

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

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ABSTRACT: This study investigates the mediating role of profitability in the relationship between corporate governance and leverage on sustainability report disclosure. The sample comprises 25 firms from the Kompas 100 Index on the Indonesia Stock Exchange for the 2019 - 2024 period, selected using purposive sampling. Panel data regression and Sobel mediation tests were conducted with EViews 12. Results reveal that institutional ownership and leverage negatively and significantly affect sustainability report disclosure, while the board of directors shows no significant effect. Institutional ownership and the board of directors also have no significant impact on profitability, whereas leverage negatively affects it. Profitability significantly enhances sustainability report disclosure and mediates the effect of leverage, but not the effects of institutional ownership or the board of directors. These findings highlight the strategic role of profitability in linking capital structure decisions to sustainability reporting practices.

KEYWORDS: Sustainability Report, Good Corporate Governance, Institutional Ownership, Board of Directors, Leverage, Profitability

I. INTRODUCTION

In 1987, the World Commission on Environment and Development defined the ideal goal of sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Global Reporting Initiative, 2023). A sustainability report is a publicly disclosed document containing data on the economic, financial, social, and environmental performance of issuers, public companies, and financial service institutions, serving as part of their commitment to sustainable business practices (Otoritas Jasa Keuangan, 2017). Such reports are used to set goals, monitor performance, evaluate progress, manage change, and demonstrate organizational accountability towards sustainability. They not only reflect alignment with the Sustainable Development Goals (SDGs) but also provide transparency on ethics, risks, challenges, and strategic approaches (Pedoman OJK, 2018).

The Global Reporting Initiative (GRI) plays a crucial role in establishing sustainability reporting standards that enable companies, governments, and institutions to measure and communicate their impacts on critical issues such as climate change, human rights, and corruption (Agustia et al., 2023). The adoption of standardized sustainability reporting enhances both the quality and comparability of information, which benefits stakeholders and promotes responsible business conduct. In Indonesia, regulatory measures such as OJK Regulation No. 51/POJK.03/2017 on Sustainable Finance mandate public companies to prepare and submit sustainability reports regularly, incorporating Environmental, Social, and Governance (ESG) principles. However, despite high compliance rates, a small portion of listed companies remain non-compliant, raising questions about factors influencing adherence to sustainability disclosure requirements.

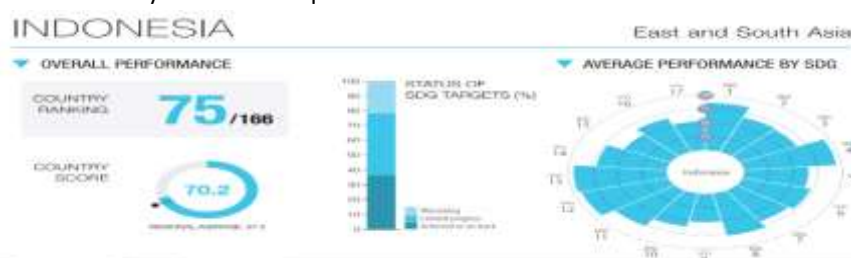


Figure 1. Indonesia's Performance in Achieving the Sustainable Development Goals (SDGs) in 2023

Sumber: Sachs et al., 2023



Figure 2. Indonesia’s Performance in Achieving the Sustainable Development Goals (SDGs) in 2024
 Sumber: Sachs et al., 2024

Recent data reveal that Indonesia’s SDG performance index declined from rank 75 with a score of 70.2 in 2023 to rank 78 with a score of 69.4 in 2024 (Sachs et al., 2023, 2024). This decline underscores the challenges faced in achieving sustainability targets amid increasing global demands for environmentally responsible business practices. In this context, corporate governance and financial structure become critical determinants of sustainability disclosure quality. Good Corporate Governance (GCG) mechanisms, such as institutional ownership and board of directors’ structure, have been shown to influence the extent and quality of sustainability reporting. Higher institutional ownership may strengthen monitoring, improve transparency, and enhance accountability in ESG-related disclosures (Delfy & Bimo, 2021; Adejumo et al., 2025). Similarly, board size and composition can affect decision-making quality, diversity of perspectives, and oversight capacity (Trisnawati et al., 2022).

As of December 2024, the Indonesia Stock Exchange (IDX) reported that 882 companies, representing approximately 94% of all listed firms, had submitted their sustainability reports for the 2023 reporting year. The remaining 6% had yet to fulfill this requirement. According to Ignatius Denny Wicaksono, Head of Business Development Division 2 at the IDX, the ultimate goal is to achieve full compliance in the future (Rabbi, 2025). This development is closely linked to the regulatory framework established by the Financial Services Authority of Indonesia (OJK) through OJK Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. The regulation mandates the preparation and regular submission of sustainability reports as part of the adoption of Environmental, Social, and Governance (ESG) principles. Despite this regulatory mandate, non-compliance persists among certain firms, underscoring the need to examine the factors influencing the extent of sustainability reporting among Indonesian public companies.

Globally, sustainability has emerged as a critical issue, increasingly shaping the dynamics of international trade. For Indonesia, this presents both challenges and opportunities in expanding its presence in global markets. The growing demand for environmentally responsible and sustainable business practices has heightened the pressure on companies to integrate sustainability into their operations. To remain competitive, Indonesia must align its trade and business activities with sustainability principles, thereby meeting international expectations and strengthening its position in the global marketplace (Sudoyo, 2021).

Financial leverage is another factor potentially influencing sustainability disclosure. Firms with higher leverage often face greater scrutiny from creditors, which may encourage more comprehensive and transparent sustainability reporting to build stakeholder trust (Sari et al., 2023; Yohana & Suhendah, 2023). Profitability also plays a pivotal role, as financially strong companies may possess greater resources to support environmental and social initiatives, thereby expanding sustainability disclosures (Shinta et al., 2023).

