

# Moderating Role Competitive Advantage on Effect of Sustainability Disclosure to Financial Performance

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## ABSTRACT

The purpose of this research is to analyze the moderating effect of competitive advantage on the effect of sustainability disclosure on corporate financial performance. Sustainability disclosure is currently one of the important aspects of corporate strategy, especially in an effort to create long-term value and strengthen the company's reputation in the eyes of stakeholders. This study uses a quantitative approach by utilizing SPSS version 26 software as an analytical tool. The hypothesized hypothesis was tested using the linear regression test and moderated regression analysis to ascertain the degree of influence between the moderating and independent variables. The results showed that sustainability disclosure has a positive effect on financial performance. This finding supports stakeholder theory and signaling theory. In addition, competitive advantage is also proven to strengthen the effect of sustainability disclosure on financial performance. Companies with a significant competitive edge can make better use of sustainability disclosures. According to the research's practical consequences, businesses must actively develop their competitive edge in addition to focusing on thorough sustainability reporting. Adding a moderating variable, competitive advantage, and measuring the independent variable using the Sustainability Reporting Disclosure Index in compliance with POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021 are what make this study novelty.

**Keywords:** Financial Performance; Sustainability Disclosure; Competitive Advantage

## INTRODUCTION

One of the measurements used to assess how well management of the organization is performing is financial performance (Azzam et al., 2020). In addition, financial performance can also be a reference for companies to set strategies to compete in a competitive market. Companies must meet stakeholders' long-term expectations in addition to their short-term financial goals to be able keep being competitive. One of the efforts that companies can make for this is to make transparent sustainability disclosures to improve reputation and relationships with stakeholders, so that this will improve performance (Al Hawaj & Buallay, 2022).

Indonesia's energy sector is a vital sector in the global economy. The performance of energy companies following the COVID-19 pandemic has seen many companies experience negative performance. However, in 2021 and 2022, some energy companies experienced a significant recovery, with improved performance and positive performance. However, in 2023, the performance of energy companies experienced a significant decline, even returning to negative performance (Izzulhaq et al., 2025).

In the current economic transformation, the issue of sustainability has become an important topic for stakeholders (Zhou et al., 2024). This is because environmental conditions, as well as economic and social issues, are directly impacted by companies' operations. Therefore, companies

are encouraged to report on the impacts and efforts of their operations through sustainability disclosures (Girón et al., 2021; Zarefar et al., 2022). Internationally, these non-financial disclosures are standardized by the Global Reporting Initiative (GRI). Through GRI standards, companies obtain guidelines on how to provide relevant disclosures, and help companies achieve sustainable development.

In general, sustainability reports disclose several aspects, namely economic, environmental, social, and also corporate governance aspects (Zarefar et al., 2022). Economic aspects reveal the financial performance, financing and investment in the company. Environmental aspects reveal the use of natural resources, waste and effluent management, emissions, and efforts to reduce negative impacts on the environment. Social aspects highlight concerns about human rights, working conditions, business social responsibility, and stakeholder relations. The company's governance structure and procedures are explained by governance aspects (Kong et al., 2023; Yohana & Suhendah, 2023).

KPMG Global ESG Due Diligence reports that in the past year Economic, Social, and Governance (ESG) disclosures have grown rapidly, making them a key focus for businesses (KPMG, 2024). This means that sustainability disclosure has now become a major focus for most companies. Meanwhile, starting in 2021, the practice of sustainable finance in Indonesia is governed by the Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017, which aims to implement sustainable finance for financial services institutions, issuers, and public businesses. In addition, the format and content of the report are governed by OJK Circular Letter Number 16/SEOJK.04/2021. This regulation requires sustainability disclosures from Indonesian public enterprises, issuers, and financial service providers.

Although this policy is mandatory, not all companies in Indonesia have implemented the disclosure. This is stated by the Indonesia Stock Exchange (IDX) that by 2023, 873 companies or 97 percent of the total listed companies will have published sustainability reports (ANTARA, 2024). This implies that some businesses have yet to incorporate sustainability issues into their operations. One example is the case of environmental damage in Timika, Papua due to tailings by PT Freeport Indonesia. This case resulted in polluted rivers, water crisis, and the threat of disease to residents in Timika (Kompas.com, 2023). Because of this case, the local community filed a complaint and requested legal action against PT Freeport to hold it responsible for environmental damage.

