

The Effect of Good Corporate Governance and Sustainability Reporting on Firm Value with Profitability as a Mediating Variable in Energy Sector Companies Listed on the Indonesia Stock Exchange

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This study examines the effect of Good Corporate Governance and Sustainability Reporting on firm value with profitability as a mediating variable in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using panel data from annual and sustainability reports, the study employs panel regression and mediation analysis to assess the direct and indirect relationships among the variables. The findings indicate that Good Corporate Governance and Sustainability Reporting are positively associated with profitability, suggesting that stronger governance mechanisms and sustainability disclosure contribute to improved financial performance. However, neither Good Corporate Governance nor Sustainability Reporting exerts a positive direct effect on firm value. Profitability also does not mediate the relationship between governance and sustainability practices and firm value, indicating that improvements in internal performance are not automatically translated into higher market valuation. These results imply that firm value in the energy sector is more strongly influenced by external market conditions and investors' expectations regarding the sustainability of earnings than by governance quality and sustainability disclosure alone.

Keywords: Good Corporate Governance, Sustainability Reporting, Firm Value, Profitability

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1. Introduction

Firm value is a key parameter for assessing the success of corporate management because it reflects management's ability to create shareholder wealth while simultaneously shaping market confidence in a firm's prospects and long-term sustainability. In capital markets, firm value is commonly represented by market-based indicators such as the *Price to Book Value* (PBV) or Tobin's Q, which capture investors' assessments of performance quality, risk structure, and expectations of future growth. For energy-sector firms, the process of value formation tends to be more complex because the industry is capital intensive, exposed to elevated operational and regulatory risks, and strongly associated with environmental issues and the dynamics of the energy transition (Firdauzi et al., 2024; Halim & Sihono, 2025).

At the macro level, the energy sector plays a strategic role in Indonesia's economy because it is directly connected to the national energy supply chain supporting households, industry, and transportation. Nevertheless, the sector is also positioned at the center of increasingly intense structural pressures, particularly due to global commodity price volatility, shifts in energy demand, and the energy transition agenda that requires firms to adapt more quickly to sustainability imperatives. These dynamics have direct implications for corporate financial performance and, ultimately, influence investor perceptions in the capital

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market. Volatility in energy commodity prices, especially coal, causes the valuation of energy firms to be highly sensitive to changes in industry fundamentals and market sentiment, so firm value can fluctuate sharply even when the company's strategic direction does not change materially (Firdauzi et al., 2024).

This phenomenon is evident in the instability of market appraisal as reflected in the PBV of energy issuers. As an illustration, Halim and Sihono (2025) report that during 2021–2023 there was considerable instability in market perceptions of the relative value of energy firms' assets, indicated by extreme PBV changes across firms: the PBV of PT TBS Energi Utama Tbk (TOBA) increased from 0.51 (2022) to 3.57 (2023), while the PBV of PT Golden Eagle Energy Tbk (SMMT) declined from 2.28 (2022) to 0.91 (2023). This pattern reinforces the argument that energy-sector firm value is not driven solely by annual accounting figures, but also by market responses to a combination of signals regarding performance, risk, and corporate credibility.

Under such conditions, *Good Corporate Governance* (GCG) becomes a crucial foundation for maintaining disciplined corporate management and mitigating potential agency conflicts. Conceptually, GCG may be understood as a system that directs and controls the company to achieve a balance of accountability through the regulation of relationships among shareholders, corporate executives, creditors, government, employees, and other stakeholders. Accordingly, GCG should not be interpreted merely as formal compliance; rather, it functions as a control mechanism that enhances managerial decision quality, strengthens oversight, and reduces governance risks that may damage corporate reputation and ultimately undermine firm value.

A number of empirical studies referenced in the literature suggest that specific governance mechanisms can contribute to higher firm value, yet the evidence is not always uniform across governance proxies and industry contexts. Research commonly shows that ownership structures, such as managerial and institutional ownership, may be associated with firm value, while other governance components may not consistently demonstrate significant effects depending on how they operate in practice. This inconsistency strengthens the rationale for re-examining governance–value linkages in the energy sector, particularly during the most recent period in which ESG pressures and the energy transition agenda have intensified simultaneously. Beyond governance, an increasingly dominant dimension in modern corporate accountability discourse is *Sustainability Reporting* (SR). SR is viewed as a strategic instrument for communicating the economic, environmental, and social impacts of corporate activities, and for reducing information asymmetry by improving transparency in sustainability performance.