However, empirical evidence on these relationships remains inconsistent. Some studies report positive effects of GCG and leverage on sustainability disclosure, while others find negative, insignificant, or mixed results. The role of profitability as a mediating variable in these relationships is also underexplored, particularly in the Indonesian context. This research aims to fill this gap by examining the mediating effect of profitability on the relationship between GCG components (institutional ownership and board of directors) and leverage with sustainability report disclosure among companies listed in the Kompas 100 Index during the 2019 - 2024 period. The Kompas 100 Index is selected due to its constituents’ high trading liquidity, large market capitalization, strong financial performance, and quality information disclosure.

II. LITERATURE REVIEW

2.1. Stakeholder Theory

Stakeholder theory, as proposed by Freeman & David (1983), posits that corporations do not operate solely for the benefit of individual shareholders, but have an obligation to create value for a wide range of stakeholders, including creditors, shareholders, suppliers, customers, communities, governments, market analysts, and other relevant parties. The long-term survival of an organization depends on the support it receives from these stakeholders.

Stakeholders possess the potential to influence and control the use of a company's economic resources, with their level of influence determined by the extent of their authority over such resources (Ghozali, 2020). Consequently, a firm's success in achieving its goals is strongly affected by the engagement and role of its stakeholders (Sari et al., 2023). The theory suggests that business practices should be assessed from the perspective of all parties affected by corporate activities, not solely from the viewpoint of shareholders (Firmansyah & Estutik, 2021).

From a disclosure perspective, firms with high leverage are motivated to provide transparent and comprehensive information to gain trust from stakeholders, especially creditors. Similarly, higher profitability tends to attract greater stakeholder attention, prompting companies to disclose sustainability-related information more extensively as a means to strengthen social responsibility commitments and maintain stakeholder relationships (Sari et al., 2023).

2.2. Sustainability Report Disclosure

Sustainability reporting refers to the systematic process of measuring, disclosing, and being accountable to stakeholders for an organization's performance towards sustainable development goals, encompassing economic, social, and environmental dimensions (Otoritas Jasa Keuangan, 2017). Such reporting enhances transparency by openly communicating both positive and negative impacts of corporate activities (Ruhana & Hidayah, 2020).

The Global Reporting Initiative (GRI) Standards provide a globally recognized framework that enables organizations to communicate their economic, environmental, and social impacts in a standardized manner, thereby improving comparability and quality of information worldwide. Under GRI guidelines, sustainability performance is reported across 77 indicators, comprising 13 economic, 30 environmental, and 34 social indicators (Hidayah et al., 2021).

In this study, the Sustainability Report Disclosure Index (SRDI) is measured using the following formula:

$$SRDI = \frac{\sum \text{Item disclosed}}{\sum \text{item of GRI Standard Disclosure}} \quad (77)$$

Each disclosed item is scored 1, and each undisclosed item is scored 0. The total score is then divided by 77 to obtain the disclosure ratio (Yunan et al., 2021).

2.3. Good Corporate Governance (GCG)

Good corporate governance (GCG) refers to the principles, processes, and mechanisms that guide the management and control of a corporation, ensuring accountability, fairness, transparency, and responsibility (PER-01/MBU/2011; Forum Tata Kelola Perusahaan Indonesia, 2002). Effective GCG fosters trust among investors, creditors, employees, regulators, and other stakeholders, ultimately contributing to sustainable corporate performance (Sari et al., 2023).

GCG addresses potential conflicts of interest between shareholders and management, or among shareholders themselves (Ghozali, 2020). In this study, two key components of GCG are examined: institutional ownership and board of directors.

2.3.1. Institutional Ownership

Institutional ownership refers to the proportion of company shares held by institutional investors such as financial institutions, insurance companies, mutual funds, pension funds, and government entities (Subagyo et al., 2017). Institutional investors typically have the resources and incentives to monitor management closely, influencing strategic decision-making and enhancing governance quality (Yeni et al., 2024).

The percentage of institutional ownership (IO) is calculated as:

$$IO = \frac{\text{Number of Shares Owned by Institutions}}{\text{Total Outstanding Shares}}$$

2.3.2. Board of Directors

The board of directors is the governing body responsible for managing a corporation's operations in alignment with its vision, mission, and strategic objectives (UU No. 40/2007; POJK No. 33/2014). Board members, elected by shareholders, play a pivotal role in decision-making, policy formulation, executive appointments, and overall corporate oversight (Ruhana & Hidayah, 2020; Yuliyanti & Cahyonowati, 2023).

In this study, the board of directors (BOD) variable is measured as:

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

BOD = Total Number of Board Members in the Observation Year

2.4. Leverage

Leverage, often expressed through the Debt to Asset Ratio (DAR), measures the proportion of a company's assets financed through debt (Hery, 2021). A higher leverage ratio implies greater financial obligations and risk exposure, which may influence corporate strategies, including disclosure practices. While moderate leverage can enhance financial flexibility, excessive debt can increase default risk and erode investor confidence.

The DAR is calculated as:

$$DAR = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

2.5. Profitability

Profitability reflects a company's ability to generate earnings from its core operations (Hery, 2021). In this study, profitability serves as a mediating variable, potentially bridging the relationship between GCG, leverage, and sustainability disclosure (Rachmawati et al., 2022). High profitability often motivates companies to enhance transparency, as it signals financial strength and long-term viability to stakeholders.