Through this phenomenon, companies are not only focused on achieving profitability. Companies also need to determine effective strategic steps to strengthen relationships with stakeholders, so that this will improve financial performance. Sustainability disclosure is one of the numerous influencing variables that might help the company's financial performance (Azzam et al., 2020). The effort to disclose sustainability reporting is one of the strategic investments for companies, especially in the energy sector (Al Hawaj & Buallay, 2022). These non-financial disclosures are important indicators for the long-term sustainability of the company. With transparent sustainability disclosures, companies can increase stakeholder trust (Zarefar et al., 2022). Customers are more likely to remain loyal to businesses that are strongly committed to social responsibility and sustainability (Daffa et al., 2023). In addition, companies that are transparent about this also tend to have good company performance, so as to increase company profitability (Alodat et al., 2024; Pulino et al., 2022).

Until now, there have been many studies that discuss the influence between non-financial disclosures and the company's financial performance. Most of the research results found a positive influence between the two (Azzam et al., 2020; Veeravel et al., 2024; Zhou et al., 2024). However, other research indicates that the financial performance of the organization is unaffected by sustainability disclosure (Cerciello et al., 2023; Hassan et al., 2024; Risal et al., 2024). ESG disclosure, often known as the ESG Score, is used in these research studies to gauge sustainability disclosure. Additionally, there are differences in how financial performance is measured, which are in ROA, ROE, and Tobin's Q. Furthermore, the sample's reach is rather wide, encompassing both non-financial and all sectors. This leads to a variety of outcomes and conclusions.

Prior research has also examined how a company's competitive advantage can enhance its performance in relation to sustainability disclosure. The ability of the business to offer customers

a better deal than its rivals is known as its competitive advantage (Mai et al., 2021). A company's competitive advantage can be assessed using a variety of measures. The previous studies used the difference between the weighted average cost of capital and the return on invested capital to quantitatively evaluate competitive advantage (Igbinovia & Agbadua, 2023; Mohammad & Wasiuzzaman, 2021; Nurlaila & Mutmainah, 2025; Rohendi et al., 2024). According to earlier research, there is no significant correlation between increased company performance and sustainability disclosure. However, when companies have a competitive advantage and make sustainability disclosures, this will improve company performance (Igbinovia & Agbadua, 2023).

Previous research also suggests that an increase in sustainability disclosure will improve financial performance in companies that have a competitive advantage. Likewise, on the contrary, companies that do not have a competitive advantage, an increase in sustainability disclosure will actually reduce company performance (Mohammad & Wasiuzzaman, 2021). In addition to disclosing sustainability reports, companies should also strive to develop and maintain their reputation through consistent and transparent sustainability practices (Mai et al., 2021). This shows that by disclosing sustainability reports, companies are indirectly building resources in the form of company characteristics or attributes. These company attributes are able to provide an advantage over other companies that do not disclose them (Rohendi et al., 2024).

Given the results of earlier research, it is critical to conduct more research on how sustainability disclosure affects financial performance. Therefore, the goal of this study is to investigate the relationship between competitive advantage and the financial performance of businesses as a result of sustainability disclosure. This study will concentrate on energy companies that were listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The researchers chose energy companies because this sector is a major driver of the Indonesian economy and has a significant impact on the environment. Energy companies are often scrutinized for their disclosure of carbon emissions and environmental performance, which directly impact stock returns and corporate reputation. The measurement of the independent variable (sustainability disclosure) and the inclusion of moderating variables, specifically competitive advantage, distinguish this study from earlier studies. The Sustainability Reporting Disclosure Index calculates the independent variable based on the number of disclosure items specified in Financial Services Authority Regulation (POJK) Number 51/POJK.03/2017 and OJK Circular Letter Number 16/SEOJK.04/2021. The number of items stipulated under the regulation is 50.

This study can help in a number of ways. First, it can increase academic knowledge of the moderating effect of competitive advantage in the correlation between financial performance and sustainability disclosure for future research. Second, investors can use this study to make decisions about their investments by taking into account both non-financial and financial factors. Third, through this research companies can set strategies that not only gain profits, but also sustainable development strategies. Thus, this research not only adds insight in the academic field, but also in the world of practice for investors and companies in Indonesia that are increasingly competing and focusing on sustainable development.