In Indonesia, sustainability disclosure is also closely linked to regulatory expectations; one of the uploaded studies explicitly notes that the disclosure framework for public companies has been regulated through instruments such as POJK 51/POJK.03/2017. This context makes SR increasingly relevant not only as a voluntary practice, but also as an integral part of corporate accountability in the public market. However, although SR is often framed as a positive signal for investors, empirical evidence remains mixed. Nuraisah and Laily (2022), for example, conclude that sustainability report disclosure (SRDI) does not affect firm value; by contrast, GCG has a positive and significant effect on firm value, while profitability (ROA) does not affect firm value in the context of mining firms during 2014–2020. Findings of this nature indicate that the market may not always reward sustainability information directly, particularly when investors perceive such disclosure as insufficiently “converted” into tangible economic benefits or not yet material to future cash flows.

The heterogeneity of SR effects is also observable from the governance side, namely, whether governance structures actually encourage higher-quality sustainability disclosure. Irfan and Sarumpaet (2023) report that independent commissioners do not significantly influence sustainability report disclosure, arguing that the presence of independent commissioners does not automatically enhance oversight over sustainability-

related activities because they have limited direct involvement in day-to-day operational processes. This suggests that even when firms adopt certain governance structures, their effectiveness in driving sustainability transparency remains contextual, an important explanation for why SR often does not translate into firm value immediately.

Within the firm value framework, profitability is a fundamental variable that tends to be captured most rapidly by capital markets. Profitability reflects a firm's capacity to generate earnings from managed assets and serves as a signal of efficiency and growth potential that investors consider when forming investment judgments. Halim and Sihono (2025) emphasize that profitability significantly influences firm value and argue that a high ROA signals efficient asset management, stimulates investor interest, and consequently contributes to higher firm value. Therefore, in an energy sector characterized by high volatility, profitability can function as an "anchor" for valuation, particularly when non-financial information has not yet been fully translated into market value.

At this point, profitability is reasonably positioned as a mediating mechanism (a transmission pathway) that bridges the effects of non-financial practices, such as GCG and SR, on firm value. Theoretically, strong governance should improve decision quality, reduce agency costs, and enhance efficiency, thereby improving profitability; meanwhile, SR can strengthen legitimacy and stakeholder trust, improve competitiveness and financing access, and stabilize operations—factors that may ultimately be reflected in earnings performance. In line with this, prior literature also suggests that CSR/sustainability practices are more likely to be rewarded by the market when they are accompanied by improved financial performance, making profitability mediation a logical empirical pathway to test (Firdauzi et al., 2024; Tanasya & Handayani, 2020). Nevertheless, the mediating role of profitability does not always yield consistent results. Some studies find that financial performance does not mediate the relationship between GCG/CSR and firm value (Septiana & Susanti, 2026; Windasari & Riharjo, 2017). Such divergence points to an important research gap: the relationships among GCG, SR, profitability, and firm value are contextual and may depend on sectoral characteristics, observation periods, and how markets interpret non-financial disclosures.

This gap becomes even more relevant when the study focuses on the 2020–2024 period. This period is characterized by a strong combination of forces: the Covid-19 shock to supply chains and demand, subsequent recovery phases, a commodity boom that lifted earnings for some energy issuers, and later normalization accompanied by renewed global uncertainty that pressured expectations. Simultaneously, ESG scrutiny and the energy transition agenda have continued to escalate, generating a strategic paradox for energy firms: meeting sustainability expectations requires costs and investments, while the market still demands profit performance. This context may reshape how investors interpret GCG and SR information in firm value formation, thereby making testing within the most recent period critical for producing more relevant and up-to-date evidence.

Based on this background, the present study positions itself to re-examine the effects of *Good Corporate Governance* and *Sustainability Reporting* on firm value in energy sector companies listed on the Indonesia Stock Exchange during 2020–2024, by incorporating profitability as a mediating variable. The study is expected to enrich theoretical contributions by clarifying whether profitability genuinely functions as a transmission mechanism bridging governance and sustainability disclosure toward market value formation. Empirically, the study provides updated evidence within the Indonesian energy sector context—an industry that is volatile, capital intensive, and increasingly exposed to ESG pressure. Practically, the results are expected to serve as a reference for energy-sector management in designing governance and sustainability reporting strategies that extend beyond compliance orientation and more effectively support the creation of sustainable economic value for shareholders.

2. Literature Review and Problem Statement

Firm Value

Firm value reflects the market's overall assessment of a company's performance, growth prospects, risk profile, and long-term sustainability. In capital market studies, firm value is commonly proxied by market-based indicators such as *Price to Book Value* (PBV) and Tobin's Q, which capture investors' expectations regarding the firm's future cash flows relative to the book value of its assets. High firm value indicates strong investor confidence and implies that the company is perceived as capable of generating sustainable economic benefits for shareholders. In the energy sector, firm value is particularly sensitive to fluctuations in commodity prices, regulatory changes, and environmental risk exposure, making valuation more volatile compared to other sectors (Firdauzi et al., 2024; Halim & Sihono, 2025). Consequently, understanding the determinants of firm value in energy companies requires incorporating both financial performance indicators and non-financial governance and sustainability dimensions.

