

Research Article

The Effect of ESG Score on Financial Performance Mediated by SDG Disclosures in Indonesian Listed Companies 2021-2023

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Abstract: This study examines the mediating role of SDG disclosure in the relationship between ESG score and financial performance within the mandatory reporting context of non-financial firms listed on the Indonesia Stock Exchange during 2021-2023. Using a purposive sample of 59 companies (177 observations), the analysis employs panel data regression and the Sobel test to evaluate ESG metrics from Refinitiv Eikon alongside disclosure and financial data from corporate reports. Empirical results show that ESG score does not significantly predict SDG disclosure nor directly affect financial performance measured by ROE. Furthermore, SDG disclosure shows no significant association with financial performance and fails to mediate the ESG-ROE relationship. Firm size is the only variable positively related to SDG disclosure, suggesting that reporting practices are more strongly driven by organizational resources and public visibility than by substantive ESG performance. Overall, the findings reveal a decoupling phenomenon, where sustainability reporting in Indonesia tends to reflect symbolic compliance rather than value-creating integration. The study concludes that a credibility gap exists in the capital market, as SDG disclosure has not yet functioned as an effective mechanism for converting ESG performance into financial gains. This study provides evidence on the limitations of SDG disclosure as a value transmission mechanism in emerging market, offering insights for regulators and market participants seeking to enhance the economic relevance and credibility of SDG reporting.

Keywords: Emerging Market; ESG Score; Financial Performance; SDG Disclosures; Sustainability Reporting.

1. Introduction

The global business paradigm has shifted from a narrow focus on short-term profitability toward the integration of economic, environmental, and social sustainability (Rezaee, 2016). Recent global crises, most notably the COVID-19 pandemic, have exposed the systemic vulnerabilities of traditional business models and reinforced the need for organizational resilience and adaptability (Cao, 2024). Consequently, sustainability is no longer viewed merely as a moral obligation but as a strategic foundation for long-term competitiveness, innovation, and value creation (Sanchaniya & Geipele, 2024; Schaltegger et al., 2016).

This strategic evolution is reflected in the rapid growth of ESG-oriented investment. Global sustainable investment assets escalated from USD 22.8 trillion in 2016 to over USD 35 trillion in 2020, indicating rising investor demand for firms that integrate sustainability into their operations (Kossay et al., 2025). The transition toward "ESG 2.0" further emphasizes measurable outcomes and operational integration rather than mere regulatory compliance (Delphos, 2025). In Asia, sustainable fund inflows reached USD 11.5 billion in 2024, underscoring the increasing role of ESG performance in market access and firm valuation (Bisnis.com, 2025).

The implementation of ESG principles is intrinsically linked to the United Nations' 2030 Agenda for Sustainable Development. In Indonesia, ESG and SDG integration has been reinforced through regulatory initiatives, including POJK No. 51/POJK.03/2017, which

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mandates sustainability reporting for public companies and financial institutions (Otoritas Jasa Keuangan, 2017). These regulations are intended to improve transparency and accountability while encouraging firms to communicate their sustainability contributions through SDG disclosures. Theoretically, SDGD serves as a signaling mechanism that enhances legitimacy, reduces information asymmetry, and strengthens stakeholder trust (Erin et al., 2022; Haywood & Boihang, 2021). Prior studies suggest that firms with stronger sustainability performance tend to provide more extensive SDG disclosures, potentially improving reputation and access to capital (Nicolo' et al., 2024).

Despite these regulatory strides, Indonesia continues to face significant hurdles in the quality of its sustainability narratives. The Sustainable Development Report 2021 ranked Indonesia 97th out of 165 nations, signaling a stagnation in SDG progress (Sachs et al., 2021). This suggests that many Indonesian firms may still engage in "symbolic compliance", the bare minimum to satisfy regulations without substantive strategic integration into the core business activities (Low et al., 2023; van der Waal & Thijssens, 2020). It creates a disconnect between reported ESG performance and the actual financial value perceived by investors.

The relationship between sustainability and financial performance remains a subject of intense academic debate. While some studies document positive effects through efficiency gains and risk reduction (Flammer, 2015; Marti et al., 2015) others argue that ESG investments represent costly projects that depress short-term profitability (Alareeni & Hamdan, 2020; Han et al., 2016). In this context, SDGD emerges as a potential bridge that redefines sustainability investments as strategic value-creation that enhances financial performance (Awuah et al., 2024; Lawati & Hussainey, 2022).