## LITERATUR REVIEW

### Stakeholder Theory

Stakeholder theory is one of the theories that has relevance to sustainability disclosure and corporate financial performance (Yu & Xiao, 2022). This theory emphasizes that companies do not only focus on the interests of shareholders. However, this theory also considers and manages the interests of all parties, such as employees, customers, and society for decision making (Zhou et al., 2024). Having good relations with all stakeholders is essential to enhancing business performance. The involvement and support of stakeholders will increase the legitimacy, trust and sustainability of the firm's operations. The firm will gain benefits such as loyalty, good reputation, if it is able to meet the needs and expectations of stakeholders. This will contribute to the improvement of the firm's financial performance (Kong et al., 2023). The implementation of sustainability disclosure is one of the effective steps to build good relationships with stakeholders, so as to improve company performance (Hongming et al., 2020). This happens because through this practice the company can increase its accountability to society and the environment (Daffa et al., 2023). Thus, transparency

in sustainability disclosure can increase customer loyalty, which in turn can contribute to increased company profitability (Daffa et al., 2023).

### **Signaling Theory**

*Signaling theory* is also a theory that has relevance to the influence between sustainability disclosures on corporate financial performance (Igbinovia & Agbadua, 2023). Signaling theory explains how company management can convey signals to stakeholders to reduce information imbalances. These signals serve to convey to stakeholders the company's long-term goals and strategies as well as its commitment, transparency, and quality (Bae et al., 2018). Management must be able to choose how to communicate information. Meanwhile, stakeholders must choose how to interpret the information. Thus, signaling theory relates to the reduction of information asymmetry between the two parties. In previous research, sustainability disclosure is used as a positive signal conveyed by companies to stakeholders to build reputation and attract investors (Veeravel et al., 2024). In this case, sustainability disclosure is not only a corporate social commitment, but also a strategic tool to improve market perception. Therefore, sustainability disclosure can help investors obtain information to make investment decisions and avoid information asymmetry (Igbinovia & Agbadua, 2023).

### **Financial performance**

*Financial performance* and company performance are two things that are interconnected, but both have different scopes. Corporate performance includes the operational results and efficiency of the company in managing its overall resources to achieve business objectives (Pulino et al., 2022). Meanwhile, financial performance focuses only on financial aspects, and refers to how well the company carries out its activities in financial aspects (Veeravel et al., 2024). Financial performance is also often defined as a measure of the company's success in producing good economic performance (Zarefar et al., 2022). In this research, company performance is measured by one of the financial ratios, namely return on assets. A financial ratio called return on assets measures how well a business can produce a profit off of all of its assets.

### **Sustainability disclosure**

*Sustainability disclosure* is the process of companies conveying information about the impacts and efforts arising from the firm's operational activities. In general, a company's sustainability disclosure will be conveyed through a sustainability report. The information presented in the sustainability report covers economic, social, environmental and governance aspects. The purpose of submitting this information is to demonstrate the company's contribution to sustainable development, and also to increase transparency to the public and stakeholders (Alodat et al., 2024). In addition, one strategic corporate communication tool that adds value to the business is sustainability disclosure (Al Hawaj & Buallay, 2022).

### **Competitive advantage**

*Competitive advantage* is the ability of the firm. This ability can provide added value to customers compared to competitors, so that this ability can maintain the company's position superior to competitors (Mai et al., 2021). Previous research states that the ability to obtain higher economic profits than competitors is one of the competitive advantages (Mohammad & Wasiuzzaman, 2021). Also, the competitive advantage of the business is demonstrated by its capacity to produce profits higher than the cost of capital (Igbinovia & Agbadua, 2023). So from this, a company that has a positive competitive advantage indicates that the company can create value for investors.

### **Sustainability Disclosure, and Financial Performance**

Based on stakeholder theory and signaling theory, sustainability disclosure is an effective communication to build stakeholder trust and loyalty and can reduce information asymmetry (Mai et al., 2021; E. P. yi Yu et al., 2018). This communication will reveal the firm's impacts and efforts in environmental, social, economic and governance aspects. As companies transparently disclose their sustainability information, this will increase stakeholder trust and legitimacy. Companies that

are more transparent tend to have better relationships with stakeholders, which in turn can also support the firm's financial performance (Alodat et al., 2024). In addition, Furthermore, sustainability disclosure is a tool for evaluating and proving how well a company meets stakeholder expectations. As a result, it may help the business with sustainability and increase the profitability of the firm (Aydoğmuş et al., 2022).