The Net Profit Margin (NPM), which measures net income as a percentage of sales, is used here as the primary indicator of profitability (Hantono, 2018). This ratio captures the efficiency with which a company converts revenue into actual profit after accounting for all expenses. The formula for NPM is:

$$NPM = \frac{\text{Net Income}}{\text{Sales}}$$

2.6. Framework

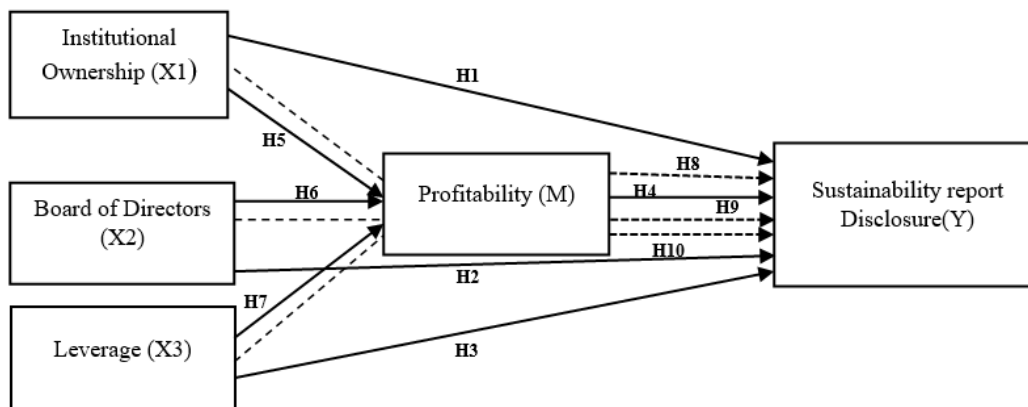


Figure 3. Framework

2.7. Hypothesis Development

2.7.1. The Effect of Institutional Ownership on Sustainability Report Disclosure

Based on stakeholder theory, companies have a responsibility to protect stakeholder interests, including institutional investors who play a strategic role in corporate decision-making. Higher institutional ownership is associated with more efficient governance structures, fostering transparency and accountability through greater disclosure of environmental, social, economic, and governance information. Empirical evidence Adejumo et al. (2025), Delfy & Bimo (2021), Hasan et al. (2022), Shafai et al. (2024), Adawiyah et al. (2024), Mujiani & Nurfitri (2020), and Noerkholiq & Muslih (2021) supports a positive relationship between institutional ownership and sustainability report disclosure.

H1: Institutional ownership has a significant positive effect on sustainability report disclosure.

2.7.2. The Effect of Board of Directors on Sustainability Report Disclosure

Within the stakeholder theory framework, the board of directors plays a vital role in addressing diverse stakeholder expectations. Larger boards tend to strengthen monitoring functions and enhance decision-making, leading to greater non-financial disclosure, including sustainability reporting. Prior studies Latif et al. (2023), Sitorus et al. (2024), Trisnawati et al. (2022) Wijayanti & Setiawan (2023), and Tarda et al. (2024) confirm that board size positively influences sustainability report disclosure.

H2: Board of directors size has a significant positive effect on sustainability report disclosure.

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

2.7.3. The Effect of Leverage on Sustainability Report Disclosure

Firms with high leverage often disclose more comprehensive information to gain stakeholder trust, particularly from creditors, aligning with stakeholder theory principles. This transparency includes sustainability reporting. Empirical findings Yohana & Suhendah (2023), Sitorus et al. (2024), Lusmeida & Amelia (2023), and Adawiyah et al. (2024) indicate a significant positive leverage–disclosure relationship

H3: Leverage has a significant positive effect on sustainability report disclosure

2.7.4. The Effect of Profitability on Sustainability Report Disclosure

Higher profitability provides companies with greater resources to produce detailed sustainability reports, enhancing trust and demonstrating accountability to stakeholders. Previous research Sari et al. (2023), Yohana & Suhendah (2023), Lusmeida & Amelia (2023), Ikipor et al. (2022), Anh et al. (2024), Gunanto et al. (2024), Shinta et al. (2023), Adhania & Nurdiana (2024), Sujatnika et al. (2023), Roviqoh & Khafid (2021), and Sonia & Khafid (2020) consistently shows a positive profitability–disclosure link.

H4: Profitability has a significant positive effect on sustainability report disclosure.

2.7.5. The Effect of Institutional Ownership on Profitability

Institutional investors, with stronger analytical capabilities and long-term orientations, can effectively monitor management, reduce fraud risk, and enhance financial performance. Studies Maryanti & Dianawati (2024) and Alkurdi et al. (2021) confirm a positive effect of institutional ownership on profitability.

H5: Institutional ownership has a significant positive effect on profitability.

2.7.6. The Effect of Board of Directors on Profitability

A larger, more diverse board can improve decision-making quality and operational efficiency, which in turn enhances profitability. This relationship is supported by findings from oleh Tarda et al. (2024) and Margaret & Daljono (2023).

H6: Board of directors size has a significant positive effect on profitability.

2.7.7. The Effect of Leverage on Profitability

While leverage can be used to enhance financing capacity, excessive debt may reduce profitability due to higher interest burdens. Prior evidence Nuraini & Suwaidi (2022) and Irdawati (2022) shows a significant negative relationship between leverage and profitability.

H7: Leverage has a significant negative effect on profitability.

2.7.8. The Role of Profitability in Mediating the Effect of Institutional Ownership on Sustainability Report Disclosure

Profitability can mediate the relationship between institutional ownership and sustainability report disclosure, as higher institutional ownership may drive better financial performance, which in turn provides the resources needed to enhance the quality and scope of sustainability reporting (Sujatnika et al., 2023).

H8: Profitability mediates the effect of institutional ownership on sustainability report disclosure.

2.7.9. The Role of Profitability in Mediating the Effect of the Board of Directors on Sustainability Report Disclosure

Profitability mediates the relationship between the board of directors and sustainability report disclosure, as effective board oversight can enhance accountability, while higher profitability provides the financial capacity to support comprehensive reporting (Tarda et al., 2024).

H9: Profitability mediates the effect of the board of directors on sustainability report disclosure.

2.7.10. The Role of Profitability in Mediating the Effect of Leverage on Sustainability Report Disclosure

Profitability mediates the relationship between leverage and sustainability report disclosure, as effective debt management can enhance profitability, which in turn supports broader and more transparent reporting (Sonia & Khafid, 2020).

H10: Profitability mediates the effect of leverage on sustainability report disclosure.