Good Corporate Governance and Firm Value

Good Corporate Governance (GCG) is conceptualized as a system of rules, practices, and processes by which companies are directed and controlled to ensure transparency, accountability, responsibility, and fairness among stakeholders. From an agency theory perspective, effective governance mechanisms reduce agency conflicts between managers and shareholders by improving monitoring and aligning managerial incentives with shareholder interests. Empirical evidence indicates that certain governance mechanisms—such as managerial ownership and institutional ownership—are positively associated with firm value, as they enhance managerial discipline and reduce opportunistic behavior (Pradina, 2025; Nuraisah & Laily, 2022). However, the empirical literature also documents inconsistent findings regarding the effects of other governance components. For instance, audit committees and board structures do not always demonstrate significant effects on firm value, suggesting that governance effectiveness depends on how these mechanisms function in practice rather than on their mere formal existence (Pradina, 2025). These mixed results imply that the relationship between GCG and firm value is context-dependent and may vary across sectors, particularly in high-risk and capital-intensive industries such as energy.

Sustainability Reporting and Firm Value

Sustainability Reporting (SR) represents corporate disclosure of environmental, social, and governance (ESG) performance and is increasingly recognized as an important channel for reducing information asymmetry between firms and stakeholders. From the perspective of signaling and legitimacy theories, sustainability disclosure is expected to enhance corporate reputation, strengthen stakeholder trust, and ultimately contribute to higher firm value by improving the firm's perceived legitimacy and long-term viability. Nevertheless, empirical findings on the direct effect of SR on firm value remain inconclusive. Several studies report that CSR or sustainability reporting does not significantly influence firm value, particularly in extractive or resource-based industries, where investors may prioritize short-term financial performance over long-term sustainability narratives (Amanda et al., 2024; Atanti & Trisnaningsih, 2024; Nuraisah & Laily, 2022). Conversely, other studies document a positive association between CSR activities and firm value under certain contexts, suggesting that the market may reward sustainability practices when they are perceived as credible and value-enhancing (Hariadi & Nurwanda, 2024; Zahra et al., 2025). These divergent results indicate that the market's response to sustainability reporting is heterogeneous and influenced by sectoral characteristics and prevailing economic conditions.

Profitability as a Mediating Variable

Profitability reflects a firm's ability to generate earnings from its assets and operations and constitutes one of the most salient financial indicators for investors in capital markets. Prior studies consistently show that profitability exerts a positive and significant influence on firm value, indicating that firms with superior earnings performance are more favorably valued by investors (Halim & Sihono, 2025; Hariadi & Nurwanda, 2024). Beyond its direct effect, profitability may function as a mediating mechanism through which governance quality and sustainability practices translate into firm value. Theoretically, sound governance structures enhance managerial efficiency and decision quality, which can improve profitability. Similarly, credible sustainability initiatives may strengthen stakeholder relationships, enhance competitive positioning, and improve access to capital, thereby supporting earnings performance. Empirical evidence suggests that profitability can mediate the relationship between sustainability-related practices (e.g., CSR, green accounting) and firm value, implying that sustainability efforts are more likely to be rewarded by the market when they are accompanied by tangible financial performance improvements (Firdauzi et al., 2024; Tanasya & Handayani, 2020). However, the mediating role of profitability is not uniformly supported across studies. Some research finds that financial performance fails to mediate the effects of governance or CSR on firm value, underscoring the contextual and contingent nature of these relationships (Septiana & Susanti, 2026; Windasari & Riharjo, 2017).

Problem Statement and Research Gap

Despite extensive research on corporate governance, sustainability reporting, and firm value, the empirical evidence remains fragmented and inconclusive, particularly within the energy sector. Prior studies report inconsistent findings regarding (i) the direct impact of GCG on firm value, (ii) the effect of sustainability reporting on firm value, and (iii) the mediating role of profitability in translating governance and sustainability practices into market value. Moreover, much of the existing literature focuses on manufacturing firms or employs observation periods that do not capture the recent dynamics of the post-pandemic recovery and the accelerating energy transition. The period 2020–2024 is characterized by heightened commodity price volatility, ESG scrutiny, and regulatory pressures, which may fundamentally alter how investors interpret governance quality and sustainability disclosures in energy firms.

Accordingly, a significant research gap persists concerning whether Good Corporate Governance and Sustainability Reporting exert direct and indirect effects on firm value in the energy sector, and whether profitability serves as a robust mediating mechanism in this relationship. This study seeks to address this gap by providing updated empirical evidence from energy sector companies listed on the Indonesia Stock Exchange during 2020–2024. By integrating governance, sustainability disclosure, and profitability within a unified analytical framework, the study aims to clarify the transmission mechanisms through which non-financial practices influence firm value and to contribute to a more nuanced understanding of value creation in capital-intensive and ESG-sensitive industries.