Past research showed that business financial performance is positively impacted by sustainability disclosure (Azzam et al., 2020; Veeravel et al., 2024; Zhou et al., 2024). Companies that disclose sustainability tend to have better profitability (Veeravel et al., 2024). Sustainability disclosures also have significant effects on financial performance, especially social and governance disclosures (Azzam et al., 2020). Furthermore, other research indicates that businesses with greater environmental transparency yield higher returns on equity and assets than those with less disclosure (Zhou et al., 2024). Thus, these findings suggest that sustainability disclosures can improve investor confidence and market perceptions, which can contribute to improved financial performance. The aforementioned description serves as the basis for the first hypothesis:

**H1:** Sustainability disclosure has a positive effect on corporate financial performance

### **Competitive Advantage, Sustainability Disclosure, and Financial Performance**

Although sustainability disclosure can be a positive signal and build stakeholder trust, there are other studies that show the level of sustainability disclosure compliance does not improve the firm's financial performance (Risal et al., 2024). This is due to the high expense of putting sustainability statements into practice. These expenses will raise the business's operational expenses in the near term and subsequently lower its profitability (Hassan et al., 2024). In addition, other studies have found that strategic sustainability disclosure occurs as a combination of greenwashing (Cerciello et al., 2023). This strategy allows companies to manipulate or fake disclosures about environmental and social concerns without any real action. Therefore, this will make investors skeptical and more cautious when investing in companies that exaggerate these disclosures. Thus, it will cause a decrease in profitability and then also reduce the company's financial performance.

Other findings are similar, with sustainability disclosure not directly affecting firm valuation. However, when sustainability disclosure is combined with company excellence, it may positively impact the value of the company (Igbinoia & Agbadua, 2023). When businesses can offer clients a better deal than their rivals, they might gain a competitive advantage. Competitive advantage can be achieved with various strategies, one of which is with sustainability disclosure (Mai et al., 2021). Based on signaling theory, sustainability disclosure is an effective form of communication that can build stakeholder trust and reduce information asymmetry. With transparent disclosure, the company is simultaneously building reputation and market trust. As a result, the company gains an increase in reputation and public loyalty to the company also strengthens. Thus, companies that disclose sustainability reports are indirectly building resources in the form of company characteristics or attributes. Then, these company attributes are able to provide advantages compared to other companies that do not disclose them (Rohendi et al., 2024).

Disclosures on sustainability are frequently connected to funding and financial sources. Previous findings suggest that companies that make sustainability disclosures have easier access to capital (Igbinoia & Agbadua, 2023). This can happen because companies that make sustainability disclosures can reduce the risk of information asymmetry. By making sustainability disclosures, companies also demonstrate their commitment to sustainability and good governance issues. Then the company is also seen as a responsible and stable business partner, so it can be considered lower risk (Alareeni & Hamdan, 2020). Therefore, sustainability disclosure can not only attract many investors, but also have an impact on easier access to capital. The description above serves as the foundation for the second hypothesis:

**H2:** Competitive advantage strengthens the effect of sustainability disclosure on corporate financial performance.

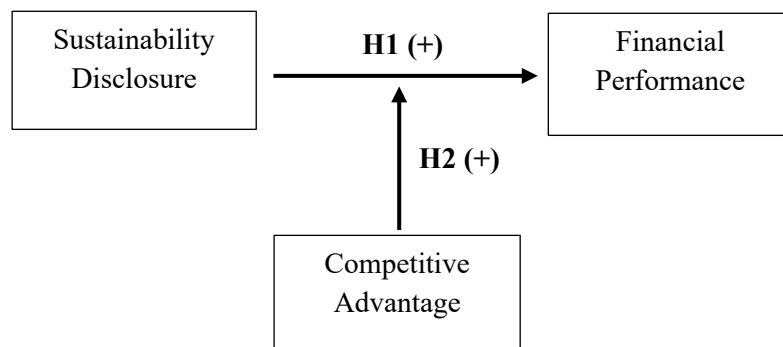


Figure 1. Research Model  
 Source: Author's elaboration (2025)

**METHOD**

A quantitative approach was used in this study, with sustainability disclosure as the independent variable, financial performance as the dependent variable, and competitive advantage as the moderating variable. Table 1 shows the measurement of the variables used in this study.