Despite its potential importance, limited research has examined SDG disclosure as a mediating mechanism between ESG performance and financial performance, particularly in emerging markets with mandatory reporting system (Nicolo' et al., 2024). Addressing this gap, this study investigates the mediating role of SDGD in the relationship between ESG score and financial performance among Indonesian listed companies from 2021 to 2023. This study contributes to the sustainability of accounting literature by extending legitimacy and voluntary disclosure perspectives to a mandatory reporting context, examining whether SDG disclosure functions as an effective linkage between ESG performance and financial outcomes in an emerging market.

2. Literature Review

Legitimacy Theory

Legitimacy Theory is predicated in the concept of a social contract, asserting that firms must operate in line with societal norms and expectations to secure continued acceptance and survival (Suchman, 1995). In the context of sustainability, firms utilize disclosures to demonstrate congruence with stakeholder values and regulatory mandates. While high-quality reporting reinforces institutional legitimacy through transparency, underperforming firms may engage in symbolic disclosure to mask weak sustainability outcomes (Hummel & Schlick, 2016). Consequently, sustainability reporting often serves as a strategic tool for legitimacy-seeking, where positive achievements are emphasized to manage public perception, even in the absence of genuine accountability (Cho et al., 2015). This perspective implies that extensive disclosure does not necessarily reflect strong sustainability performance but may instead represent a response to external legitimate demands. In emerging markets, where sustainability regulation is still evolving, legitimacy-driven disclosure is particularly relevant, as firms may prioritize visibility and compliance over genuine integration of ESG practices.

Voluntary Disclosures Theory

Voluntary Disclosure Theory posits that firms disclose information beyond mandatory requirements when the expected benefits exceed the associated costs (Verrecchia, 1983). Firms with superior sustainability performance are therefore expected to disclose more information to signal quality, reduce information asymmetry, and enhance market valuation. Empirical evidence supports this signaling mechanism, suggesting that stronger sustainability performance correlates with higher levels of SDG disclosure (Nicolo' et al., 2024). Furthermore, clear sustainability communication driven by stakeholder expectations is shown to build institutional trust and strengthen relationships, which may ultimately lead to enhanced organizational performance (Danish et al., 2025; Ofori-Owusu et al., 2024).

Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) serves as a multidimensional framework designed to integrate sustainability into corporate strategy by managing non-financial risks and identifying long-term value creation opportunities (Hamdouni, 2025). Since its introduction by the United Nations in 2004, ESG scores have become the global benchmark for assessing non-financial performance facilitating structured cross-industry comparisons for investors and analysts (Alareeni & Hamdan, 2020; Atan et al., 2018). High ESG standards, with spanning governance transparency, equitable labor, and environmental efficiency are theorized to foster innovation and mitigate long-term systemic risks, leading to more stable financial outcomes (KADIN, 2023). This study utilizes Refinitiv Eikon ESG scores, which aggregate 186 indicators across ten thematic categories, including emissions, human rights, and CSR strategy, providing a robust operationalization of corporate sustainability (Refinitiv, 2025).

Sustainability Reporting

Sustainability reporting is the mechanism through which organizations communicate their economic, environmental, and social impacts to ensure accountability beyond traditional financial metrics (Camilleri, 2015). By disclosing non-financial performance, firms aim to reduce information asymmetry and enhance stakeholder trust (Nicolo' et al., 2024). While historically voluntary and guided by Global Reporting Initiative (GRI) standards, the practice has evolved into a strategic imperative for risk management and competitive advantage. In Indonesia, this transition is institutionalized by Financial Services Authority (OJK) Regulation No. 51/2017, which mandates integrated ESG reporting for listed companies. Complemented by market initiatives like the IDX ESG Leaders Index, the Indonesian reporting landscape currently reflects a synthesis of mandatory compliance and strategic alignment with global sustainability agendas.