III. RESEARCH METODOLOGY

3.1. Population and Sample

The population refers to all subjects (events, individuals, companies) or research objects. This study uses a population of companies listed on the Indonesia Stock Exchange (IDX) and included in the Kompas 100 Index during the 2019–2024 period. The sample was selected using a purposive sampling method, with the population required to meet specific criteria as follows: 1) Companies listed on the Indonesia Stock Exchange and included in the Kompas 100 Index. 2) Companies consistently listed in the Kompas 100 Index throughout the 2019–2024 period. 3) Companies in the Kompas 100 Index that do not belong to the banking, non-bank financial institutions, securities, or insurance sectors. This exclusion is intended to maintain data uniformity, given the significant differences in financial reporting characteristics, regulatory requirements, and reporting obligations that could affect the accuracy of the research results. 4) Companies included in the Kompas 100 Index that have published a comprehensive sustainability report during the 2019–2024 period.

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

Based on the established sample selection criteria, 25 companies were selected as the sample. The list of these 25 companies is presented in the following table:

Table 1. Research Sample

No	Code	Company Name
1	ADRO	Adaro Energy Tbk.
2	AKRA	AKR Corporindo Tbk.
3	ANTM	Aneka Tambang Tbk.
4	ASII	Astra International Tbk.
5	BSDE	Bumi Serpong Damai Tbk.
6	ELSA	Elnusa Tbk.
7	EXCL	XLSMART Telecom Sejahtera Tbk
8	INCO	Vale Indonesia Tbk.
9	INDY	Indika Energy Tbk.
10	INTP	Indocement Tunggul Prakarsa Tbk.
11	ITMG	Indo Tambangraya Megah Tbk.
12	JPFA	Japfa Comfeed Indonesia Tbk.
13	JSMR	Jasa Marga (Persero) Tbk.
14	KLBF	Kalbe Farma Tbk.
15	MEDC	Medco Energi Internasional Tbk.
16	PGAS	Perusahaan Gas Negara (Persero) Tbk.
17	PTBA	Bukit Asam Tbk.
18	PTPP	PP (Persero) Tbk.
19	PWON	Pakuwon Jati Tbk.
20	SMGR	Semen Indonesia (Persero) Tbk.
21	TBIG	Tower Bersama Infrastructure Tbk.
22	TINS	Timah Tbk.
23	TPIA	Chandra Asri Petrochemical Tbk.
24	UNTR	United Tractors Tbk.
25	UNVR	Unilever Indonesia Tbk.

Source: Author's processed data, 2025

3.2. Data Collection Method

The data for this study were obtained from secondary sources, specifically the Sustainability Reports and Annual Reports of the companies for the period 2019–2024. These reports were accessed through the companies' official websites and the Indonesia Stock Exchange website at www.idx.co.id.

3.3. Data Analysis Method

3.3.1. Descriptive Analysis

According to Ghozali (2018), descriptive analysis summarizes key characteristics of the dataset, including sample size, minimum and maximum values, mean, standard deviation, variance, range, kurtosis, and skewness. This method provides a preliminary overview of the research variables before further statistical testing.

3.3.2. Panel Data Regression Analysis

This study applies panel data regression analysis, which integrates time-series and cross-sectional data to produce richer information, reduce multicollinearity, increase degrees of freedom, and improve estimation efficiency (Gujarati, 2003; Ghozali & Ratmono, 2017). Three regression models are tested: (1) the effect of institutional ownership, board of directors, and leverage on sustainability report disclosure; (2) the effect of these variables on profitability; and (3) the same relationships with profitability as a mediating variable. The estimation approaches considered are the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Kusumaningtyas et al., 2022). Model selection is conducted using the Chow test (CEM vs. FEM), Hausman test (FEM vs. REM), and Lagrange Multiplier test (CEM vs. REM).

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

3.3.3. Sobel Test

The Sobel test is employed to examine the mediating role of profitability in transmitting the effects of institutional ownership, board of directors, and leverage to sustainability report disclosure. This method evaluates whether the indirect effect through the mediating variable is statistically significant (Ghozali, 2020b).

IV. RESULT AND DISCUSSION

4.1. Descriptive Analysis

Table 2. Descriptive Statistics

	SRDI	IO	BOD	DAR	NPM
Mean	0.547	0.915	6.328	0.487	0.112
Median	0.571	0.943	6.000	0.464	0.106
Maximum	0.987	0.998	11.00	0.866	0.384
Minimum	0.065	0.713	3.000	0.114	-0.165
Std. Dev.	0.233	0.068	1.654	0.202	0.095

Source: EViews12 Output Results, 2025

Based on Table 2. The average Sustainability Report Disclosure Index (SRDI) is 54.74%, indicating that, on average, companies disclose just over half of the indicators in the index. The highest disclosure level, 98.70%, was recorded by PT Timah Tbk (TINS) in 2022, while the lowest, 6.49%, was reported by PT Elnusa Tbk (ELSA) in 2019. The standard deviation (0.2332) suggests relatively low variation across companies. Institutional Ownership (IO) averages 91.47%, with a maximum of 99.81% (PT Indocement Tunggul Prakarsa Tbk, 2019) and a minimum of 71.30% (PT Elnusa Tbk, 2020), indicating generally high and evenly distributed institutional holdings.

The average Board of Directors size is 6.33 members, ranging from three (PT Indika Energy Tbk) to eleven (Astra International Tbk and Unilever Indonesia Tbk), with moderate variation (SD = 1.65). Leverage (DAR) averages 48.68%, meaning nearly half of assets are financed by debt, with a maximum of 86.61% (Unilever Indonesia Tbk, 2024) and a minimum of 11.41% (Vale Indonesia Tbk, 2022). Profitability (NPM) averages 11.21%, with a peak of 38.41% (PT Pakuwon Jati Tbk, 2023) and a minimum of -16.47% (PT Medco Energi Internasional Tbk, 2020). The relatively low standard deviations across variables suggest that differences among sample companies are moderate to low, indicating a generally homogeneous dataset.