3. Method

Research Design and Approach

This study adopts a quantitative explanatory research design to examine the effects of Good Corporate Governance (GCG) and Sustainability Reporting (SR) on firm value, with profitability acting as a mediating variable. The research applies a variance-based Structural Equation Modeling approach using Partial Least Squares (PLS-SEM) implemented through SmartPLS version 3. PLS-SEM is considered appropriate for this study due to its suitability for predictive-oriented research, complex models involving mediating

relationships, and its robustness when working with relatively limited sample sizes and non-normally distributed data.

The analysis focuses on energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The panel structure of the dataset allows the examination of relationships among governance mechanisms, sustainability disclosure, profitability, and firm value across both cross-sectional units and time.

Population and Sample

The population of this study comprises all companies classified in the energy sector and listed on the Indonesia Stock Exchange (IDX) during the observation period 2020–2024. A purposive sampling technique was employed to select firms that met the following criteria:

1. Companies were consistently listed on the IDX throughout the 2020–2024 period.
2. Companies published complete annual reports and financial statements for each year of observation.
3. Companies disclosed sustainability-related information either through standalone sustainability reports or sustainability sections within annual reports.
4. All variables required for the analysis were available and complete.

Firms that did not meet these criteria or had incomplete disclosures were excluded from the sample. The final dataset consisted of firm-year observations that fulfilled all inclusion requirements.

Data Sources and Data Collection

This study relies on secondary data obtained from publicly available sources, including:

1. Annual reports and sustainability reports published on corporate websites.
2. Financial statements and corporate information accessed through the official website of the Indonesia Stock Exchange (IDX).
3. Supporting market data obtained from reputable financial information platforms.

Data collection was conducted using a documentation method. Sustainability disclosures were identified and coded systematically using a disclosure index approach, while governance indicators and financial data were extracted directly from audited corporate reports.

Operational Definition and Measurement of Variables

Firm Value (Endogenous Variable)

Firm value is measured using *Price to Book Value* (PBV), calculated as the market price per share divided by book value per share. PBV reflects investors' valuation of the firm relative to its accounting value and is widely used as a proxy for firm value in capital market research.

Good Corporate Governance (Exogenous Variable)

Good Corporate Governance (GCG) is operationalized as a latent construct measured by several formative indicators that represent key governance mechanisms, including:

1. Managerial ownership,
2. Institutional ownership
3. Board of commissioners size
4. Proportion of independent commissioners, and
5. Audit committee size.

These indicators capture both ownership structure and monitoring mechanisms that reflect the quality of corporate governance practices.

Sustainability Reporting (Exogenous Variable)

Sustainability Reporting (SR) is measured using a Sustainability Reporting Disclosure Index (SRDI). The index is constructed based on the proportion of sustainability items disclosed by each company relative to the total disclosure items expected. Each disclosure item is scored using a dichotomous approach (1 = disclosed; 0 = not disclosed). The SRDI value is calculated as the total number of disclosed items divided by the total number of applicable items.

Profitability (Mediating Variable)

Profitability is proxied by *Return on Assets* (ROA), calculated as net income divided by total assets. ROA reflects the firm's ability to generate earnings from its asset base and serves as a key indicator of financial performance.

Measurement Model Evaluation (Outer Model)

The measurement model was evaluated to ensure the reliability and validity of the constructs. For reflective constructs, convergent validity was assessed using outer loadings (≥ 0.70) and Average Variance Extracted ($AVE \geq 0.50$). Construct reliability was evaluated using Cronbach's alpha and Composite Reliability (≥ 0.70). Discriminant validity was assessed using the Fornell–Larcker criterion and cross-loadings.

For formative constructs, multicollinearity among indicators was assessed using Variance Inflation Factor (VIF) values, with VIF values below 5 indicating acceptable levels. The significance and relevance of formative indicators were examined using bootstrapping procedures in SmartPLS.

Structural Model Evaluation (Inner Model)

The structural model was evaluated by examining the coefficient of determination (R^2) for endogenous constructs (profitability and firm value), effect size (f^2), and predictive relevance (Q^2). Path coefficients were estimated and tested for significance using a bootstrapping procedure with a resampling technique. A significance level of 5% ($p < 0.05$) was applied to determine the statistical significance of the hypothesized relationships. The mediating role of profitability was tested by examining the significance of indirect effects from GCG and Sustainability Reporting to firm value through profitability. The mediation type (full mediation, partial mediation, or no mediation) was determined based on the significance of both direct and indirect effects.