SDG Disclosures

Sustainable Development Goals Disclosure (SDGD) represents a strategic evolution in sustainability reporting, shifting from general accountability toward a purposeful alignment with the United Nations' 2030 Agenda for Sustainable Development. Unlike traditional non-financial reporting, SDGD explicitly links corporate operations to the 17 global goals, 169 targets, and 231 unique indicators established by the UN to mitigate global challenges such as climate change, socioeconomic inequality, and environmental degradation (United Nations, 2025). This granular framework enables companies to provide more structured, comparable, and strategic information regarding their contributions to sustainable development (Nicolo' et al., 2024). Consequently, the integration of SDGs into corporate reporting serves as a strategic signal of a firm's commitment to long-term global sustainability, enhancing the relevance and transparency of non-financial disclosures, which in turn may influence investor perceptions and financial outcomes.

Financial Performance

Financial performance remains the primary metric for evaluating a firm's effectiveness in utilizing its assets to generate economic value. Return on Equity (ROE) is an accounting-based metric that measures a firm's efficiency in generating profits from its shareholders' equity. ROE is a critical indicator for investors, as it reflects the ultimate outcome of management's strategic decisions, including the allocation of resources toward sustainability practices. From a theoretical standpoint, high-quality disclosures are expected to reduce information asymmetry and lower the cost of capital, thereby potentially enhancing profitability (Alareeni & Hamdan, 2020). However, in emerging markets, the relationship remains complex, as the immediate costs of implementing ESG frameworks may outweigh short-term accounting gains (Gutiérrez-Ponce & Wibowo, 2024).

Hypotheses Development

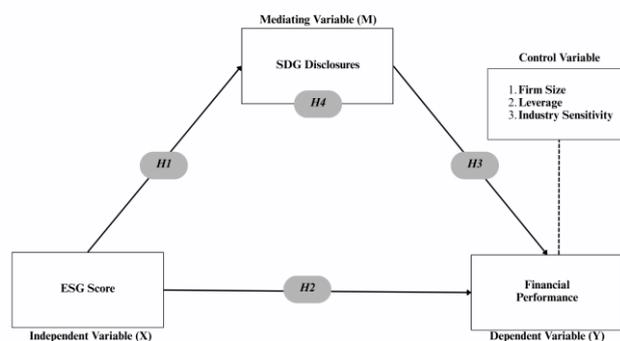


Figure 1. Conceptual Framework.

Voluntary disclosure theory suggests that firms with superior ESG performance possess greater incentives to signal their strengths to mitigate information asymmetry and enhance investor confidence (Hummel & Schlick, 2016). High-performing firms typically produce higher-quality sustainability reports to differentiate themselves from competitors (Li et al., 2023). Conversely, legitimacy theory posits that underperforming firms may adopt symbolic or selective reporting to maintain social acceptance without substantive operational change (Hummel & Schlick, 2016). While Nicolo' et al. (2024) identify a positive relationship between sustainability performance and SDG disclosure, a research gap persists regarding the SDG framework in mandatory settings. Within Indonesia's regulatory mandate (OJK No. 51/POJK.03/2017), firms with robust ESG practices are expected to utilize granular SDG disclosures to validate their commitment to global targets.

H1: There is a positive relationship between ESG Score and the level of SDG disclosures

Theoretical perspectives argue that superior ESG performance enhances financial outcomes by reducing operational risks, optimizing resource efficiency and securing stakeholder trust (Al-Tuwaijri et al., 2005; Flammer, 2015). However, empirical evidence remains heterogeneous; while some associate ESG investments with short-term cost burdens that depress accounting profitability (Jyoti & Khanna, 2021), others emphasize long-term risk mitigation and competitive advantages (Marti et al., 2015). In the Indonesian post-pandemic context, where regulatory compliance is a prerequisite for capital attraction, strong ESG management is hypothesized to enhance financial stability and profitability.

H2: There is a positive relationship between ESG Score and financial performance

SDG disclosure serves as a critical signaling mechanism that conveys strategic commitment to global sustainability, potentially reducing the cost of capital (Emma & Jennifer, 2021). While majority of the literature suggests a positive correlation between explicit SDG alignment and financial performance (Muhmad & Muhamad, 2021), some scholars argue that such disclosures can be symbolic or "greenwashed" to satisfy legitimacy pressures rather than driving economic value (Cho et al., 2015; van der Waal & Thijssens, 2020). In Indonesia's developing reporting landscape, transparent communication is expected to foster reputational trust and stakeholder support, ultimately translating into improved accounting-based performance.

