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THE EFFECT OF SUSTAINABILITY REPORTING AND MANAGERIAL OWNERSHIP ON FIRM VALUE WITH FINANCIAL PERFORMANCE AS AN INTERVENTIONAL INDICATOR (Case Study of Manufacturing Companies Listed in the LQ45 Index 2020-2024)

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Abstract

This study aims to analyze the effect of Sustainability Reporting and Managerial Ownership on Firm Value with Financial Performance as an intervening variable in companies listed in the LQ45 index during 2020–2024. The study uses a quantitative approach and secondary data in the form of annual reports and company financial statements. The sample was determined through purposive sampling and resulted in 25 companies with 125 observations. The analysis uses panel data regression and Robust Least Squares with the help of EViews, while mediation testing is carried out using the Sobel Test. The results show that Sustainability Reporting has a negative and significant effect on Firm Value, Managerial Ownership has no significant effect on Firm Value, and Financial Performance proxied by ROA has a positive and significant effect on Firm Value. Financial Performance is unable to mediate the effect of Sustainability Reporting on Firm Value, but is able to mediate the effect of Managerial Ownership on Firm Value. The robust model has an Adjusted Rw-squared of 0.362127, which means that 36.21% of the variation in Firm Value can be explained by Sustainability Reporting, Managerial Ownership, and Financial Performance.

Keywords: Firm Value; Financial Performance; Managerial Ownership; LQ45; Sustainability Reporting

INTRODUCTION

Indonesia's manufacturing sector holds a strategic position in national economic development. Over the long term, this sector was once a key driver of economic growth, but its contribution to the economy has faced pressure as the services sector has strengthened. This situation makes improving the competitiveness and sustainability of manufacturing companies a crucial issue. In the context of capital markets, a company's sustainability is no longer solely measured by its ability to generate profits, but also by its ability to manage economic, social, and environmental impacts and maintain stakeholder trust.

These changes in the business environment are driving companies to increase transparency through Sustainability Reporting (SR). Sustainability reporting is used to convey information about the economic, social, and environmental impacts of a company's activities. Regulatory developments in Indonesia, including POJK No. 51/POJK.03/2017, further reinforce the need for public companies to prepare sustainability reports. Meanwhile, investors also require non-financial information to assess a company's risk, reputation, governance quality, and prospects.

In addition to SR, a company's ownership structure is a relevant internal factor. Managerial ownership indicates the proportion of shares held by management. Theoretically, management ownership can align the interests of managers and owners, thus encouraging decisions oriented toward increasing company value. However, high ownership can also lead to an entrenchment effect if managerial power grows faster than oversight mechanisms.

Firm Value is an important measure because it reflects market perceptions of a company's prospects, performance, and strategic quality. In this study, Firm Value is measured using Tobin's Q. Financial performance is proxied by Return on Assets (ROA) and is placed as an intervening variable. Thus, this study not only examines the direct influence of SR and managerial ownership on Firm Value but also examines whether financial performance is a pathway connecting these two variables to firm value. The research problem arises from inconsistencies in previous research findings. Several studies show that sustainability reporting can increase company value by enhancing transparency, strengthening reputation, reducing information asymmetry, and sending positive signals to investors. Conversely, other studies have found that sustainability disclosure does not always lead to increased company value. These differences may be related to disclosure quality, industry characteristics, company size, observation period, and how investors assess the costs and benefits of sustainability activities.

The relationship between managerial ownership and firm value also shows mixed results. On the one hand, managerial ownership can strengthen the alignment effect because managers share the economic consequences of their decisions. On the other hand, ownership concentration can increase management power and reduce the effectiveness of oversight mechanisms. Therefore, the relationship between ownership structure and firm value needs to be examined within the context of specific sectors and periods.

Financial performance was chosen as an intervening variable because it is one of the mechanisms that can translate corporate strategy into economic results. Companies that are able to manage assets effectively and generate profits have the potential to achieve higher market valuations. In previous research, ROA is often used to represent profitability and asset utilization effectiveness. Therefore, this study examines whether SR and managerial ownership influence Firm Value through changes in Financial Performance.