4. Results and Discussion

Results

The measurement model was first evaluated to assess the convergent validity of the indicators used to represent each latent construct. Convergent validity is examined by observing the standardized outer loading values of each indicator on its corresponding construct. Indicators with outer loading values below the recommended threshold of 0.70 were considered to have insufficient explanatory power and were therefore removed from the model to improve construct validity.

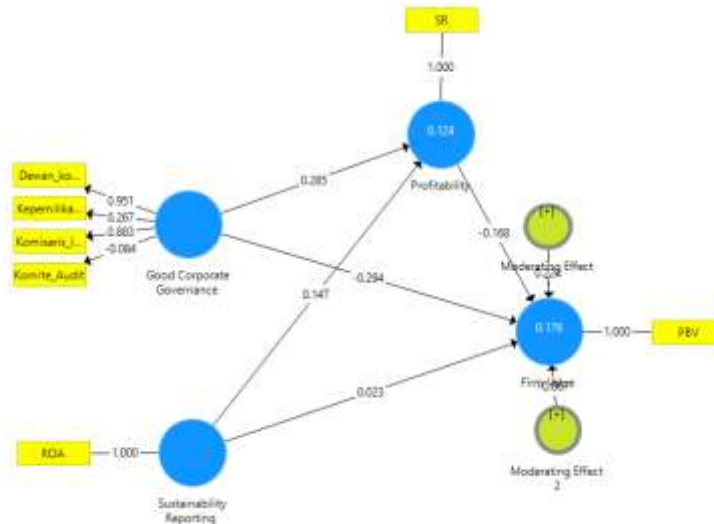


Figure 1. Initial Model

In the initial measurement model, the Good Corporate Governance (GCG) construct was measured using four indicators, namely board of commissioners, institutional ownership, independent commissioners, and audit committee. The estimation results show that two indicators exhibited high outer loading values, indicating strong associations with the GCG construct. However, two other indicators displayed relatively low and even negative loading values, suggesting weak and inconsistent contributions to the construct. These low-loading indicators did not meet the minimum criterion for convergent validity and were therefore dropped from the model to ensure that the GCG construct was represented only by indicators with adequate explanatory strength.

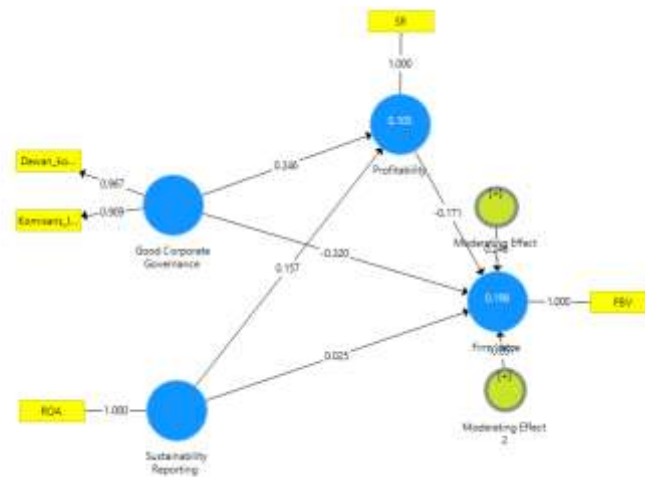


Figure 2. Final Model

After the elimination of the indicators with insufficient loadings, the measurement model was re-estimated. The refined model shows that the remaining indicators of Good Corporate Governance demonstrate strong outer loading values above the recommended threshold, confirming satisfactory convergent validity. This result indicates that the selected governance proxies used in the final model provide a valid and reliable representation of the corporate governance construct in energy sector companies.

For the Sustainability Reporting construct, which is operationalized using a disclosure-based indicator, the outer loading value meets the validity criterion, indicating that the indicator sufficiently represents the construct. Similarly, profitability, proxied by Return on Assets (ROA), demonstrates a perfect standardized

loading in the measurement model, confirming that ROA is an appropriate and valid proxy for firms' profitability performance. Firm value, measured by Price to Book Value (PBV), also exhibits a satisfactory loading, indicating that PBV is a valid market-based indicator to capture firm value in the context of this study.

The results of the convergent validity assessment confirm that, after the refinement process and the elimination of indicators with inadequate loadings, all constructs in the measurement model are represented by indicators with acceptable validity. The final measurement model thus fulfills the convergent validity requirements and is considered suitable for subsequent analysis.

Table 1. Outer Loadings

	Firm Value	Good Corporate Governance	Moderating Effect 1	Moderating Effect 2	Profitability	Sustainability Reporting
Dewan_komisaris		0,967				
Good Corporate Governance *			1,016			
Komisaris_Independen		0,909				
PBV	1,000					
ROA						1,000
SR					1,000	
Sustainability Reporting * Profitability				1,034		

Table 1 shows that all retained indicators have outer loading values above 0.70. The indicators of Good Corporate Governance (board of commissioners and independent commissioners) load strongly on the construct (0.968 and 0.907). Firm value (PBV), profitability (ROA), and sustainability reporting (SR) each show loadings of 1.000, indicating valid single-indicator measures. The interaction terms also exhibit strong loadings (>1.00). Overall, the results confirm that the measurement model meets convergent validity requirements and is suitable for further analysis.