H3: There is a positive relationship between the level of SDG disclosures and financial performance

SDG disclosure is theorized as the mediating mechanism that translates internal ESG performance into external financial gains by building reputational trust and attracting socially responsible investors (Faisal et al., 2023). According to legitimacy theory, disclosures amplify the market benefits of sustainability initiatives, bridging the gap between operational inputs and financial outputs (Raimo et al., 2022). While reporting has been shown to mediate governance-performance relationships (Alodat, Al Amosh, et al., 2023; Alodat, Salleh, et al., 2023), empirical evidence specifically investigating SDG disclosure as a mediator in emerging economies under mandatory regimes remains scarce (Nicolo' et al., 2024).

H4: The level of SDG disclosure mediates the relationship between ESG score and financial performance

3. Research Method

Population and Sample

The population of this study comprises all non-financial and non-banking companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. This specific timeframe represents the post-COVID-19 recovery phase, a period where Indonesian firms faced heightened pressure to demonstrate financial resilience alongside a commitment to sustainability, following the full implementation of OJK Regulation No. 51/POJK.03/2017.

The research sample was determined using a purposive sampling method to ensure data consistency and alignment with the research objectives. Companies were selected based on the availability of complete annual and sustainability reports, accessibility of ESG combined scores in the Refinitiv Eikon database, and inclusion in non-financial sectors to avoid reporting standard discrepancies. Financial and non-financial data for the observation period were gathered from the Refinitiv Eikon database and official corporate reports. This selection process resulted in a final sample of 59 companies. Observations were collected over a three-year period, yielding a balanced panel of 177 firm-year observations for empirical analysis.

Variables and Measurement

The primary dependent variable is financial performance, is proxied by Return on Equity (ROE) and measured as a one-year lagged variable to mitigate simultaneity bias and capture the delayed impact of ESG efforts on profitability (Brigham & Houston, 2019). The primary independent variable is ESG Performance (ESG), operationalized through the Refinitiv Eikon ESG Combined Score (0–100), which integrates environmental, social, and governance pillars into a single composite metric (Beretta et al., 2025).

To examine the transmission mechanism, SDG Disclosure (SDGD) is employed as a mediating variable. Following Nicolo' et al. (2024), this is measured via a binary index calculated by dividing the number of specific SDGs disclosed divided by the total of 17 SDGs. The measurement involves a manual content analysis of sustainability and annual reports, assigning a score of 1 for each SDG referenced by name or symbol and 0 otherwise. This approach, consistent with Raimo et al. (2022), focuses on the presence of disclosure as a strategic signal rather than the qualitative depth of implementation, resulting in an index ranging from 0% to 100%.

Furthermore, to isolate these effects, the model incorporates three control variables: Firm Size (SIZE), measured as the natural logarithm of total assets; Leverage (LEV), calculated as the total liabilities-to-assets ratio; and Industry Sensitivity (ENVS), a dummy variable assigned 1 for firms operating in high-impact sectors and 0 otherwise, as consistent with the argument that firms in environmentally sensitive industries face distinct stakeholder pressures regarding sustainability transparency (Izzo et al., 2020). These controls account for variations in resource scale, financial risk, and industry-specific stakeholder pressures.

Data Analysis

This study employs panel data regression using Stata 18. The balanced panel data allows for the investigation of both cross-sectional heterogeneity and temporal variations (Ghozali & Ratmono, 2017). To test the mediating effect of SDG Disclosure, this study follows the four-model framework suggested by Beretta et al. (2025):

Model I

$$SDGD = \alpha + \beta_1 ESG + \beta_2 SIZE + \beta_3 LEV + \beta_4 ENVS + \varepsilon$$

This model examines whether ESG performance influences the extent of SDG disclosure.

Model II

$$ROE = \alpha + \beta_1 ESG + \beta_2 SIZE + \beta_3 LEV + \beta_4 ENVS + \varepsilon$$

This model tests the direct relationship between ESG performance and firm financial performance (ROE).

Model III

$$ROE = \alpha + \beta_1 SDGD + \beta_2 SIZE + \beta_3 LEV + \beta_4 ENVS + \varepsilon$$

This specification evaluates the impact of SDG disclosure on financial performance, independent of ESG.

Model IV

$$ROE = \alpha + \beta_1SDGD + \beta_2ESG + \beta_3SIZE + \beta_4LEV + \beta_5ENVS + \varepsilon$$

This model combines ESG and SDG disclosure as explanatory variables of ROE to investigate whether SDG disclosure mediates the effect of ESG on financial performance.