Based on these gaps, the objectives of this study are: (1) to examine the effect of Sustainability Reporting on Firm Value; (2) to examine the effect of Managerial Ownership on Firm Value; (3) to examine the effect of Financial Performance on Firm Value; (4) to examine the role of Financial Performance as a mediator of the relationship between Sustainability Reporting and Firm Value; and (5) to examine the role of Financial Performance as a mediator of the relationship between Managerial Ownership and Firm Value. The study used 25 companies and 125 observations during 2020–2024.

This research contributes in three ways. First, it adds to the empirical evidence regarding the relationship between sustainability reporting and firm value in companies listed in the LQ45 index. Second, it examines managerial ownership and financial performance simultaneously, thus demonstrating whether ownership structure is directly related to firm value or through profitability mechanisms. Third, the use of Robust Least Squares (RoS) was conducted because initial testing results indicated deviations from several classical assumptions.

Conceptually, this research is based on Stakeholder Theory and Sustainability Theory. Stakeholder Theory views companies as organizations that must consider the interests of investors, employees, customers, regulators, communities, and other stakeholders. Sustainability Theory positions sustainability as a balance between economic, social, and environmental interests. Both perspectives are used to understand why sustainability information and financial performance can influence market valuations.

The research framework consists of Sustainability Reporting (X1), Managerial Ownership (X2), Financial Performance (Z), and Firm Value (Y). The relationships tested include the direct effects of X1→Y, X2→Y, Z→Y, as well as the indirect effects of X1→Z→Y and X2→Z→Y. This framework maintains the variable structure and hypotheses contained in the source thesis. The proposed hypotheses are:

- H1: Sustainability Reporting influences Firm Value.
- H2: Managerial Ownership has an effect on Firm Value.
- H3: Financial Performance has an effect on Firm Value.
- H4: Financial Performance mediates the influence of Sustainability Reporting on Firm Value.
- H5: Financial Performance mediates the influence of Managerial Ownership on Firm Value.

Thus, research is directed at explaining not only whether a variable is related to firm value, but also how this relationship is formed through financial performance.

Stakeholder theory is one of the main foundations of this research. This theory explains that companies have responsibilities to groups broader than shareholders, including employees, customers, suppliers, communities, and regulators. Mahajan et al. (2023) emphasize that an organization's success is related to its ability to meet the expectations of various stakeholders. In the context of SR, disclosure of economic, social, and environmental information can be used to reduce the information gap and demonstrate corporate accountability. Stakeholder theory also explains firm value. When stakeholders obtain more complete and reliable information, uncertainty about the company's prospects can be reduced. Conversely, disclosure perceived as inadequate can create a perception of risk. Thus, firm value can be influenced by the quality of the company's relationships with stakeholders and the information available to the market.

Sustainability theory explains long-term value creation through a balance of economic growth, environmental protection, and social responsibility. The Triple Bottom Line (TBL) framework operationalizes sustainability through three dimensions: people, planet, and profit. In the context of research, sustainability reporting serves as a means to communicate the implementation of these three dimensions to external parties.

TBL expands the concept of corporate performance from financial to more comprehensive measures. The people dimension relates to the workforce and society; the planet dimension relates to the environment, emissions, energy, water, and waste; and profit relates to the creation of economic value. Thus, SR is not only a compliance document but can also be understood as a strategic tool for building reputation and legitimacy.

LITERATURE REVIEW

Sustainability Reporting is a form of non-financial reporting that conveys information about a company's impact and performance across economic, social, and environmental dimensions. In this thesis, SR measurement uses 89 indicators and produces a Total SR score. This variable has a minimum value of 2.667, a maximum of 28.000, a mean of 14.560, and a standard deviation of 7.316 across 125 observations. This average indicates a moderate level of disclosure with variations between companies and periods.

From a measurement perspective, SR disclosures can be grouped into Economic Disclosure, Social Disclosure, and Environmental Disclosure. Economic Disclosure includes information on economic impacts and the distribution of economic value. Social Disclosure covers occupational health and safety, training, equality, and human rights. Environmental Disclosure covers emissions, waste, energy, water, and environmental compliance. This indicator structure is used in measuring research variables.