**Table 1. Variable Measurement**

Variables	Proxy	Measurement	References
Sustainability Disclosure	SRDI	$\frac{\text{Total Items Disclosed}}{\text{Total Index Items}}$	(Alodat et al., 2024; Azzam et al., 2020; Yohana & Suhendah, 2023)
Financial Performance	ROA	$\frac{\text{Earning After Tax}}{\text{Total Assets}}$	(Aydoğmuş et al., 2022; Igbinovia & Agbadua, 2023)
Competitive Advantage	CA	Return on Invested Capital - Weighted Average Cost of Capital	(Igbinovia & Agbadua, 2023; Mohammad & Wasiuzzaman, 2021; Nurlaila & Mutmainah, 2025; Rohendi et al., 2024)

Source: Result of research data processing (2025)

The sample for the study included 90 energy-related companies that were listed on the Indonesia Stock Exchange between 2021 and 2023. Purposive sampling was used to sample this study, and the company had to have released a sustainability report between 2021 and 2023. Owing to insufficient information, 39 businesses that released comprehensive sustainability reports during this time were gathered. Thus, 117 data were employed in total for this study.

In this study, secondary data was implemented. Therefore, the Revinitiv Eikon platform and the company's annual report's financial data became the data source for this study. Then the data that has been collected is tested using Moderated Regression Analysis (MRA). This is done in order to observe how independent and moderating factors affect the dependent variable (Igbinovia & Agbadua, 2023). Testing the hypothesis of this study was assisted by a statistical test tool, namely SPSS Version 26. This is the regression model that was used in this study:

$$ROA_{it} = \alpha + \beta_1 SRDI_{it} + e_{it} \dots \dots \dots (1)$$

$$ROA_{it} = \alpha + \beta_1 SRDI_{it} + \beta_2 CA_{it} + \beta_3 SRDI_{it} * CA_{it} + e_{it} \dots \dots \dots (2)$$

Description:

- ROA<sub>it</sub> : Financial performance
- SRDI<sub>it</sub> : Sustainability disclosure
- CA<sub>it</sub> : Competitive advantage
- SRDI<sub>it</sub> \* CA<sub>it</sub> : Interaction variable between financial performance and sustainability disclosure
- e<sub>it</sub> : Error terms

## RESULT

Table 2 shows the results of the descriptive statistical test of the variables used in this study. The descriptive statistical test results consist of the mean, median, maximum value, minimum value, and also the standard deviation for each variable.

**Table 2. Descriptive Test Result**

	SRDI	ROA	CA
Mean	0.9067	0.1096	0.0478
Median	0.9400	0.0669	0.2092
Maximum	1.00	0.59	20.08
Minimum	0.56	-0.38	-24.09
Std. Deviation	0.0992	0.1675	3.8438

Source: Result of research data processing (2025)

The results of the descriptive statistical test indicate that the sustainability disclosure variable has an average value of 0.9067. This means that sustainability disclosures have been well disclosed by energy sector companies. The maximum value obtained is 1.00. This indicates that businesses, like PT ABM Investama (ABMM) in 2022 and 2023, have completely reported their sustainability information. However, the minimum value obtained is 0.56 owned by PT Radiant Utama Interinsco (RUIS) in 2021. This means that companies only partially disclose their sustainability information. Then the standard deviation and median values obtained by the sustainability disclosure variable are 0.0992 and 0.9400.

The average value of the ROA variable, which measure financial performance, was 0.1096. This shows that energy sector firms that disclose sustainability reports have an average financial performance of 10.96 percent. The maximum value of financial performance is 0.59 obtained by PT Baramulti Suksessarana (BSSR) in 2022. The minimum value of financial performance obtained by PT Buana Lintas Lautan (BULL) in 2021 is -0.38. Then, this variable has a median value of 0.0669 and a standard deviation of 0.1675.

The CA variable, which gauges the company's competitive advantage, had an average value of 0.0478. PT Golden Eagle Energy (SMMT) had the highest competitive advantage value of 20.08 in 2022. The minimum value of competitive advantage obtained by PT Sumber Energi Andalan (ITMA) in 2022 is -24.09. Then, the competitive advantage variable has a median value of 0.2092 and a standard deviation of 3.8438.

The normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test are the four traditional assumption tests used to make sure the regression equation is free of assumption deviations and satisfies the requirements of linear analysis (Waty et al., 2023).