4.2. Panel Data Regression Analysis Result

4.2.1 First Regression Model

Table 3. Results of the First Regression Model

Test	Criteria	t-Statistic / Chi-square	p-value	Result
Chow Test	Cross-section Chi-square	77.637	0.000	FEM is the best model
Hausman Test	Cross-section random	8.040	0.045	FEM is the best model

Source: EViews12 Output Results, 2025

Table 4. Regression Model Output First Equation

	Coefficient	t-Statistic	Probability
Institutional Ownership (X1)	-1.4400	-2.1844	0.0311
Board of Directors (X2)	-0.0297	-1.1875	0.2376
Leverage (X3)	-1.0761	-3.3045	0.0013
C	2.5764	4.1940	0.0001
R-Square	0.4976		
Adjusted R-Square	0.3732		
F-Statistic	3.9992		
Prob (F-Statistic)	0.0000		

Source: EViews12 Output Results, 2025

The regression results indicate that the constant (C) has a value of 2.576, meaning that if institutional ownership (KI), board of directors size (DD), and leverage (DAR) are zero, the predicted value of sustainability report disclosure (SRDI) is 2.576. The

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

coefficient for institutional ownership is -1.440 , implying that for every one-unit increase in institutional ownership, SRDI decreases by 1.440 , holding other variables constant. Similarly, the coefficient for the board of directors is -0.030 , indicating that each additional member on the board is expected to reduce SRDI by 0.030 , assuming all other variables remain unchanged. The coefficient for leverage (DAR) is -1.076 , suggesting that a one unit increase in the leverage ratio decreases SRDI by 1.076 , *ceteris paribus*.

The adjusted R-squared value of 0.3732 shows that approximately 37.32% of the variation in SRDI can be explained by institutional ownership, board of directors size, and leverage, while the remaining variation is accounted for by factors outside the model. The F-statistic value of 3.999 with a probability of 0.0000 (< 0.05) indicates that, collectively, institutional ownership, board of directors, and leverage have a statistically significant effect on sustainability report disclosure.

The t-test results reveal that institutional ownership ($p = 0.0311$) and leverage ($p = 0.0013$) have significant negative effects on SRDI, whereas the board of directors ($p = 0.2376$) has no significant effect. Therefore, the hypothesis proposing a positive effect of institutional ownership on SRDI (H1) is rejected due to the significant negative coefficient, the hypothesis regarding the board of directors' positive effect on SRDI (H2) is rejected due to non-significance, and the hypothesis predicting a positive effect of leverage on SRDI (H3) is also rejected because the relationship is significant but negative.

4.2.2 Second Regression Model

Table 5. Results of the Second Regression Model

Test	Criteria	t-Statistic / Chi-square	p-value	Result
Chow Test	Cross-section Chi-square	131.460	0.0000	FEM is the best model
Hausman Test	Cross-section random	6.256	0.0998	REM is the best model
Lagrange Multiplier Test	Cross-section BreuschPagan	69.537	0.0000	REM is the best model

Source: EViews12 Output Results, 2025

Table 6. Regression Model Output Second Equation

	Coefficient	t-Statistic	Probability
Institutional Ownership (X1)	0.2677	1.6576	0.0997
Board of Directors (X2)	-0.0013	-0.2019	0.8403
Leverage (X3)	-0.2248	-3.5341	0.0006
C	-0.0142	-0.0956	0.9240
R-Square	0.1048		
Adjusted R-Square	0.0846		
F-Statistic	5.1877		
Prob (F-Statistic)	0.0020		

Source: EViews12 Output Results, 2025

The regression results show that the constant is -0.0142 , indicating that if institutional ownership (KI), board of directors size (DD), and leverage (DAR) are zero, the predicted net profit margin (NPM) will be -0.0142 , assuming other variables remain constant (*ceteris paribus*). This negative constant suggests that without the contribution of the three independent variables, the company's profitability tends to be negative. The coefficient for institutional ownership is 0.268 , meaning that a one-unit increase in institutional ownership increases NPM by 0.268 , holding other variables constant. This reflects a positive relationship between institutional ownership and corporate profitability. The coefficient for the board of directors is -0.001 , implying that adding one member to the board decreases NPM by 0.001 , *ceteris paribus*. Although the magnitude is small, this result shows a negative relationship between board size and profitability. The coefficient for leverage (DAR) is -0.225 , indicating that a one-unit increase in DAR decreases NPM by 0.225 , suggesting that higher leverage significantly reduces profitability.

The adjusted R-squared value of 0.0845 indicates that approximately 8.45% of the variation in NPM is explained by institutional ownership, board of directors size, and leverage, while the remaining 91.55% is explained by variables outside the model. While this value is relatively small, such results are common in social science and finance research where many external factors influence outcomes. The F-statistic of 5.1877 with a probability of 0.0020 (< 0.05) confirms that, collectively, KI, DD, and DAR have a significant effect on profitability.

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

Individually, institutional ownership has a coefficient of 0.2677 with a probability value of 0.0997, which is marginally significant at the 10% level but not significant at the 5% level. This indicates that while institutional ownership tends to improve profitability, the effect is statistically insignificant at the conventional 5% threshold. Therefore, the hypothesis predicting a significant positive effect of institutional ownership on profitability (H4) is rejected. The board of directors has a coefficient of 0.0013 with a probability of 0.8403, indicating no significant effect; thus, the hypothesis regarding the board of directors' effect on profitability (H5) is rejected. In contrast, leverage (DAR) has a coefficient of -0.2248 with a probability of 0.0006, indicating a significant negative effect; therefore, the hypothesis predicting a negative effect of leverage on profitability (H6) is accepted.