Managerial Ownership is the proportion of shares owned by internal parties, such as managers, directors, and commissioners. In this study, this measurement was conducted by comparing shares held by managers to total outstanding shares. The average managerial ownership value was 3.779% with a standard deviation of 14.064%, indicating that managerial ownership is generally relatively low but has significant variation across companies.

Theoretically, managerial ownership can produce an alignment effect, namely the alignment of the interests of managers and owners. However, high ownership can lead to an entrenchment effect when management has greater power and oversight mechanisms become less effective. Therefore, the direction of the relationship between managerial ownership and firm value is not always positive.

Financial performance in this study is proxied by Return on Assets (ROA). ROA measures a company's ability to generate profits from total assets under management. A higher ROA value indicates greater effectiveness in the company's resource utilization. In the research data, ROA has a minimum value of -0.520, a maximum of 0.349, an average of 0.084, and a standard deviation of 0.093. A negative minimum value indicates a company experiencing losses during a given period.

Financial performance can be an important mechanism between corporate strategy and market value. Well-managed sustainability activities can enhance efficiency, reputation, and trust. However, these activities can also incur costs in the initial stages. Therefore, the effect of sustainability on ROA may vary depending on industry context, implementation quality, and time horizon.

Firm Value reflects the market's assessment of a company's prospects and quality. This study uses Tobin's Q as a proxy. Tobin's Q compares a company's market value to its asset value. The average Tobin's Q of 2.099 indicates that the sample companies generally have higher market values than their book values, while the standard deviation of 2.893 indicates significant variation in market valuations.

The relationship between financial performance and firm value can be explained through a signaling perspective. Good financial performance signals a company's ability to manage assets, generate profits, and maintain operational sustainability. Investors can then respond to this information through higher market valuations. In previous research summarized in this thesis, Khoiroh et al. (2024) and Maryono and Setyawan (2024) provide evidence that profitability and ROA are relevant in explaining firm value in the LQ45 context. However, other research suggests that this relationship may differ by sector and period.

Previous research has shown varying results. Sahetapy (2023) found that sustainability reports had a positive and significant effect on firm value in the 100 largest companies in Indonesia. This finding supports the notion that sustainability disclosure can improve transparency and investor perception. Conversely, the results in this thesis are negative, indicating that the level of disclosure alone does not necessarily equate to the quality of information received by the market.

Rafsanjani et al. (2024) examined the intervening effects of managerial and institutional ownership on profitability in mining companies. They found that managerial and institutional ownership had a positive and significant effect on firm value, but were not found to affect profitability. The differences in results with this study suggest that industry context, ownership structure, and sample characteristics may influence the relationship between the variables.

Abdi et al. (2022) found that ESG disclosure is related to firm value and financial performance in the aviation industry. The study also demonstrated the relevance of firm size as a moderator. Meanwhile, Kulo et al. (2023) found that managerial ownership has a positive and significant effect on firm value in publicly traded banking companies.

Arif and Handayani (2024) showed that financial performance can mediate the effect of sustainability reporting on firm value in certain contexts. This finding differs from the results of this study, where the mediation of SR→ROA→FV was insignificant. This difference demonstrates that the quality and characteristics of reporting , sector, and observation period are important considerations.

The summary of previous research in the thesis serves as the basis for developing hypotheses and positioning this research within the literature. Some key studies used are Sahetapy (2023), Rafsanjani et al. (2024), Abdi et al. (2022), and Kulo et al. (2023).

Based on a synthesis of theory and previous research, Sustainability Reporting is expected to influence Firm Value because sustainability information signals the quality of risk management and long-term commitment. However, the direction of the empirical influence can be positive or negative. If disclosure remains low, immaterial, or does not demonstrate substantive improvement, investors may perceive Sustainability Reporting as information that is not yet capable of generating economic benefits.

Managerial ownership is expected to influence firm value because managers with stock have an incentive to improve performance. However, this relationship may be insignificant if the ownership proportion is low, other governance mechanisms are more dominant, or the ownership structure is not powerful enough to influence strategic decisions.