Table 2. Cross Loadings

	Firm Value	Good Corporate Governance	Moderating Effect 1	Moderating Effect 2	Profitability	Sustainability Reporting
Dewan_komisaris	-0,355	0,967	0,247	0,218	0,313	0,261
Good Corporate Governance *	0,186	0,228	1,000	0,156	-0,077	0,201
Komisaris_Independen	-0,211	0,909	0,163	0,136	0,202	0,218
PBV	1,000	-0,317	0,186	-0,074	-0,272	-0,039
ROA	-0,039	0,259	0,201	-0,093	0,221	1,000
SR	-0,272	0,287	-0,077	-0,066	1,000	0,221
Sustainability Reporting * Profitability	-0,074	0,198	0,156	1,000	0,066	-0,093

Table 2 shows that each indicator loads highest on its intended construct compared to other constructs. The indicators of Good Corporate Governance (board of commissioners and independent commissioners) exhibit the strongest loadings on the GCG construct relative to firm value, profitability, sustainability reporting, and interaction constructs. Similarly, PBV loads highest on the firm value construct, ROA on profitability, SR on sustainability reporting, and the interaction terms load highest on their respective moderating constructs. These results indicate that each indicator is empirically distinct and captures a unique construct, thereby confirming that the measurement model satisfies discriminant validity criteria.

Table 3. Heterotrait-Monotrait Ratio (HTMT)

	Firm Value	Good Corporate Governance	Moderating Effect 1	Moderating Effect 2	Profitability	Sustainability Reporting
Firm Value						
Good Corporate Governance	0,322					
Moderating Effect 1	0,186	0,234				
Moderating Effect 2	0,074	0,202	0,156			
Profitability	0,272	0,293	0,077	0,066		
Sustainability Reporting	0,039	0,272	0,201	0,093	0,221	

Table 3 shows that all HTMT values between constructs are below the recommended threshold of 0.85 (and 0.90), indicating adequate discriminant validity. This result confirms that firm value, good corporate governance, sustainability reporting, profitability, and the interaction constructs are empirically distinct from one another. Therefore, the measurement model satisfies the discriminant validity criterion based on the HTMT approach and is suitable for further structural model analysis.

Table 4. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Good Corporate Governance -> Firm Value	-0,320	-0,327	0,051	6,335	0,000
Good Corporate Governance -> Profitability	0,246	0,250	0,074	3,314	0,001
Moderating Effect 1 -> Firm Value	0,246	0,260	0,075	3,300	0,001
Moderating Effect 2 -> Firm Value	-0,057	-0,087	0,114	0,502	0,616
Profitability -> Firm Value	-0,171	-0,177	0,077	2,229	0,026
Sustainability Reporting -> Firm Value	0,025	0,045	0,089	0,285	0,776
Sustainability Reporting -> Profitability	0,157	0,154	0,076	2,060	0,040

Based on Table 4, the effect of Good Corporate Governance on firm value is negative and statistically significant ($\beta = -0.320$; $t = 6.335 > 1.96$; $p < 0.001$). This indicates that Good Corporate Governance has a

significant negative impact on firm value during the study period, suggesting that improvements in governance mechanisms were not immediately translated into higher market valuation in energy sector companies. Good Corporate Governance has a positive and statistically significant effect on profitability ($\beta = 0.246$; $t = 3.314 > 1.96$; $p = 0.001$), indicating that better governance practices are associated with higher profitability. This result implies that governance mechanisms contribute to improving firms' operational efficiency and financial performance.

The interaction between Good Corporate Governance and profitability (Moderating Effect 1) on firm value is positive and statistically significant ($\beta = 0.246$; $t = 3.300 > 1.96$; $p = 0.001$). This finding suggests that profitability strengthens the relationship between corporate governance and firm value, meaning that the negative direct effect of governance on firm value becomes less pronounced when firms exhibit higher profitability. In contrast, the interaction between Sustainability Reporting and profitability (Moderating Effect 2) on firm value is not statistically significant ($\beta = -0.057$; $t = 0.502 < 1.96$; $p = 0.616$), indicating that profitability does not moderate the relationship between sustainability reporting and firm value.

