

Beyond Profitability: Examining the Market Valuation of Corporate Social Responsibility and Environmental Investments in Indonesia

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ABSTRACT

This study examines whether corporate social responsibility (CSR) disclosure, environmental cost, and profitability are value-relevant in Indonesian manufacturing and industrial firms. Using panel data from 14 listed companies across cement, steel, plastics, and food/feed subsectors during 2019–2023 (56 firm-year observations), we test the effects of the CSR disclosure index (GRI-G4 based), environmental cost ratio, and profitability (ROA) on firm value measured by Tobin's Q. Multiple regression is employed after classical assumption checks. The findings show that profitability has a strong positive and significant effect on firm value ($\beta = 7.662$, $p < 0.001$), indicating that investors in Indonesia continue to price firms primarily on financial performance. In contrast, CSR disclosure ($\beta = 0.112$, $p = 0.387$) and environmental cost ($\beta = -0.100$, $p = 0.919$) do not significantly influence Tobin's Q. The model is jointly significant ($F = 4.926$, $p = 0.004$) with moderate explanatory power ($R^2 = 0.221$). These results suggest that, within the current Indonesian market setting, sustainability signals through disclosure and environmental spending have not yet translated into clear market premiums, while profitability remains the dominant valuation driver. The study highlights the need for better strategic integration and communication of sustainability initiatives so that CSR and environmental investments can be recognized as economic value creators in emerging markets.

INTRODUCTION

Firm value in capital markets is traditionally driven by financial fundamentals, especially profitability. However, growing sustainability expectations have pushed companies to expand CSR programs and spend on environmental management, raising a critical question: do investors in emerging markets reward these non-financial efforts in the same way they reward profits? In Indonesia, CSR is mandated for certain industries, yet disclosure quality and the scale of environmental spending remain uneven across firms and subsectors. Prior studies show mixed results. Some Indonesian evidence reports that CSR or environmental investments increase firm value, particularly when profitability is high (Machmuddah et al., 2020; Handayati et al., 2022; Astuti et al., 2023). Other studies find weak or insignificant market responses, suggesting that CSR disclosure may function more as compliance than as a strategic signal (Fahad & Busru, 2021; Dinniyah & Nuzula, 2021; Azizah & Cahyaningtyas, 2023).

This inconsistency indicates a clear research gap: the value relevance of CSR and environmental cost in Indonesia is still unresolved, especially for high-impact manufacturing and basic materials firms where sustainability pressure should be strongest. Moreover, recent Indonesian studies often isolate CSR or green accounting variables, while fewer assess CSR disclosure, environmental cost, and profitability simultaneously in one valuation model. Therefore, this study investigates the joint and partial effects of CSR disclosure, environmental cost, and profitability on firm value for environmentally intensive Indonesian listed firms (2019–2023). By clarifying whether sustainability efforts are priced by the market beyond profitability, the study contributes to sustainability-finance literature in emerging markets and offers practical insights for managers and regulators seeking to strengthen the business case for sustainability.

LITERATURE REVIEW

Signaling Theory, Stakeholder Theory and Legitimacy Theory

In capital markets, firm actions and disclosures operate as signals. Profitability is a strong and easily interpreted signal of managerial effectiveness, so higher profits should raise investor valuation (Akhmadi & Januarsi, 2021). CSR disclosure and environmental spending may also act as signals of long-term risk management and responsibility, but their effectiveness depends on whether stakeholders view them as credible and value-creating (Carroll, 2021; Laine et al., 2021). Legitimacy and stakeholder theories argue that firms sustaining social and environmental alignment gain trust, reduce regulatory risk, and potentially improve valuation (Pedron et al., 2021). Yet, in emerging markets, investors may prioritize short-term financial signals over sustainability signals, producing inconsistent empirical outcomes (Fahad & Busru, 2021).