Financial performance is expected to influence firm value because profit and asset utilization effectiveness are important information for investors. An increased ROA indicates a company's ability to generate profits from available resources. Within a mediation framework, SR, or managerial ownership, is expected to influence financial performance, which in turn influences firm value.

Thus, this study tests two distinct mediation pathways. The first pathway is Sustainability Reporting → Financial Performance → Firm Value. The second pathway is Managerial Ownership → Financial Performance → Firm Value. Hypotheses H4 and H5 explicitly address these two pathways.

Hypothesis	The relationship is tested	Expectation
H1	Sustainability Reporting → Firm Value	Influential
H2	Managerial Ownership → Firm Value	Influential
H3	Financial Performance → Firm Value	Influential
H4	SR → Financial Performance → Firm Value	Mediation
H5	Managerial Ownership → Financial Performance → Firm Value	Mediation

METHOD

The study employed a quantitative approach with secondary data. The study population comprised companies listed on the Indonesia Stock Exchange and included in the LQ45 index, focusing on companies that met the sample criteria as set out in the thesis. The study period was 2020–2024. The sampling technique used was purposive sampling, which is a selection based on specific criteria.

The sample criteria included companies that had not been delisted during the study period, were in the designated sector, were listed in the LQ45 index during the observation period according to the study criteria, and published fully audited financial statements. After the selection process, 25 companies and 125 observations were obtained, i.e., 25 companies multiplied by five years.

The research data is panel-based because it has a cross-section dimension of companies and a time-series dimension of 2020–2024. Data were obtained from annual financial reports and relevant supporting documents. Initial processing was performed using Microsoft Excel, while econometric testing was conducted using EViews. The research variables consist of Sustainability Reporting (X1), Managerial Ownership (X2), Financial Performance (Z), and Firm Value (Y). The first model tests the influence of X1, X2, and Z on Y. The second model tests the influence of X1 and X2 on Z as the basis for testing mediation.

The method and number of samples are the same as the method described in the thesis, namely 25 companies and 125 observations during 2020–2024. The operationalization of Sustainability Reporting uses disclosure scores based on the sustainability indicators used in the thesis. The measurement distinguishes economic, social, and environmental dimensions. Managerial Ownership is calculated by the ratio of shares owned by managers to the number of shares outstanding. Financial Performance is measured by ROA, which is net profit divided by total assets. Firm Value is measured using Tobin's Q.

Variables	Proxy/Indicator	Measurement
X1 Sustainability Reporting	Economic, Social, Environmental Disclosure	Disclosure score
X2 Managerial Ownership	Management share proportion	Managerial shares / outstanding shares
Z Financial Performance	Return on Assets (ROA)	Net profit / total assets
Y Firm Value	Tobin's Q	Market value of asset / replacement cost

The analysis begins with descriptive statistics to obtain the minimum, maximum, mean, and standard deviation values. Next, panel data model selection is performed using the Chow and Hausman tests. The Chow test is used to select between the Common Effects Model and the Fixed Effects Model, while the Hausman test is used to select between the Fixed Effects Model and the Random Effects Model.

After model selection, classical assumption tests were conducted, including normality, heteroscedasticity, autocorrelation, and multicollinearity. Because initial test results indicated issues with normality, heteroscedasticity, and autocorrelation, the thesis used Robust Least Squares with the M-estimation method. This robust approach was chosen to make the estimation more robust to outliers and data deviations.

The main research model is written as: $Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3Z + e$. For mediation testing, the influence model of X1 and X2 on Z and the coefficient of Z on Y is used. The significance of the indirect effect is tested using the Sobel Test.

The Sobel test for mediation was conducted by entering the path coefficient of the independent variable on the mediating variable and the path coefficient of the mediating variable on the dependent variable. The mediation hypothesis is accepted if the indirect effect is significant at the 5% level. In the thesis, the coefficient of SR on Financial Performance is 0.000483 with a probability of 0.4095, while the coefficient of Managerial Ownership on Financial Performance is -0.000696 with a probability of 0.0223.