Based on Chow, Hausman, and Breusch-Pagan LM tests, Model I is estimated using Fixed Effects (FEM), while Models II, III, and IV utilize Random Effects (REM). To ensure statistical validity, classical assumption tests were conducted with robust standard errors to mitigate heteroscedasticity and autocorrelation. Finally, the Sobel test was employed to evaluate the significance of the mediation path.

4. Results

Table 1. Descriptive Statistic Analysis.

Variable	Obs	Mean	Std. Dev.	Min	Max
ROE	177	.2881698	1.711991	-2.714249	21.9715
SDGD	177	.6105018	.3133937	0	1
ESG	177	50.94949	18.03884	11.93973	88.5872
SIZE	177	31.12217	1.274022	26.32589	33.73062
LEV	177	.4741257	.2351305	.0217714	1.39018
ENVS	177	.5084746	.5013464	0	1

Table 1 presents the descriptive statistics for all variables. The financial performance, measured by ROE, shows a mean of 0.288 with a high standard deviation (1.712) and a wide range (-2.714 to 21.972), indicating significant heterogeneity in profitability across the sampled firms. Regarding sustainability metrics, the SDG Disclosure (SDGD) score averages 0.611, suggesting that, on average, firms disclose approximately 61% of the 17 goals. However, the range from 0 to 1 highlights a stark contrast between firms with no SDG reporting and those with full transparency. Similarly, the ESG score exhibits a moderate average of 50.95 (SD = 18.04), reflecting diverse levels of sustainability commitment within the Indonesian market. Control variables show that the sampled firms are relatively uniform in size (Mean = 31.12, SD = 1.27) but vary in their capital structures, with an average leverage of 0.474. Some firms operate with minimal debt (0.022), while others are highly leveraged (1.390). Finally, the environmental sensitivity (ENVS) average of 0.508 indicates a balanced distribution in the sample, with approximately 51% of firms operating in high-impact sectors.

Table 2. Empirical Results of the Statistical Models.

Statistical Models	Model I SDGD (FEM)	Model II ROE (REM)	Model III ROE (REM)	Model IV ROE (REM)
SDGD			.7945998	.6095406
Test Statistic			1.29	1.16
P-value			0.197	0.246
ESG	-0.0018975	.0157765		.01229
Test Statistic	-0.47	1.56		1.61
P-value	0.637	0.118		0.107
SIZE	.3654566***	-0.1614981	-0.1448196	-0.1930224
Test Statistic	3.53	-0.83	-0.82	-0.93
P-value	0.001	0.406	0.415	0.350
LEV	-0.0747405	1.139234	1.102169	1.139821
Test Statistic	-0.41	1.19	1.19	1.21
P-value	0.684	0.235	0.234	0.225
ENVS	(omitted)	-0.3310038	-0.2623224	-0.3420574
Test Statistic		-1.20	-1.08	0.86

P-value		0.232	0.281	0.387
Cons	-10.63119***	4.138705	3.920984	4.930656
Test Statistic	-3.38	0.76	0.77	0.86
P-value	0.001	0.447	0.440	0.387
R-squared:				
Within	0.0972	0.0043	0.0007	0.0024
Between	0.1287	0.1190	0.1401	0.1533
Overall	0.1057	0.0582	0.0612	0.0715
F Test	0.0072	0.3073	0.7391	0.4268

¹ N. of obs = 177; N. of groups = 59. Values in parentheses represent the test statistics (t-statistics for Model I; z-statistics for model II-IV). All models are estimated using robust standard errors. *, **, *** indicate a significant degree at the 10%, 5%, and 1% levels, respectively.

The consolidated regression results for Models I through IV are presented in Table 2. Model I, estimated using the Fixed Effects Model (FEM), examines the drivers of SDG disclosure (SDGD). The F-test of 0.0072 ($p < 0.001$) indicates that the model is statistically valid. The within R-squared of 0.0972 suggests that 9.72% of the variation in SDGD is explained by the included variables. Notably, firm size is the only significant predictor ($\beta = 0.365$, $p = 0.001$), whereas ESG performance and leverage do not show significant partial effects. As expected in FEM, the environmental sensitivity (ENVS) variable is omitted due to its lack of within-firm variation.