Furthermore, profitability has a negative and statistically significant direct effect on firm value ($\beta = -0.171$; $t = 2.229 > 1.96$; $p = 0.026$). This suggests that higher profitability is associated with lower firm value in the observed period, which may reflect the specific dynamics of the energy sector, where short-term profit increases driven by commodity price cycles are not necessarily interpreted by the market as sustainable value creation. Sustainability Reporting does not have a significant direct effect on firm value ($\beta = 0.025$; $t = 0.285 < 1.96$; $p = 0.776$), indicating that sustainability disclosure is not directly priced by the market. However, Sustainability Reporting has a positive and statistically significant effect on profitability ($\beta = 0.157$; $t = 2.060 > 1.96$; $p = 0.040$), suggesting that sustainability disclosure is associated with improved profitability, potentially through efficiency gains, reputational benefits, or enhanced stakeholder relationships.

The hypothesis testing results indicate that corporate governance and sustainability reporting influence firm value primarily through their relationships with profitability and interaction effects, while the direct effect of sustainability reporting on firm value is not supported in this study.

Table 5. Specific Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Good Corporate Governance -> Profitability -> Firm Value	-0,042	-0,044	0,023	1,807	0,071
Sustainability Reporting -> Profitability -> Firm Value	-0,027	-0,028	0,019	1,407	0,160

Table 5 reports the specific indirect effects of Good Corporate Governance and Sustainability Reporting on firm value through profitability. The indirect effect of Good Corporate Governance on firm value via profitability is negative and not statistically significant ($\beta = -0.042$; $t = 1.807 < 1.96$; $p = 0.071$). This result indicates that profitability does not significantly mediate the relationship between Good Corporate Governance and firm value at the 5% significance level, although the effect approaches marginal significance at the 10% level. Similarly, the indirect effect of Sustainability Reporting on firm value through profitability is negative and not statistically significant ($\beta = -0.027$; $t = 1.407 < 1.96$; $p = 0.160$). This finding suggests that profitability does not serve as a mediating variable in the relationship between Sustainability Reporting and firm value.

The mediation analysis indicates that profitability does not significantly transmit the effects of corporate governance and sustainability reporting to firm value in the observed period. Consequently, the hypothesized mediating role of profitability is not supported by the specific indirect effects at the conventional 5% significance level.

Discussions

The findings of this study provide important insights into how Good Corporate Governance (GCG), Sustainability Reporting (SR), and profitability interact in shaping firm value in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The results indicate that corporate governance, sustainability practices, and financial performance do not operate in a straightforward linear manner in influencing market valuation, but rather interact within a complex institutional and market environment characterized by high volatility and regulatory pressures.

The negative and significant direct effect of Good Corporate Governance on firm value suggests that improvements in formal governance mechanisms are not immediately appreciated by the capital market in the energy sector. This finding departs from the conventional agency theory expectation that stronger governance enhances firm value through reduced agency costs and improved managerial discipline (Widigdo, 2013; Mukhtaruddin et al., 2019). In the context of energy companies, governance reforms are often associated with higher compliance and monitoring costs, which may be perceived by investors as reducing short-term financial flexibility. Moreover, during periods marked by commodity price fluctuations and macroeconomic uncertainty, market participants tend to focus more heavily on external factors and short-term earnings prospects than on internal governance structures. As a result, the valuation effect of governance improvements may be muted or even perceived negatively in the short run, particularly when governance initiatives are not accompanied by visible improvements in economic outcomes. This interpretation is consistent with empirical evidence showing that not all governance mechanisms are uniformly rewarded by the market, especially in capital-intensive and highly regulated industries (Nuraisah & Laily, 2022; Pradina, 2025).

At the same time, the positive and significant effect of Good Corporate Governance on profitability indicates that governance mechanisms contribute meaningfully to internal performance improvements. Effective monitoring and control appear to enhance managerial efficiency and resource allocation, leading to better profitability outcomes. This finding aligns with the agency perspective that sound governance reduces opportunistic behavior and improves operational effectiveness (Mukhtaruddin et al., 2019; Wahidahwati & Ardini, 2021). The divergence between the negative direct effect of governance on firm value and its positive effect on profitability highlights a potential disconnect between internal performance gains and market valuation in the energy sector. It suggests that while governance reforms may strengthen firms' fundamentals, these improvements are not automatically translated into higher market value unless they are perceived as sustainable and value-enhancing in the long term.

The significant positive interaction between Good Corporate Governance and profitability in affecting firm value further indicates that the market tends to value governance quality more favorably when it is supported by strong financial performance. This finding implies that profitability functions as a reinforcing condition that enhances the credibility of governance practices in the eyes of investors. Governance improvements appear to be more likely interpreted as value-relevant signals when firms demonstrate the ability to convert governance quality into tangible economic outcomes. From a signaling theory perspective, governance quality becomes a credible signal of managerial competence and risk management capability when it is accompanied by observable profitability, thereby strengthening its valuation effect (Husnaini & Basuki, 2020). In the energy sector, where investors face substantial uncertainty related to commodity price

cycles and regulatory risks, profitability serves as an important validation mechanism that shapes how governance practices are interpreted by the market.

