values are 0.040 less than 0.05 with a line coefficient value of -0.740. So H₀ is rejected and H_a is accepted. This means that the Disclosure of the Sustainability Report has a negative effect on the Company's Value (H₃ received).

Financial Performance Hypothesis Test on Company Value Through Sustainability Report Disclosure (H₄).

Financial performance affects the company's value through the disclosure of sustainability reports. Disclosure of Sustainability Report. by 0.028 < t-table 1.96

and the P Values are 0.065 greater than 0.05 with a path coefficient value of 0.051 so that H₀ is accepted and H_a is rejected. This means that Financial Performance has no influence on the Company's Value through the Disclosure of Sustainability Reports (H₄ rejected).

Discussion

- a) The results of the study showed a path coefficient of 0.7851 (positive) with a t-statistical value of 0.141 for the Disclosure of Sustainability Reports on Financial Performance < 1.96 t-table and P Values of 0.038 less than 0.05. So H₁ which means that Financial Performance has a positive effect on the Disclosure of the Sustainability Report. The results of this study are in line with research by (Wurdiani et al., 2022) that financial performance affects the publication of the Sustainability Report. This is because the company has a high level of profitability and tends to disclose more sustainability information because it wants to show the public and stakeholders that the company has good performance and high sustainability activities.
- b) The results of the study showed that the value of the path coefficient was -0.294 (Negative), the t-statistical value of the Sustainability Report Disclosure to the Company's Value was 0.341 > t-table was 1.96 and the P Values were 0.022, smaller than 0.05. So H₂ which means that Financial Performance has a negative effect on the Company's Value. This research is in line with research by (September, 2023) that good financial performance has a negative influence on the value of the company because not all financial ratios can describe the company as a whole, one of which is if there is a fluctuation that financial performance rises but is unstable will affect investors in seeing the development of the company.
- c) The results of this study show that the results of the study show a path coefficient value of -0.740 (negative) with a t-statistical value of the Sustainability Report Disclosure to the Company Value of .084 < the t-table is 1.96 and the P Values are 0.040 less than 0.05. So H₃ is accepted, which means that the Sustainability Report Disclosure has a negative effect on the Company Value.

In line with the research conducted by (Aydoğmuş et al., 2022) In carrying out sustainability activities, it takes a long time, in fact, some projects, one of which is related to the environment, take a long time to complete so that investors get an idea of the long-term problems that the company will face in the future.

The t-statistical value of the Sustainability Report Disclosure on the value of the company through financial performance is 0.028 < the t-table is 1.96 and the P Values are 0.065 greater than 0.05 so that H₄ rejected Financial Performance has no influence on the Company's Value through the Disclosure of Sustainability Report. Sustainability report disclosure is reporting with a period of time *medium-*

long term Unlike the short-term financial performance ratio so that it cannot describe its impact on financial performance as well as towards the good value of the company (Hackston & Milne, 1996). In line with the research conducted by (Rahmadani, 2021) Financial performance has no effect on the company's value despite the disclosure of the sustainability report is good. Investors in Indonesia and other members of the general public are of the view that sustainability activities are voluntary activities that are an additional aspect of the company, unlike activities related to financial performance which are the core of a company's objectives and sustainability reports which are considered to be only temporarily changed" and inconsistent every period (Rahmadani, 2021)

Conclusion

This study aimed to analyze the effect of financial performance on company value with sustainability report disclosure as an intervening variable in mining sector companies in Indonesia. The findings reveal that financial performance significantly influences sustainability report disclosure and company value, albeit in different directions. These results suggest that, while sustainability reports are theoretically relevant, they have not yet been fully embraced as strategic indicators for enhancing company value, particularly in Indonesia's capital market context. This study contributes to the literature by highlighting the complexity of the relationship between financial performance, sustainability reports, and company value, especially in the mining sector, which faces substantial environmental sustainability pressures. However, the study has limitations, primarily the small sample size of only 12 companies and a relatively short timeframe, which may limit the generalizability of the findings to other sectors. Additionally, external factors such as government policies or global market dynamics were not deeply examined in this context.

Future research is recommended to expand the sample scope, include cross-sectoral data, and consider other sustainability indicators that may provide more nuanced insights. Furthermore, investigating the moderating role of environmental policies or investor social awareness could offer a more comprehensive understanding of the relationship between sustainability and company value. Thus, this study provides a foundation for deeper discussions on the importance of integrating sustainability strategies to create long-term value for companies.

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