4.2.3 Third Regression Model

Table 7. Results of the Third Regression Model

Test	Criteria	t-Statistic / Chi-square	p-value	Result
Chow Test	Cross-section Chi-square	84.623	0.000	FEM is the best model
Hausman Test	Cross-section random	8.374	0.079	REM is the best model
Lagrange Multiplier Test	Cross-section BreuschPagan	16.626	0.000	REM is the best model

Source: EViews12 Output Results, 2025

Table 8. Regression Model Output Third Equation

	Coefficient	t-Statistic	Probability
Institutional Ownership (X1)	-1.0697	-2.6759	0.0084
Board of Directors (X2)	-0.0110	-0.6729	0.5022
Leverage (X3)	-0.3093	-2.0759	0.0398
Profitability (M)	0.6125	2.6557	0.0089
C	1.6658	4.6517	0.0000
R-Square	0.1324		
Adjusted R-Square	0.1061		
F-Statistic	5.0341		
Prob (F-Statistic)	0.0008		

Source: EViews12 Output Results, 2025

The regression results for the third equation indicate that the constant (C) is 1.666, meaning that if institutional ownership (KI), board of directors size (DD), leverage (DAR), and profitability (NPM) are all zero, the predicted sustainability report disclosure index (SRDI) would be 1.666, assuming other variables remain constant (*ceteris paribus*). The coefficient for institutional ownership is -1.070 , suggesting that a one-unit increase in institutional ownership decreases SRDI by 1.070, holding other factors constant. The board of directors has a coefficient of -0.011 , indicating that adding one board member reduces SRDI by 0.011, all else being equal. Leverage (DAR) has a coefficient of -0.309 , meaning that a one-unit increase in leverage reduces SRDI by 0.309. Profitability (NPM) has a coefficient of 0.613, showing that a one-unit increase in NPM increases SRDI by 0.613.

The adjusted R-squared value is 0.1060, indicating that approximately 10.60% of the variation in SRDI can be explained by KI, DD, DAR, and NPM, while the remaining 89.40% is explained by factors outside the model. The F-statistic of 5.0341 with a p-value of 0.0008 (< 0.05) confirms that the model is jointly significant, meaning that KI, DD, DAR, and NPM collectively have a significant impact on SRDI.

Individually, the t-test results show that institutional ownership has a negative and not significant effect on SRDI, with a coefficient of -1.0697 and a p-value of 0.5022 (> 0.05), indicating that the level of institutional ownership does not play a meaningful role in influencing sustainability disclosure. Leverage (DAR) has a negative and significant effect on SRDI, with a coefficient of -0.3093 and a p-value of 0.0398 (< 0.05), meaning that firms with higher leverage disclose less sustainability information, so this relationship is supported. Profitability (NPM) shows a positive and significant effect on SRDI, with a coefficient of 0.6125 and a p-value of 0.0089 (< 0.05), implying that more profitable firms are more likely to disclose sustainability information, so this relationship is supported. Meanwhile, the board of directors has no significant effect on SRDI, with a coefficient of -0.0110 and a p-value of 0.5022 (> 0.05), so this relationship is not supported.

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

4.3. Sobel Test

Table 9. Sobel Test Results

Model	Z-Sobel	P-value
IO -> NPM -> SRDI	1.404	0.160
BOD -> NPM -> SRDI	-0.143	0.887
DAR -> NPM -> SRDI	-2.118	0.0034

Source: Author's processed data, 2025

Based on the Sobel test outcomes presented in Table 9, the following conclusions can be drawn:

1. The Sobel test for the mediating role of profitability in the relationship between institutional ownership and sustainability report disclosure produced a t-statistic of 1.404 and a p-value of 0.160. Since the p-value exceeds the 0.05 significance threshold, profitability does not significantly mediate this relationship, and therefore the corresponding hypothesis is rejected.
2. For the board of directors, the Sobel test yielded a t-statistic of -0.143 and a p-value of 0.887. This value, being far above the 0.05 threshold, indicates that there is no significant mediating effect of profitability on the relationship between the board of directors and sustainability report disclosure, leading to rejection of the related hypothesis.
3. In the case of leverage (debt-to-asset ratio), the Sobel test produced a t-statistic of -2.118 and a p-value of 0.034. Given that the p-value is below 0.05, profitability significantly mediates the relationship between leverage and sustainability report disclosure, and the associated hypothesis is therefore accepted.

4.4. Results of Hypothesis Test Analysis

Table 10. Direct Impact Test Results

Independent Variable	Dependent Variable	Direction of Coefficient	Results of t-test
IO	SRDI	Negative (-)	Significant
BOD	SRDI	Negative (-)	Not significant
DAR	SRDI	Negative (-)	Significant
NPM	SRDI	Positive (+)	Significant
IO	NPM	Positive (+)	Not significant
BOD	NPM	Negative (-)	Not significant
DAR	NPM	Negative (-)	Significant

Source: EViews12 Output Results, 2025

Table 11. Indirect Influence Test Results

Independent Variable	Mediation Variable	Dependent Variable	Sobel Test Results
IO			Cannot mediate
BOD	NPM	SRDI	Cannot mediate
DAR			Can mediate

Source: Author's processed data, 2025

V. DISCUSSION

5.1. The Effect of Institutional Ownership on Sustainability Report Disclosure

The empirical analysis reveals that institutional ownership has a significant negative effect on sustainability report disclosure, and therefore the related hypothesis is rejected. This outcome runs counter to the conventional expectation derived from stakeholder theory (Ghozali, 2020), which suggests that larger institutional shareholdings should strengthen governance and encourage greater transparency in environmental, social, and governance (ESG) disclosures. The observed negative association may reflect several interrelated realities in the sample firms. First, institutional investors represented in the dataset may be largely passive or short-term oriented and therefore place greater emphasis on financial reporting and short-run returns than on non-financial disclosures; as a result, management prioritizes financial reporting improvements that deliver immediate reputational or market benefits rather than investing resources in comprehensive sustainability reporting. Second, institutional shareholders may not actively engage in stewardship or shareholder activism to demand ESG transparency, either because sustainability criteria are not embedded in their investment mandates or because communication channels between institutions and firm management are

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

weak. Third, higher institutional ownership could coincide with concentrated control structures where dominant shareholders prefer limiting disclosures that they perceive as non-value enhancing or potentially sensitive. These interpretations are in line with Susadi & Kholmi (2021) and Effendi & Prima (2023), who also documented a negative and significant relationship between institutional ownership and sustainability disclosure. Taken together, the findings suggest that the mere presence of institutional investors is not sufficient to guarantee improved sustainability transparency; the type, orientation, and engagement level of those institutions matter critically.