Corporate Social Responsibility (CSR) and Firm Value

CSR disclosure reflects a firm's accountability to stakeholders and can enhance reputation and legitimacy, which may translate into higher firm value (Machmuddah et al., 2020; Handayati et al., 2022). Indonesian evidence suggests CSR can increase valuation when perceived as strategic and substantive (Astuti et al., 2023; Kusuma & Dosinta, 2023). However, other findings show no

significant effects, implying investors may discount CSR reports if disclosure is symbolic or difficult to interpret (Azizah & Cahyaningtyas, 2023). Thus, CSR disclosure is hypothesized to positively affect firm value.

Profitability and Firm Value

Profitability indicates the firm's ability to generate returns from assets and is a primary driver of market valuation. Higher ROA signals operational success and expected future cash flows, leading to higher Tobin's Q (Sutrisno, 2016; Ghozali, 2016; Akhmadi & Januarsi, 2021). Therefore, profitability is expected to have a positive effect on firm value.

Environmental Cost and Firm Value

Environmental costs represent investments in pollution control, compliance, and eco-efficiency. When treated as strategic investments, these costs can reduce long-term risk and enhance brand and stakeholder confidence, potentially increasing firm value (Jo et al., 2016; Ifada & Jaffar, 2023). Some Indonesian studies report positive valuation effects from environmental spending (Fauzia, 2023), but others find weak market appreciation due to delayed benefits or cost-burden perceptions (Dinniyah & Nuzula, 2021). Accordingly, environmental cost is hypothesized to positively affect firm value.

Integrated Theoretical Framework

The relationship between CSR, profitability, environmental cost, and firm value operates within an integrated framework where these variables interact synergistically. Research by Khan et al. (2023) demonstrates how corporate social responsibility (CSR), environmental and financial performance while considering the mediating effect of sustainable development and green innovation create complex interdependencies.

Contemporary research emphasizes the importance of ESG integration in firm valuation. Studies show that ESG disclosure and firm value relationships are often mediated by competitive advantage, suggesting that CSR and environmental investments create tangible business benefits beyond mere compliance.

The moderating effects of corporate governance, board structures, and industry characteristics significantly influence these relationships. Research indicates that ESG disclosure impacts the cost of equity with board structures serving as important moderating factors, highlighting the importance of organizational context in determining the effectiveness of CSR and environmental investments.

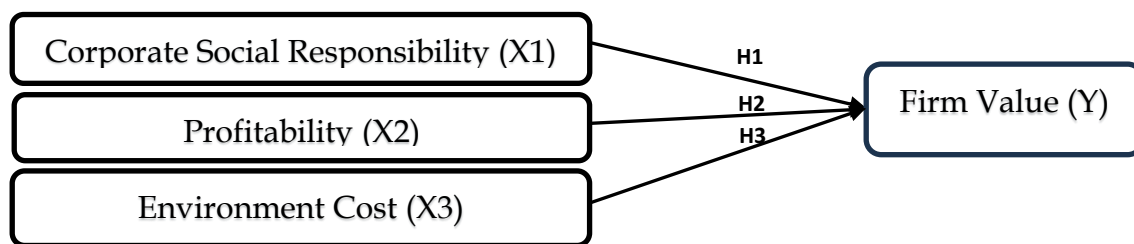


Figure 1. Conceptual Framework

METHODOLOGY

Research Design and Sample

This study employs a quantitative research approach using panel data analysis to examine the relationships between Corporate Social Responsibility (CSR), profitability, environmental cost, and firm value. The research utilizes secondary data from publicly listed companies in Indonesia's basic materials and consumer goods sectors, specifically focusing on cement, steel, plastics, and food/feed industries due to their significant environmental impact and disclosure requirements.