The analysis procedure is carried out in stages: first, sample identification and panel construction; second, descriptive statistics; third, model selection; fourth, assumption testing; fifth, robust estimation; sixth, evaluation of the coefficient of determination; and seventh, mediation testing. These stages are used to maintain consistency between the research objectives, statistical models, and interpretation of the results.

The research does not alter the statistical results of the thesis. The coefficients, probabilities, sample sizes, and mediation test results presented in this article are taken from the data processing in the thesis. This is important because the article is intended as a scientific summary of the same research, not as a reanalysis with a new dataset.

The decision criteria for direct testing use a 5% significance level. A p-value <0.05 indicates a significant effect, while a p-value >0.05 indicates insufficient statistical evidence to confirm the effect. For robust models, Adjusted Rw-squared is used as a measure of the model's ability to explain variations in Firm Value.

RESULTS AND DISCUSSION

The study population comprised companies consistently listed in the LQ45 index throughout the observation period. After applying purposive sampling criteria, the study used 25 companies. The sample list included ICBP, INDF, KLBF, SIDO, UNVR, ACES, ADRO, AKRA, AMRT, ANTM, ASII, BRPT, BUKA, ERAA, GGRM, INCO, INKP, JPFA, MIKA, PGAS, SMGR, TBIG, TLKM, TOWR, and UNTR.

The data was then organized into 125 observations. Variations in company characteristics are evident in differences in levels of sustainability disclosure, managerial ownership, profitability, and market value. This situation supports the use of panel data because the study considers differences between companies and changes between periods.

No.	Code	Company name
1	ICBP	Indofood CBP Sukses Makmur Tbk
2	INDF	Indofood Sukses Makmur Tbk
3	KLBF	Kalbe Farma Tbk
4	SIDO	Sido Muncul Tbk Herbal Medicine and Pharmaceutical Industry
5	UNVR	Unilever Indonesia Tbk
6	ACES	Ace Hardware Indonesia Tbk
7	ADRO	Adaro Energy Tbk
8	AKRA	AKR Corporindo Tbk
9	AMRT	Source Alfaria Trijaya Tbk
10	ANTM	Aneka Tambang Tbk
11	ASII	Astra International Tbk
12	BRPT	Barito Pacific Tbk
13	OPEN	Bukalapak.com Tbk

Descriptive statistics were used to provide an initial overview of the distribution of each variable. The results showed that SR Total had an average of 14.560 with a standard deviation of 7.316. Managerial Ownership had an average of 3.779% with a standard deviation of 14.064%. ROA had an average of 0.084 and a standard deviation of 0.093, while Tobin's Q had an average of 2.099 with a standard deviation of 2.893.

Variables	N	Minimum	Maximum	Mean	Standard Deviation
Sustainability Reporting	125	2,667	28,000	14,560	7,316
Managerial Ownership (%)	125	0,000	72,179	3,779	14,064
Financial Performance (ROA)	125	-0.520	0.349	0.084	0.093
Firm Value (Tobin's Q)	125	0.381	14,415	2,099	2,893

The relatively varied SR values indicate that disclosure practices are not yet uniform. Companies with higher scores have a broader scope of sustainability information, while companies with lower scores show more limited disclosure. This is relevant to the regression results, which then show a negative relationship between SR and Firm Value.

The average managerial ownership of only 3.779% indicates that, in aggregate, management is not the dominant shareholder. However, the standard deviation of 14.064%, significantly higher than the mean, indicates the presence of companies with very high managerial ownership. This variation is important in understanding why the direct effect of managerial ownership on firm value is insignificant.

The average ROA of 0.084 indicates positive aggregate performance, but the presence of a minimum value of -0.520 indicates that some observations experienced losses. The average Tobin's Q of 2.099 indicates a relatively high market valuation in general, but the deviation of 2.893 indicates a large difference in market valuations.

The panel data model selection was performed using the Chow and Hausman tests. The Chow test yielded a cross-section F value of 20.617350 with a probability of 0.0000. Because the probability is less than 0.05, the fixed effect model is more appropriate than the common effect model.