5.2. The Effect of Board of Directors on Sustainability Report Disclosure

The analysis finds no significant relationship between board size and sustainability report disclosure, leading to the rejection of the related hypothesis. While stakeholder theory and some prior studies posit that larger boards can improve monitoring capacity and diversify perspectives thereby increasing non-financial disclosure (Trisnawati et al., 2022; Sitorus et al., 2024; Latif et al., 2023) the present results suggest that board size per se does not translate into stronger sustainability reporting among the sampled companies. Several explanations are plausible. Measurement of board influence by size alone may mask the more salient dimensions of board quality, such as director expertise in ESG matters, independence, active oversight, and the presence of dedicated sustainability or audit committees; if boards are large but lack ESG knowledge or fail to make sustainability a strategic priority, size will not affect disclosure outcomes. Moreover, boards in the sample often appear focused on financial performance and regulatory compliance, which can relegate sustainability issues to lower priority, particularly where reporting on ESG is perceived as resource-intensive with limited short-term payoff. The empirical result accords with Kalbuana et al. (2022), Hendrati et al. (2023), Hasan et al. (2022), Purnama & Handayani (2021), and Pandapotan (2023), who similarly found no significant board-size effect on sustainability disclosure. Thus, policy implications point toward improving board competence and incentives for ESG oversight rather than relying on board size as a proxy for governance quality.

5.3. The Effect of Leverage on Sustainability Report Disclosure

Leverage exhibits a significant negative effect on sustainability report disclosure, which results in rejection of the related hypothesis. This finding suggests that firms with higher debt burdens tend to disclose less sustainability information, a pattern that can be understood through resource allocation and creditor pressure mechanisms. High leverage increases firms' obligations to service debt and maintain solvency, prompting management to concentrate limited financial and managerial resources on short-term financial performance and compliance with creditors' covenants rather than on non-financial reporting. Creditors themselves typically prioritize cash-flow metrics and solvency over social or environmental disclosures, which can signal to management that investment in sustainability reporting yields low immediate priority. In addition, the risk of financial distress may discourage managers from undertaking potentially costly sustainability programs or from revealing ESG weaknesses that could raise financing costs. This negative leverage disclosure linkage aligns with the results of Lusmeida & Amelia (2023), Ikpor et al. (2022), Anh et al. (2024), Bhat & Abdullah (2023), Maryana & Carolina (2021), Sonia & Khafid (2020), Noerkholiq & Muslih (2021), dan Febriawaningsih et al. (2024). The implication is that capital structure choices have non-financial consequences: firms and policymakers seeking better ESG transparency should consider how debt policy may constrain disclosure behavior and explore financing instruments that are compatible with sustainability goals.

5.4. The Effect of Profitability on Sustainability Report Disclosure

Profitability is found to have a significant positive effect on sustainability report disclosure, and the related hypothesis is therefore accepted. This result supports resource-based and stakeholder perspectives which argue that financially stronger firms possess the slack resources funds, personnel, and managerial attention necessary to prepare, verify, and disseminate comprehensive sustainability reports. Higher profitability also enhances stakeholder confidence and legitimacy, incentivizing firms to be more transparent about their social and environmental performance to maintain stakeholder trust and reputational capital. Firms with robust profits may view sustainability reporting as an investment that enhances long-term competitiveness, brand value, and stakeholder relations rather than as an immediate cost. Empirically, this positive linkage is consistent with Sari et al. (2023), Yohana & Suhendah (2023), Lusmeida & Amelia (2023), Ikpor et al. (2022), Anh et al. (2024), Gunanto et al. (2024), Shinta et al. (2023), Adhania & Nurdiana (2024), Maryana & Carolina (2021), Sujatnika et al. (2023), Roviqoh & Khafid (2021), Sonia & Khafid (2020), Pandapotan (2023), Anggara et al. (2023), Angela & Setijaningsih (2023), and Charchafa & Kimouche (2024). Practically, the finding implies that strategies aimed at strengthening financial performance through cost efficiency, product innovation, or market expansion can simultaneously enable greater ESG transparency, and conversely, that improving sustainability practices may be facilitated once firms secure stable profitability.

5.5. The Effect of Institutional Ownership on Profitability

The regression results indicate that institutional ownership does not have a significant effect on profitability, as measured by Net Profit Margin (NPM), leading to the rejection of the related hypothesis. Although theory and several prior studies posit that institutional investors, by virtue of monitoring capabilities and long-term orientation, can enhance corporate performance (Alkurdi et al., 2021; Maryanti & Dianawati, 2024), the absence of a significant relationship in this sample suggests that institutional presence alone does not automatically translate into improved financial outcomes. Possible explanations include heterogeneity in institutional investor objectives (for example, some institutions may be passive index trackers while others are active, engaged owners), limited engagement in governance practices, or insufficient pressure exerted on management to pursue value-enhancing strategies. Moreover, institutional holdings concentrated in certain types of institutions (e.g., short-term funds vs. pension funds) may have differing implications for managerial incentives and performance outcomes. The empirical result echoes Laura et al. (2023), Roviqoh & Khafid (2021) and Sujatnika et al. (2023), and underscores the need to disaggregate institutional types and engagement intensity in future research to better capture their heterogeneous effects on profitability.