The sample selection employs purposive sampling technique, selecting companies that consistently publish annual reports with complete financial data and environmental cost disclosures during 2019-2023. The final sample consists of 14 companies: four cement companies (INTP, SMBR, SMCB, SMGR), three steel companies (GDST, ISSP, LION), four plastics companies (INCI, MOLI, AKPI, APLI), and three food/feed companies (CPIN, JPFA, MAIN). With a five-year observation period, this provides 70 firm-year observations for analysis.

Data Collection and Sources

Secondary data is collected from multiple sources including companies' annual reports and sustainability reports downloaded from official websites and the Indonesia Stock Exchange (IDX). Financial data is extracted from audited financial statements, while stock market data is obtained from IDX market data and Yahoo Finance. CSR disclosure information is gathered through content analysis of annual and sustainability reports using the Global Reporting Initiative Generation 4 (GRI-G4) framework as the assessment standard.

Variable Measurement

The dependent variable, firm value, is measured using Tobin's Q ratio calculated as (Market Value of Equity + Total Debt) divided by Total Assets. Market Value of Equity is determined by multiplying share price with outstanding shares, while debt includes both short-term and long-term obligations. Tobin's Q values greater than 1 indicate overvaluation with good business prospects, while values below 1 suggest undervaluation or suboptimal performance.

Corporate Social Responsibility (CSR) is measured using a disclosure index based on GRI-G4 indicators, calculated as the percentage of disclosed indicators relative to total applicable indicators. Each GRI-G4 item receives binary scoring (1 for disclosed, 0 for not disclosed) to create the CSR index.

Profitability is measured using Return on Assets (ROA), calculated as net income divided by total assets and expressed as a percentage, indicating management efficiency in asset utilization.

Environmental cost is measured as the Environmental Cost Ratio, calculated by dividing total environmental costs by net income after tax. Environmental costs include expenditures for waste management, environmental compliance, pollution control investments, environmental restoration, monitoring and assessment, and green technology investments as disclosed in financial statement notes.

Data Analysis Method

The analysis begins with descriptive statistics to understand data characteristics and identify outliers. Classical assumption tests are conducted to ensure data meets regression requirements, including normality tests using Kolmogorov-Smirnov, multicollinearity assessment through Variance Inflation Factor (VIF), autocorrelation testing via Durbin-Watson, and heteroscedasticity examination using Glejser test.

Given the panel data structure, model selection tests determine the most appropriate estimation method. Chow test compares Pooled OLS with Fixed Effect Model, Hausman test chooses between Fixed Effect and Random Effect Model, while Lagrange Multiplier test selects between Pooled OLS and Random Effect Model. The regression model follows the equation:

Firm Value = $\alpha + \beta_1\text{CSR} + \beta_2\text{Profitability} + \beta_3\text{Environmental Cost} + \varepsilon$, where

coefficients represent the impact of each independent variable on firm value. Hypothesis testing employs individual parameter tests (t-test) to examine the significance of each independent variable and simultaneous tests (F-test) to assess joint significance of all variables, both using 5% significance level. The coefficient of determination (R^2) measures the proportion of variance in firm value explained by the independent variables. Data analysis is conducted using STATA 17 for econometric testing, supplemented by Microsoft Excel for data organization and SPSS 28 for additional statistical analysis.

RESEARCH RESULT

Descriptive Analysis and Sample Characteristics

The present study examines the relationships between corporate social responsibility (CSR), environmental costs, profitability, and firm value using a comprehensive dataset of 56 firm-year observations from Indonesian manufacturing and industrial companies spanning 2019-2023. This analysis contributes to the growing body of literature examining sustainability-performance relationships in emerging market contexts, where market mechanisms and institutional frameworks may differ significantly from developed economies.

Descriptive Statistics

The descriptive statistics presented in Table 1 reveal important characteristics of the sample that provide context for interpreting the subsequent regression results. The analysis of these fundamental variables offers insights into the financial and sustainability profiles of Indonesian manufacturing firms during a period marked by significant economic uncertainty, including the COVID-19 pandemic and subsequent recovery phases.