Test	Statistics	Probability	Decision
Chow – Cross-section F	20.617350	0.0000	Fixed Effect Model
Hausman – Random cross-section	24.419602	0.0000	Fixed Effect Model

The Hausman test yielded a chi-square statistic of 24.419602 with a probability of 0.0000. This value is less than 0.05, so the fixed effects model is again the preferred choice. The results of both tests consistently demonstrate that firm-specific characteristics need to be considered in panel models.

The selection of this model demonstrates that the companies in the sample have individual characteristics that cannot be considered identical. These differences can stem from each company's business structure, sector, strategy, size, governance, and operational characteristics. Fixed Effects Models allow for firm-specific variations in the estimation. However, selecting a panel model is not the final step. The research continues with classical assumption tests to ensure that the estimation results can be interpreted correctly. In the thesis, subsequent test results indicated violations of several assumptions, so a robust approach was used.

The classical assumption test indicated that the initial model had several issues. The normality test had a significance of 0.0000, indicating that the data did not meet the criteria for normality. The heteroscedasticity test also showed a significance of 0.0000, indicating heteroscedasticity. The Durbin-Watson value of 0.403857 is lower than the lower limit used in the study, indicating positive autocorrelation.

Assumptions	Results	Interpretation
Normality	Sig. 0.0000	Abnormal
Heteroscedasticity	Sig. 0.0000	There is heteroscedasticity
Autocorrelation	DW 0.403857	Positive autocorrelation
Multicollinearity	Maximum correlation |0.2557|	No problem

The multicollinearity test showed that the correlation between the independent variables ranged from -0.2557 to 0.0542. The highest absolute value of 0.2557 was still below the 0.80 threshold, indicating no multicollinearity issues. Therefore, the primary issues with the initial model were the residual distribution, heteroscedasticity, and autocorrelation.

These conditions are the reason for using Robust Least Squares with the M-estimation method. This approach was chosen to produce estimates that are more robust to outliers and data bias. The use of a robust method is an important methodological decision because conclusions about the significance of coefficients are based on a model that has been adjusted to the characteristics of the data.

The results of robust panel data regression show the main model equation: $Y = 1.208342 - 0.026617X1 - 0.001240X2 + 9.331172Z + e$. The Sustainability Reporting coefficient of -0.026617 with a probability of 0.0118 indicates a negative and significant influence on Firm Value. The Managerial Ownership coefficient of -0.001240 with a probability of 0.8226 indicates no significant influence. Meanwhile, the Financial Performance coefficient of 9.331172 with a probability of 0.0000 indicates a positive and significant influence.

Variables	Coefficient	Std. Error	z-Statistic	Prob.
C	1,208342	0.188905	6,396551	0.0000
SR_TOTAL	-0.026617	0.010565	-2.519385	0.0118
MANAGERIAL DECISION	-0.001240	0.005532	-0.224146	0.8226
FINANCIAL PERFORMANCE	9,331172	0.809291	11.53006	0.0000

These results indicate that an increase in Sustainability Reporting scores in the sample is associated with a decrease in Firm Value after other variables in the model are accounted for. This finding does not imply that sustainability is generally detrimental to companies, but rather suggests that within the sample and study period, the measured level of disclosure has not been translated by the market into increased value.

The insignificance of Managerial Ownership indicates that changes in the proportion of management ownership are not sufficient to explain changes in Tobin's Q. This may occur because the average ownership is relatively low and other governance mechanisms are more dominant.

The positive coefficient on Financial Performance indicates that increasing ROA is associated with increasing Firm Value. This finding underscores the importance of financial performance as information that investors pay attention to.

The coefficient of determination in the robust model shows an R-squared of 0.025609 and an Adjusted R-squared of 0.001450. However, because the estimation uses robust regression, the thesis uses Adjusted Rw-squared as the relevant measure. The Adjusted Rw-squared value is 0.362127 or 36.21%. This means that Sustainability Reporting, Managerial Ownership, and Financial Performance together explain 36.21% of the variation in Firm Value.

The remaining 63.79% of the variation in Firm Value is explained by other factors not included in the model. These factors were not identified in this study and should therefore not be considered as specific variables. However, these results indicate that Firm Value is a complex construct and can be influenced by various financial, operational, governance, and market conditions.