**Table 3. Normality Test Result**

			Unstandardized Residual
N			117
Monte Carlo Sig. (2-tailed)	Sig.		0.061
	99% Confidence Interval	Lower Bound	0.054
		Upper Bound	0.067

Source: Result of research data processing (2025)

Table 3 shows the outcome of the normality test with a total of 117 data using the Monte Carlo method. Obtained value on Monte Carlo Sig. (2-tailed) is 0.061. Because the significance value is greater than 0.05 ( $0.061 > 0.05$ ), the data is normally distributed.

**Table 4. Multicollinearity Test Result**

Model	Collinearity Statistics	
	Tolerance	VIF
SRDI	0.980	1.020
CA	0.980	1.020

Source: Result of research data processing (2025)

Table 4 displays the results of the multicollinearity test. A good regression model must be free from multicollinearity problems, provided that the number on "Tolerance" is greater than 0.1 ( $0.980 > 0.01$ ) and the number on "VIF" is less than 10 ( $1.020 < 10$ ). The test results indicate that the regression model's multicollinearity issue is free.

**Table 5. Heteroscedasticity Test Result**

	<b>Unstandardized B</b>	<b>Coefficients Std. Error</b>	<b>Standardized Coefficients Beta</b>	<b>t</b>	<b>Sig.</b>
C	-7.255	1.788		-4.058	0.000
SRDI	2.445	1.961	0.117	1.247	0.215
CA	0.021	0.051	0.038	0.408	0.684

Source: Result of research data processing (2025)

Table 5 displays the results of the heteroscedasticity test. Heteroscedasticity must be absent from a suitable regression model, as long as the "Sig." value is higher than 0.05. According to the test results, there is no heteroscedasticity in the regression model. The sustainability disclosure variable obtained a Sig. value of  $0.215 > 0.05$ . While the competitive advantage variable obtained a Sig. value of  $0.684 > 0.05$ .

**Table 6. Autocorrelation Test Result**

	<b>Unstandardized Residual</b>
Test Value	-0.045
Cases < Test Value	58
Cases $\geq$ Test Value	59
Total Cases	117
Number of Runs	49
Z	-1.949
Asymp. Sig. (2-tailed)	0.051

Source: Result of research data processing (2025)

Table 6 displays the results of the autocorrelation test. Autocorrelation problem is absent from a decent regression model, provided that the numbers on the "Asymp. Sig. (2-tailed)" is greater than 0.05. According to the test results, autocorrelation is absent from the regression model, as indicated by the Asymp. Sig. value of  $0.051 > 0.05$ .

**Table 7. Hypothesis Test Result**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C	-0.305	0.138	-2.209	0.029
SRDI	0.458	0.152	3.022	0.003

Source: Result of research data processing (2025)

Table 7 displays the outcomes of the hypothesis test regarding the impact of sustainability disclosure on financial performance. The test results indicate that corporate performance is impacted by sustainability disclosure. This can be seen from the significance of data testing, with a value lower than the specified alpha threshold of 0.05 ( $0.003 < 0.05$ ).

**Table 8. MRA Statistical Test Result**

<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C	-0.275	0.135	-2.040	0.044
SRDI	0.414	0.148	2.796	0.006
CA	-0.130	0.048	-2.712	0.008
SRDI*CA	0.164	0.058	2.838	0.005

Source: Result of research data processing (2025)

Table 8 displays the outcomes of using Moderated Regression Analysis (MRA) to evaluate hypotheses. The findings of the test indicate that the moderation variable increases the impact to financial performance. This can be seen from the significance of data testing, with a value lower than the specified alpha threshold of 0.05 ( $0.005 < 0.05$ ).

**Table 9. Coefficient of Determination Test**

	<b>Without Moderating</b>	<b>With Moderating</b>
R	0.271	0.388
R Square	0.073	0.150
Adjusted R Square	0.065	0.128
Std. Error of the Estimate	0.162	0.156

Source: Result of research data processing (2025)

Table 9 present the results of the coefficient determination test before adding moderating variables and with moderating variables. Based on the adjusted R-square value before adding the moderating variable, it was obtained at 0.065 (6.5 percent). Then when tested with moderating variables the adjusted R-square value increases to 0.128 (12.8 percent).