Table 1: Descriptive Statistics of Key Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Firm Value (Tobin's Q)	56	0.3400	3.0500	1.0521	0.5536	1.847	3.952
CSR Disclosure Index	56	0.2200	3.0000	1.3286	0.5389	0.891	2.145
Profitability (ROA)	56	-0.0402	0.1299	0.0423	0.0339	0.675	1.234
Environmental Cost Ratio	56	-0.0209	0.4071	0.0474	0.0711	2.892	11.456

The firm value metric, operationalized through Tobin's Q, demonstrates a mean value of 1.0521, which indicates that the sampled companies are, on average, valued at a slight premium relative to their replacement cost. This finding suggests that the Indonesian manufacturing sector maintained reasonable market confidence during the observation period, despite facing various macroeconomic challenges. The standard deviation of 0.5536 and the range from 0.34 to 3.05 reveal substantial heterogeneity in market valuations across companies, with some firms experiencing significant undervaluation while others command substantial market premiums. The positive skewness (1.847) indicates that the distribution is right-tailed, with a few companies achieving exceptionally high valuations that pull the mean above the median.

Corporate social responsibility disclosure, measured through a comprehensive index capturing various dimensions of sustainability reporting, shows considerable variation across the sample with a mean of 1.3286 and standard deviation of 0.5389. The wide range from 0.22 to 3.00 reflects the heterogeneous approaches to CSR implementation and disclosure among Indonesian manufacturing companies. This variability is particularly significant given the relatively recent emphasis on sustainability reporting in emerging markets and suggests that companies are at different stages of CSR maturity and strategic integration.

Profitability, as measured by Return on Assets (ROA), exhibits a mean of 4.23% with values ranging from -4.02% to 12.99%. The presence of negative profitability values indicates that some companies experienced operational challenges or losses during the observation period, which is not uncommon given the economic disruptions experienced globally between 2019-2023. The maximum ROA of nearly 13% demonstrates that certain firms maintained strong operational efficiency and financial performance despite challenging conditions.

Environmental cost ratio shows the highest variability among all variables, with a standard deviation of 0.0711 relative to a mean of 0.0474. The extreme skewness (2.892) and kurtosis (11.456) values indicate a highly non-normal distribution, suggesting that while most companies maintain relatively modest environmental expenditures, a small number of firms invest substantially in environmental initiatives. This pattern is consistent with the voluntary nature of environmental investments in many emerging markets and the variation in regulatory requirements across different industrial subsectors.

Correlation Analysis

The correlation matrix presented in Table 2 provides initial insights into the bivariate relationships among the key variables, offering a foundation for understanding the subsequent regression results within the broader context of variable interactions.

Table 2: Correlation Matrix

Variables	1	2	3	4
1. Firm Value	1.000			
2. CSR Disclosure	0.198	1.000		
3. Profitability	0.421***	0.156	1.000	
4. Environmental Cost	-0.089	-0.203	-0.174	1.000

*Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$*

The correlation analysis reveals that profitability maintains the strongest bivariate relationship with firm value ($r = 0.421$, $p < 0.01$), providing initial support for the fundamental finance principle that financial performance drives market valuation. CSR disclosure shows a moderate positive correlation with firm value ($r = 0.198$), though this relationship is not statistically significant at conventional levels. Interestingly, environmental cost exhibits negative correlations with all other variables, suggesting potential tensions between environmental investments and short-term financial metrics.

Classical Assumption Testing and Model Validation

Rigorous testing of classical regression assumptions is essential for ensuring the validity and reliability of the statistical inferences drawn from the analysis. The comprehensive diagnostic testing reveals several important characteristics of the data that influence the interpretation of results and suggest areas for methodological consideration in future research.