Sustainability Reporting does not exhibit a significant direct effect on firm value, indicating that sustainability disclosure is not immediately priced by the market during the observation period. This finding resonates with prior studies in environmentally intensive sectors, which suggest that sustainability disclosure or CSR activities are often perceived as compliance-oriented or symbolic rather than as direct sources of economic value in the short run (Nuraisah & Laily, 2022; Atanti & Trisaningsih, 2024). In the energy sector, sustainability initiatives frequently involve long-term investments and transition costs, while their financial benefits tend to materialize gradually. Consequently, investors may not directly capitalize sustainability disclosure into firm value, particularly in market environments that remain predominantly profit-oriented. This outcome reflects a broader challenge in emerging capital markets, where ESG-related information may not yet be fully integrated into valuation models.

The positive and significant effect of Sustainability Reporting on profitability suggests that sustainability practices and transparent disclosure contribute to improved financial performance. This finding supports stakeholder and legitimacy theory arguments that engagement in sustainability initiatives can enhance operational efficiency, strengthen stakeholder relationships, and reduce non-financial risks, which in turn support profitability (Alsayegh et al., 2022; Alofaysan et al., 2024). In energy companies, sustainability practices may improve risk management, compliance quality, and reputational capital, thereby creating favorable conditions for more stable financial performance. However, the absence of a direct valuation effect indicates that the market does not immediately recognize these financial benefits as value-relevant signals, at least within the short-term horizon captured by the study period.

Profitability exhibits a negative and significant direct effect on firm value, a result that may appear counterintuitive but can be interpreted within the specific context of the energy sector. During the 2020–2024 period, profitability in energy companies was heavily influenced by volatile commodity price movements. Periods of high profitability were often driven by temporary price booms rather than by structural improvements in firms' competitive positions. Investors may therefore discount short-term profit increases that are perceived as cyclical or transitory, leading to a weaker or even negative association between profitability and market valuation. This pattern underscores the importance of distinguishing between short-term profit surges and sustainable value creation in resource-based industries.

The mediation analysis further indicates that profitability does not significantly transmit the effects of Good Corporate Governance and Sustainability Reporting to firm value. Although governance and sustainability practices influence profitability, these improvements do not translate into higher market valuation through contemporaneous profitability gains. This finding suggests that the capital market response to governance and sustainability initiatives in the energy sector is not mediated by short-term accounting performance. Instead, valuation appears to be shaped more strongly by broader external factors, such as commodity market conditions, regulatory developments, and investor sentiment regarding the long-term sustainability of the energy business model. The absence of a significant mediating role of profitability highlights the contextual and dynamic nature of valuation formation in the energy sector and suggests that the market may require longer-term and more consistent performance signals before fully incorporating governance and sustainability improvements into firm value.

The findings underscore that the relationship between corporate governance, sustainability reporting, profitability, and firm value in the Indonesian energy sector is complex and context-dependent. Governance and sustainability practices contribute to internal performance and operational resilience, yet their valuation effects are contingent upon market perceptions of the sustainability and credibility of financial outcomes.

This implies that energy companies need to complement governance reforms and sustainability initiatives with clear strategic communication and demonstrable long-term value creation pathways to ensure that these practices are recognized and rewarded by the capital market.

5. Conclusion

This study examines the effect of Good Corporate Governance and Sustainability Reporting on firm value with profitability as a mediating variable in energy sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The findings indicate that corporate governance and sustainability reporting play important roles in shaping firms' internal performance, yet their implications for market valuation are not straightforward. Good Corporate Governance is found to improve profitability, suggesting that effective governance mechanisms enhance managerial discipline and operational efficiency. Sustainability Reporting also contributes positively to profitability, indicating that sustainability practices and transparent disclosure may support better financial performance through improved risk management, stakeholder relations, and organizational legitimacy. However, neither corporate governance nor sustainability reporting shows a positive direct impact on firm value. This suggests that the capital market does not immediately price governance quality and sustainability disclosure, particularly in the energy sector characterized by high exposure to commodity price volatility and regulatory uncertainty. Profitability does not function as a significant mediating variable in transmitting the effects of governance and sustainability practices to firm value, implying that short-term accounting performance is insufficient to convert non-financial improvements into higher market valuation. These results highlight that market valuation in the energy sector is strongly influenced by external conditions and investors' perceptions of the sustainability of earnings rather than by governance and sustainability initiatives alone. The study contributes to the literature by providing recent evidence from the Indonesian energy sector and underscores the importance of aligning governance reforms and sustainability strategies with long-term value creation that is clearly communicated to the market.

6. References

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