Size	Mark
R-squared	0.025609
Adjusted R-squared	0.001450
Rw-squared	0.362127
Adjusted Rw-squared	0.362127
Prob. Rn-squared statistic	0.000000

Overall, the model results provide evidence that Financial Performance is the strongest variable in the model to explain Firm Value, indicated by a coefficient of 9.331172 and a probability of 0.0000. Sustainability Reporting is also significant, but in a negative direction. Managerial Ownership is not directly significant.

Mediation testing was conducted by first estimating the influence of independent variables on Financial Performance. The results showed a coefficient of Sustainability Reporting on Financial Performance of 0.000483 with a probability of 0.4095. The coefficient of Managerial Ownership on Financial Performance was -0.000696 with a probability of 0.0223.

Variables	Coefficient	Std. Error	z-Statistic	Prob.
C	0.065515	0.009804	6.682284	0.0000
SR_TOTAL	0.000483	0.000586	0.824837	0.4095
MANAGERIAL DECISION	-0.000696	0.000305	-2,285507	0.0223

These results provide two important pieces of information. First, Sustainability Reporting does not significantly influence Financial Performance in the mediation model because the probability of 0.4095 is greater than 0.05. Second, Managerial Ownership has a significant and negative influence on Financial Performance because the probability of 0.0223 is less than 0.05.

This finding helps explain why the second mediation pathway can be significant even though the direct effect of Managerial Ownership on Firm Value is insignificant. The mediating variable may be a more sensitive mechanism in capturing the relationship between ownership structure and market value.

Conversely, because SR does not show a significant effect on ROA, the SR→ROA→Firm Value path is weaker. Although SR has a direct effect on Firm Value, the path does not flow through Financial Performance during the study period.

The first Sobel test examined Financial Performance as a mediator of the relationship between Sustainability Reporting and Firm Value. The results yielded a p-value of 0.41100056, greater than 0.05. Thus, Financial Performance was unable to mediate the effect of Sustainability Reporting on Firm Value. Hypothesis H4 was not supported.

These results can be understood from the characteristics of the SR measurement. The study measures the level of disclosure, not the substantive quality of the information. If a company only partially meets the indicators, investors may not necessarily view the disclosure as evidence of improved efficiency and profitability. Therefore, SR can influence market perception through reputation or transparency without first resulting in changes in ROA.

The second Sobel test examined Financial Performance as a mediator of the relationship between Managerial Ownership and Firm Value. The test results showed a p-value of 0.02518546, less than 0.05. Thus, Financial Performance is able to mediate the relationship, supporting H5.

Mediation Path	Sobel p-value	Decision
SR → Financial Performance → Firm Value	0.41100056	Not supported
Managerial Ownership → Financial Performance → Firm Value	0.02518546	Supported

The second Sobel result has a Z of -2.245 with an absolute value of 2.245 > 1.96. The direction of the indirect effect is negative because the coefficient of Managerial Ownership on Financial Performance is negative, while Financial Performance on Firm Value is positive.

The negative influence of Sustainability Reporting on Firm Value is one of the key findings. A coefficient of -0.026617 and a probability of 0.0118 indicate a significant relationship. The thesis explains that one possible cause is the low level of disclosure, with a maximum value of 28 and an average of 14.560 out of 89 indicators. This condition can lead to the perception that reporting does not adequately meet investor expectations.

From a stakeholder theory perspective, SR should help companies build better relationships with investors, regulators, the public, and other stakeholders. However, these benefits depend on the quality, relevance, and consistency of the information. If disclosures are not substantive, the market may perceive the information as not providing added value.

This study's findings differ from those of some studies that found a positive effect of sustainability disclosure on firm value, but align with the notion that disclosure does not always generate direct economic benefits. Sahetapy (2023), Abdi et al. (2022), and Zhou et al. (2022) provide evidence that sustainability disclosure can correlate with firm value in certain contexts. The differences in results reinforce the importance of considering reporting quality and context.