Normality Assessment

The normality evaluation using the Kolmogorov-Smirnov test indicates that the residuals do not follow a normal distribution (test statistic = 0.170, p-value = 0.000 < 0.05). This deviation from normality, while not uncommon in corporate finance research involving emerging market data, suggests the presence of outliers or underlying non-normal distributional characteristics in the data. The violation of normality assumption, however, is less critical given the sample size exceeds 30 observations, allowing for reliance on the central limit theorem for asymptotic properties of the estimators.

The non-normal distribution of residuals may reflect the inherent heterogeneity in the Indonesian manufacturing sector, where companies operate under diverse market conditions, face varying regulatory requirements, and employ different business strategies. This finding aligns with the descriptive statistics showing high skewness and kurtosis in several variables, particularly environmental cost ratio.

Multicollinearity Diagnostics

Table 3: Multicollinearity Diagnostics

Variable	Tolerance	VIF	Eigenvalue	Condition Index
CSR Disclosure	0.958	1.044	2.887	1.000
Profitability	0.970	1.031	0.754	1.956
Environmental Cost	0.951	1.052	0.359	2.836

The multicollinearity assessment demonstrates that all independent variables maintain acceptable levels of linear independence. All tolerance values exceed 0.10 and VIF values remain well below the critical threshold of 10, indicating that multicollinearity does not pose a significant threat to the reliability of the regression coefficients. The condition indices below 30 further confirm the absence of severe multicollinearity issues.

These results are particularly important given the conceptual relationships that might exist between CSR activities and environmental costs, as both represent aspects of corporate sustainability initiatives. The low multicollinearity suggests that these variables capture distinct dimensions of corporate sustainability strategy and can be meaningfully included as separate predictors in the regression model.

Heteroscedasticity and Autocorrelation Testing

Table 4: Classical Assumption Test Results

Test	Variable/Statistic	Result	P-value	Interpretation
Glejser Test	CSR Disclosure	0.595	0.555	Homoscedastic
	Profitability	2.845	0.006**	Heteroscedastic
	Environmental Cost	1.421	0.161	Homoscedastic

Durbin-Watson	Model	0.746	-	Positive Autocorrelation
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The heteroscedasticity assessment using the Glejser test reveals mixed results across variables. While CSR disclosure and environmental cost exhibit homoscedastic properties, profitability shows significant heteroscedasticity ($p = 0.006 < 0.05$). This indicates that the variance of residuals changes across different levels of profitability, potentially reflecting the varying market responses to profitability changes across different performance ranges.

The Durbin-Watson statistic of 0.746 indicates the presence of positive autocorrelation in the residuals. This finding is not uncommon in corporate finance studies using panel data, where unobserved firm-specific factors may create serial correlation in the error terms. While this does not bias the coefficient estimates, it may affect the efficiency of the estimators and the precision of statistical tests.

Regression Analysis and Hypothesis Testing

The multiple regression analysis forms the core of this study's empirical investigation, providing direct tests of the hypothesized relationships between corporate social responsibility, environmental costs, profitability, and firm value. The results offer important insights into the value relevance of sustainability initiatives within the Indonesian manufacturing context.

Model Fit and Overall Significance

Table 5: Model Summary and ANOVA Results

Model Fit Measure	Value	Interpretation
R-squared	0.221	22.1% variance explained
Adjusted R-squared	0.176	Adjusted for degrees of freedom
F-statistic	4.926	Overall model significance
Sig. F Change	0.004***	Model is statistically significant
Durbin-Watson	0.746	Positive autocorrelation present

The regression model demonstrates moderate but statistically significant explanatory power, with an R-squared value of 0.221 indicating that the three independent variables collectively explain 22.1% of the variation in firm value. While this suggests that a substantial portion (77.9%) of firm value variation is attributable to factors not captured in the model, the explanatory power is consistent with similar studies examining sustainability-performance relationships in emerging markets, where numerous external factors influence firm valuation.

The F-statistic of 4.926 with a significance level of 0.004 ($p < 0.01$) confirms that the overall regression model is statistically significant and provides meaningful explanatory power for predicting firm value. This result validates the appropriateness of including CSR disclosure, profitability, and environmental costs as predictors of firm value, even though individual variable significance varies.