5.6. The Effect of Board of Directors on Profitability

The study finds no significant relationship between board size and profitability, which leads to the rejection of the corresponding hypothesis. While a larger, more diverse board could theoretically improve strategic guidance and operational oversight thereby enhancing profitability (Tarda et al., 2024; Margaret & Daljono, 2023) the simple metric of board size may not capture the substantive qualities that drive financial performance, such as director expertise, independence, attendance, and active participation in strategic decision-making. If boards are large but dominated by directors lacking industry experience or strategic orientation, or if boards concentrate on compliance rather than value creation, then board size will not yield measurable improvements in profitability. The empirical finding is in line with oleh Laura et al. (2023) and suggests that governance reforms aimed at profitability should focus on enhancing board effectiveness and the alignment of board incentives with long-term performance, rather than increasing board numbers alone.

5.7. The Effect of Leverage on Profitability

Leverage has a significant negative effect on profitability, and the related hypothesis is accepted. This supports the expectation that excessive debt burdens, by increasing interest expense and financial risk, can erode net profit margins. High leverage amplifies fixed financial obligations and can reduce managerial flexibility to invest in profitable projects or to absorb shocks, thereby dampening net profitability. From a stakeholder perspective, heavily indebted firms may prioritize creditor interests and short-term liquidity management at the expense of strategic investments that generate long-term profit. This result is consistent with the findings of oleh Irdawati (2022) and Nuraini & Suwaidi (2022). The policy implication is that firms should manage leverage prudently; an optimal capital structure that balances the tax and agency benefits of debt with the costs of financial distress is essential to sustain profitability and, by extension, the capacity to pursue sustainability initiatives.

5.8. The Role of Profitability in Mediating the Effect of Institutional Ownership on Sustainability Report Disclosure

The mediation analysis indicates that profitability does not mediate the relationship between institutional ownership and sustainability report disclosure, resulting in rejection of the related hypothesis. This means that even though profitability positively influences sustainability disclosure, institutional ownership does not significantly drive profitability in a way that translates into increased sustainability reporting within the sampled firms. Several factors could account for the absent mediation: institutional investors in this context may not exert the type of stewardship that systematically improves financial performance, or they may place limited weight on sustainability outcomes when monitoring managers. Heterogeneity among institutional investors (domestic vs. foreign, active vs. passive) and potential time lags between ownership actions, financial performance changes, and subsequent disclosure practices may further weaken the indirect pathway. The finding aligns with Roviqoh & Khafid (2021) and highlights the importance of examining both the quality of institutional engagement and alternative mediating channels (e.g., managerial incentives or governance reforms) in future research.

5.9. The Role of Profitability in Mediating the Effect of the Board of Directors on Sustainability Report Disclosure

Profitability is not found to mediate the effect of the board of directors on sustainability report disclosure, and therefore the corresponding hypothesis is rejected. Given that board size did not significantly affect profitability in this study, the lack of mediation is analytically coherent: if the board does not materially improve financial performance, it cannot, via profitability, increase sustainability reporting. This result contrasts with some prior research (e.g., Tarda et al., 2024) that reported mediation effects, suggesting that contextual factors—such as differences in board composition, the presence of sustainability committees, or sectoral heterogeneity—may account for divergent findings. The absence of mediation in this setting highlights that efforts to

Sustainability Reporting: The Mediating Role of Profitability in Corporate Governance and Leverage

strengthen sustainability disclosure through governance reforms should pay attention to board competencies and priorities that directly target ESG oversight, rather than relying on indirect financial channels.

5.10. The Role of Profitability in Mediating the Effect of Leverage on Sustainability Report Disclosure

The study documents a significant mediating role of profitability in the relationship between leverage and sustainability report disclosure, leading to acceptance of the related hypothesis. Higher leverage reduces profitability, and reduced profitability in turn lowers the extent of sustainability reporting. This mediated pathway suggests that capital structure affects ESG disclosure not only directly (through creditor pressures and resource constraints) but also indirectly via its impact on a firm's financial capacity to invest in non-financial reporting. When leverage is managed prudently and profitability is preserved or enhanced, firms appear more capable and willing to produce comprehensive sustainability reports. The mediation result corroborates Sonia & Khafid (2020) and underlines the practical importance of integrated financial and sustainability strategies: managing leverage to sustain profitability can be a precondition for meaningful improvements in sustainability transparency.

CONCLUSIONS

Based on the findings of this study, the following conclusions can be drawn:

1. Institutional ownership has a significant negative effect on sustainability report disclosure.
2. The board of directors has no effect on sustainability report disclosure.
3. Leverage has a significant negative effect on sustainability report disclosure.
4. Profitability has a significant positive effect on sustainability report disclosure.
5. Institutional ownership has no effect on profitability.
6. The board of directors has no effect on profitability.
7. Leverage has a significant negative effect on profitability.
8. Profitability does not mediate the relationship between institutional ownership and sustainability report disclosure.
9. Profitability does not mediate the relationship between the board of directors and sustainability report disclosure.
10. Profitability mediates the relationship between leverage and sustainability report disclosure.

RECOMMENDATION

The findings of this study lead to the following recommendations:

1. For Kompas 100 Companies
 - Engage institutional investors in ESG policy-making and enhance integrated sustainability reporting.
 - Optimize capital structure, maintain healthy debt-to-equity ratios, and adopt green financing options.
 - Improve profitability through sustainable strategies such as eco-friendly products, energy efficiency, and digitalization.
 - Strengthen the board of directors' ESG capacity through training, inclusion of experts, and performance-based metrics.
2. For Investors
 - Use profitability indicators (e.g., NPM) as a measure of sustainability commitment.
 - Monitor high leverage and concentrated institutional ownership as potential non-financial risks..
3. For Future Research
 - Differentiate between types of institutional ownership.
 - Expand governance measurement indicators.
 - Analyze specific components of leverage.
 - Explore alternative mediating variables such as firm size, environmental efficiency, or corporate reputation.

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