Thus, the primary implication for companies is to substantively improve the quality of their SR, not simply increase the number of disclosed indicators. Information needs to be material, consistent, relevant, and verifiable. This approach is more likely to enhance credibility among stakeholders.

Managerial Ownership has no significant effect on Firm Value. The coefficient of -0.001240 and probability of 0.8226 indicate that changes in the proportion of managerial ownership do not provide sufficient statistical evidence to explain changes in Tobin's Q. This result rejects H2.

Theoretically, managerial ownership can produce an alignment effect. However, under certain conditions, an entrenchment effect can occur. If managerial ownership is not large enough to create strong incentives, or if other governance mechanisms are dominant, the direct impact on firm value can be weakened.

The results of this study differ from those of Rafsanjani et al. (2024) and Kulo et al. (2023), which found a positive effect of managerial ownership on firm value in certain contexts. However, these results are consistent with findings showing that ownership structure does not always have a direct effect on firm value.

Financial Performance has a positive and significant effect on Firm Value, with a coefficient of 9.331172 and a probability of 0.0000. This finding indicates that a company's ability to generate profits from assets is important information for the market. When ROA increases, investors can assess a company's efficiency and prospects.

These findings are consistent with the research of Khoiroh et al. (2024) in the context of the LQ45 index and Maryono and Setyawan (2024), who also identified financial performance as a key factor in explaining company value. These results reinforce the view that financial performance remains a key component in market valuation, despite increasing attention to non-financial aspects.

The role of Financial Performance as a mediator shows a different pattern between the two independent variables. In the relationship between SR and Firm Value, ROA does not act as a significant mediating pathway. This can be explained by the potential initial costs of implementing sustainability, such as training, compliance, reporting systems, and environmental management. These costs may emerge more quickly than the financial benefits, so the effect on ROA is not yet apparent during the observation period.

Conversely, in the relationship between Managerial Ownership and Firm Value, Financial Performance proved to be a mediator. The coefficient of Managerial Ownership on ROA was negative and significant, while ROA on Firm Value was positive and significant. Multiplying both paths yields a negative indirect trend. In other words, changes in managerial ownership structure in the sample are associated with changes in financial performance, which in turn are related to firm value.

This mediation finding aligns with studies that use profitability as an intervening variable in the relationship between ownership structure and firm value, although empirical results may vary by industry. Giffarina et al. (2026) and Penggiring and Sutrisno (2021) serve as comparisons mentioned in this thesis.

Practically, companies need to assess ownership structure not only in terms of the number of shares held by management, but also in terms of its impact on performance. Ownership that is not accompanied by increased efficiency can create negative perceptions, while governance that translates ownership into performance can support company value.

CONCLUSION

Based on data processing of 125 company observations from 2020–2024, the study yielded five main conclusions. First, Sustainability Reporting has a negative and significant effect on Firm Value. This finding suggests that an increase in disclosure scores in the study sample is actually associated with a decrease in firm value. Second, Managerial Ownership has no significant effect on Firm Value. Third, Financial Performance, as proxied by ROA, has a positive and significant effect on Firm Value.

Fourth, Financial Performance is unable to mediate the effect of Sustainability Reporting on Firm Value. Fifth, Financial Performance is able to mediate the effect of Managerial Ownership on Firm Value. Thus, of the five proposed hypotheses, H1, H3, and H5 are supported, while H2 and H4 are not.

The managerial implications of this research are that companies need to improve the quality of Sustainability Reporting in a substantive, material, consistent, and verifiable manner. Companies also need to maintain financial performance, as financial performance has been shown to be positively related to firm value and mediates the relationship between managerial ownership and firm value.

This study has limitations. The sample only covers companies in the LQ45 index from 2020 to 2024, so the results cannot necessarily be generalized to all manufacturing companies. Financial Performance only uses ROA, so it does not cover all dimensions of financial performance. Furthermore, the SR measurement focuses on the level of disclosure, not the substantive quality of the information.

Future research is recommended to add variables such as leverage, company size, growth, corporate governance mechanisms, and macroeconomic factors. Future research could also use ROE, NPM, EPS, or PBV as alternative proxies and develop measures of sustainability reporting quality.

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