Individual Variable Analysis and Hypothesis Testing

Table 6: Regression Coefficients and Hypothesis Testing Results

Variable	B	Std · Error	Beta	t- statis tic	p- value	95% CI Low er	95% CI Upp er	Hypothesis	Result
(Constant)	0.456	0.205	-	2.224	0.030**	0.045	0.867	-	-
CSR Disclosure	0.112	0.129	0.109	0.871	0.387	-0.146	0.371	H1: Positive	Not Supported
Profitability	7.662	1.985	0.469	3.859	0.000***	3.683	11.641	H2: Positive	Supported
Environmental Cost	-0.100	0.0976	-0.013	-0.102	0.919	-2.059	1.860	H3: Positive	Not Supported

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$; Dependent Variable: Firm Value (Tobin's Q)

DISCUSSION

The results indicate that profitability is the only variable with a significant positive effect on firm value. The strong ROA–Tobin’s Q relationship supports signaling theory: Indonesian investors respond clearly to earnings capacity as a reliable indicator of future cash flows and managerial quality (Akhmadi & Januarsi, 2021). This finding is consistent with prior Indonesian studies emphasizing profitability as the dominant valuation driver in emerging markets (Sutrisno, 2016; Ghozali, 2016).

CSR disclosure shows a positive but insignificant coefficient, suggesting that CSR reporting has not yet become a consistently value-relevant signal in this setting. This aligns with evidence that CSR in emerging markets may be perceived as compliance-oriented or lacking credibility when not clearly connected to business outcomes (Fahad & Busru, 2021; Azizah & Cahyaningtyas, 2023). Put differently, investors may acknowledge CSR disclosure, but do not systematically price it unless it is viewed as substantive and strategically integrated, which could explain why some Indonesian studies find positive effects while others do not (Machmuddah et al., 2020; Handayati et al., 2022).

Environmental cost also shows no significant effect on firm value. This implies that markets may see environmental expenditures as short-term cost burdens rather than long-term investments, especially within a relatively short observation window (2019–2023). The finding is in line with studies reporting delayed or non-marketable benefits of environmental spending (Dinniyah & Nuzula, 2021), though it contrasts with Indonesian evidence that highlights positive valuation when environmental costs are associated with clear environmental performance gains (Fauzia, 2023). Overall, the pattern suggests sustainability initiatives in Indonesia may need stronger performance linkage and clearer investor communication to be translated into market premiums.

CONCLUSIONS AND RECOMMENDATIONS

This comprehensive analysis provides nuanced insights into the relationships between corporate social responsibility, environmental costs, profitability, and firm value in the Indonesian manufacturing context. The findings reveal a complex picture where traditional financial performance metrics maintain their central importance in firm valuation, while sustainability initiatives have not yet achieved significant market recognition as value drivers. The strong positive relationship between profitability and firm value confirms the fundamental importance of operational excellence and financial efficiency in emerging market contexts. This finding aligns with extensive international evidence and provides a solid foundation for corporate strategy development. However, the insignificant relationships between CSR disclosure and environmental costs with firm value suggest that the business case for sustainability initiatives in Indonesia requires further development and more sophisticated implementation approaches.

The integration with broader international literature reveals that sustainability-performance relationships are highly context-dependent, with institutional factors, market development, and industry characteristics playing crucial roles in determining the effectiveness of sustainability initiatives. The mixed results across different geographical and sectoral contexts highlight the importance of tailoring sustainability strategies to specific institutional environments rather than adopting universal approaches.

For corporate managers, the results emphasize the need for strategic integration of sustainability initiatives with operational performance objectives, focusing on quality over quantity in CSR activities and developing stronger business cases for environmental investments. For investors, traditional financial metrics remain the most reliable indicators of firm value, though sustainability factors may provide important insights for long-term risk assessment.