## DISCUSSION

The results of testing the first hypothesis show that sustainability disclosure has a favorable effect on the company's financial performance. Thus, the first hypothesis that sustainability disclosure has a favorable effect on the company's financial performance is accepted. Accordingly, this study indicates that the greater the amount of sustainability disclosure a business discloses, the better its financial performance. This outcome is consistent with other earlier studies (Khanchel et al., 2023; Pulino et al., 2022; Veeravel et al., 2024). However, this finding does not align with (Cerciello et al., 2023; Hassan et al., 2024; Risal et al., 2024). These results are consistent with signaling theory and stakeholder theory, despite discrepancies with earlier research (Igbinovia & Agbadua, 2023; Yu & Xiao, 2022).

Stakeholder theory states that companies must consider the interests of all stakeholders engaged in their operations, not just their shareholders (Zhou et al., 2024). Businesses show their dedication to ethical business practices in the areas of governance, social responsibility, the environment, and the economy by making sustainability disclosures. Improving the company's standing with stakeholders, investors, and customers will result from the execution of this commitment. This result is consistent with stakeholder theory in this instance as well. Ultimately, an improved reputation will increase trust and loyalty (Daffa et al., 2023; Pulino et al., 2022).

Meanwhile, signaling theory states that how management conveys information to stakeholders to reduce the risk of information asymmetry (Igbinovia & Agbadua, 2023). In this case, transparent sustainability disclosure can reduce the risk of asymmetric information between the company and its stakeholders (Khanchel et al., 2023; Veeravel et al., 2024). Disclosure of sustainability, particularly in the areas of governance and society, will boost the company's credibility. Additionally, it will make it easier to get resources and support from stakeholders, which would eventually boost financial performance.

The second hypothesis is tested, and the results show that competitive advantage strengthens the impact of sustainability disclosure on financial performance. Consequently, the second hypothesis that a competitive advantage may increase the effect of sustainability disclosure on the company's financial performance is approved. In addition, after testing the hypothesis by adding moderating variables, the magnitude of the effect increases when compared to before adding moderating variables. Thus, this finding suggests that companies with high competitive advantage can optimize the strategic benefits of sustainability disclosure. This result is consistent with a number of earlier investigations (Igbinovia & Agbadua, 2023; Mohammad & Wasiuzzaman, 2021). However, this finding does not align with (Nurlaila & Mutmainah, 2025).

Due to these findings, it is important for companies to not only focus on sustainability disclosures, but also need to pay attention to the company's competitive position. There are efforts that companies can make to gain competitive advantage. Companies can utilize unique resources

and capabilities, making it difficult for competitors to imitate (Lubis & Rokhim, 2021; Mohammad & Wasiuzzaman, 2021). These resources can be human resources, technology, brand, reputation, and other physical and non-physical assets. For this reason, companies need to develop and protect these resources so that they remain a sustainable advantage and are able to compete in a competitive market (Rohendi et al., 2024). This is in line with the resource-based view theory (Mai et al., 2021; Rohendi et al., 2024). This theory states that the company's unique resources and capabilities are important to achieve the company's competitive advantage (Mai et al., 2021).

Thus, these findings reaffirm that competitive advantage is an important factor driving high sustainability disclosure. Quality sustainability disclosures contribute to strengthening the company's image. However, sustainability disclosure can boost stakeholder trust and enhance a company's reputation if it already has a competitive advantage (Mohammad & Wasiuzzaman, 2021). Consequently, competitive advantage has a role in how well sustainability disclosure improves businesses' financial performance.

### CONCLUSION

The results of this study indicate that the company's efforts in making sustainability disclosures can have a positive effect on the company's financial performance. The more comprehensive and transparent the sustainability disclosures made by the company, the better the financial performance achieved. This shows that stakeholders respond positively to the company's commitment to economic, social, environmental and governance aspects. In addition, this study also shows that competitive advantage plays a role in strengthening the influence of sustainability disclosure on corporate financial performance. In other words, companies that have a competitive advantage will gain greater benefits from their sustainability practices. So, from these findings it can be concluded that sustainability disclosure not only has a direct impact on financial performance, but its impact will be more significant if it is supported by competitive advantage. Therefore, it is important for companies to not only focus on sustainability reporting, but also strategically build and maintain a competitive advantage.

The results of this study have a number with important implications. First, this study advances our understanding of the correlation between sustainability disclosures and financial performance (social, environmental, economic and governance elements). Second, in order to optimize the advantages of this sustainability strategy, businesses are urged to concentrate not just on making thorough non-financial disclosures but also on enhancing their competitive position. Third, investors can leverage the firm's competitive advantage and sustainability disclosure information when making investment decisions.

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