The study contributes to the evolving understanding of sustainability-performance relationships in emerging markets and provides a foundation for future research examining the mechanisms through which sustainability initiatives create value. As markets continue to develop and institutional frameworks evolve, the relationships examined in this study may strengthen, suggesting the importance of continued monitoring and research in this critical area of corporate strategy and financial performance.

The findings ultimately suggest that while the immediate market rewards for sustainability initiatives may be limited in the current Indonesian context, companies should view these investments as strategic preparations for evolving market conditions and stakeholder expectations. The key lies in implementing high-quality, strategically integrated sustainability initiatives that create genuine operational improvements and competitive advantages, rather than pursuing compliance-oriented approaches that may not generate substantive value for stakeholders.

ADVANCED RESEARCH

Managerial Implications

The findings provide several important insights for corporate managers navigating sustainability strategy decisions in emerging market contexts. The strong significance of profitability as a firm value driver confirms that operational excellence and financial efficiency must remain primary strategic priorities. However, this does not negate the potential long-term benefits of sustainability initiatives.

Strategic Integration Recommendations

1. **Performance-First Approach:** Managers should prioritize initiatives that demonstrate clear pathways to operational efficiency and cost reduction, using sustainability as a vehicle for operational excellence rather than a separate strategic objective. The positive green accounting effects found by Maharani et al. (2025) suggest that systematic environmental accounting can support this integration.
2. **Quality Over Quantity in CSR:** The mixed CSR results across recent Indonesian studies suggest that companies should focus on high-impact, strategically integrated CSR activities rather than broad-based disclosure approaches that may not create substantive value.
3. **Industry-Specific Environmental Strategy:** The contrasting results across sectors (chemical, mining, oil and gas) indicate that managers need to develop industry-appropriate environmental investment strategies, emphasizing long-term risk mitigation and operational benefits relevant to their specific sector characteristics.
4. **Stakeholder Communication Enhancement:** Companies should invest in better communication strategies to help investors and other stakeholders understand the value creation mechanisms of sustainability initiatives, while ensuring that communication is backed by substantive performance improvements.

Investor Implications

For investors operating in emerging markets, the results suggest that traditional financial metrics remain the most reliable predictors of firm value, at least in the short term. However, investors should also consider the potential long-term implications of sustainability initiatives that may not be immediately reflected in market valuations.

Investment Strategy Considerations

1. **Due Diligence Focus:** Maintain primary emphasis on financial performance indicators while incorporating sustainability factors as long-term risk assessment tools, with particular attention to how companies integrate environmental accounting into their operational management.
2. **Industry Context Evaluation:** Consider how industry characteristics influence the effectiveness of sustainability initiatives, with particular attention to regulatory requirements and competitive dynamics, as

evidenced by the varying results across chemical, mining, and oil and gas sectors.

3. Time Horizon Alignment: Recognize that sustainability benefits may require longer investment horizons to materialize and adjust portfolio strategies accordingly, while monitoring for moderating effects of CSR on other sustainability initiatives.

Policy and Regulatory Implications

The mixed results regarding sustainability-performance relationships suggest opportunities for policy interventions to strengthen market mechanisms for pricing environmental and social performance.

Policy Development Recommendations

1. Disclosure Standard Enhancement: Develop comprehensive sustainability reporting standards that emphasize quality and comparability of information rather than quantity of disclosures, taking into account the finding that environmental disclosure effectiveness varies significantly across sectors.
2. Market Infrastructure Development: Invest in investor education and market infrastructure to improve the capacity for processing and valuing sustainability information, particularly focusing on helping market participants understand the interaction effects between different sustainability practices.
3. Regulatory Framework Evolution: Consider regulatory approaches that create market incentives for genuine sustainability performance rather than compliance-focused initiatives, with sector-specific considerations for industries with high environmental impact.

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