In contrast, Models II, III, and IV, which evaluate the determinants of financial performance (ROE) using the Random Effects Model (REM), show limited explanatory power. The overall R-squared values for these models range from 0.058 to 0.071, and the Wald chi-square statistics fail to reach significance at the 5% level. Across all three models, neither the primary independent variables (ESG and SDGD) nor the control variables (SIZE, LEV, and ENVS) exhibit statistically significant relationships with ROE. Although ESG and SDGD consistently show positive coefficients, suggesting a potential beneficial direction, their p-values exceed the conventional 0.05 threshold, indicating that these sustainability metrics do not significantly drive short-term profitability within the sampled firms.

Table 3. Sobel Test Results.

Path/Effect	Coefficient	Std. Error	Z-value	p-value
Path a (ESG → SDGD)	-0.00190	0.0040		
Path b (SDGD → ROE)	0.79460	0.61634		
Indirect Effect (a × b)	-0.00151	0.00336	-0.4485	0.653

To formally test the mediating role of SDG Disclosure (SDGD) between ESG performance and ROE, a Sobel Test was performed. As summarized in Table 5, the analysis yielded an indirect effect coefficient (ab) of -0.00151 with a Z-value of -0.4485. Since the absolute Z-value is significantly below the critical threshold of 1.96 and the associated p-value (0.653) exceeds the 0.05 significance level, the indirect effect is statistically insignificant. These results provide robust evidence that SDGD does not mediate the relationship between ESG score and financial performance in the current sample, thus failing to support the proposed mediation hypothesis.

5. Discussion

The Effect of ESG Score on SDG Disclosures

The results show that ESG score does not significantly affect the extent of SDG disclosure, leading to the rejection of H1. This finding indicates a distinct “decoupling” between sustainability performance and disclosure practices in Indonesian listed firms. Although the average SDG disclosure level is relatively high, disclosure appears largely symbolic rather than reflective of substantive ESG integration.

This result contrasts with prior evidence suggesting that firms with superior sustainability performance provide more extensive and transparent SDG reporting (Li et al., 2023; Nicolo' et al., 2024). However, as noted by Nicolo' et al. (2024), such relationships are less evident in mandatory reporting environments. In Indonesia, POJK No. 51/2017 mandates sustainability reporting, yet SDG-based disclosure remains voluntary, allowing firms to comply formally without strengthening the quality of SDG alignment.

From a theoretical perspective, the findings support Legitimacy Theory, particularly the use of symbolic legitimacy strategies (Hummel & Schlick, 2016). Firms operating in socially and environmentally sensitive industries appear to use SDG disclosure to manage external scrutiny rather than to signal genuine sustainability performance. Consistent with Emma & Jennifer (2021) and van der Waal & Thijssens (2020), SDG disclosures that rely on narratives or logos without measurable outcomes tend to be perceived as low in credibility by investors. The positive and significant effect of firm size further suggests that SDG disclosure is driven more by organizational resources and public visibility than by ESG quality.

The Effect of ESG Score on Financial Performance

The analysis finds no significant relationship between ESG score and ROE, resulting in the rejection of H2. While the ESG coefficient is positive, it lacks statistical significance, indicating that ESG performance does not translate into short-term accounting profitability among Indonesian firms.

This finding aligns with studies in emerging markets showing that the financial benefits of ESG engagement are often offset by high implementation costs in the short run (Alareeni & Hamdan, 2020; Gutiérrez-Ponce & Wibowo, 2024). ESG initiatives typically require substantial upfront investment, which may suppress earnings before long-term efficiency or reputational gains materialize (Beretta et al., 2025).

The insignificant result may also reflect measurement limitations. As argued by Hussain et al. (2018), accounting-based indicators such as ROE may fail to capture the value created by sustainability initiatives, which are more likely to be reflected in market-based measures (e.g., Tobin's Q). This interpretation is reinforced by the high volatility of ROE in the sample and by prior evidence that ESG benefits in emerging markets are often weak or mixed when measured using composite ESG scores (Jyoti & Khanna, 2021; Pham et al., 2022). Overall, the findings suggest that ESG adoption in Indonesia remains at an early stage, where costs dominate observable accounting returns.

The Effect of SDG Disclosures on Financial Performances

The results indicate that SDG disclosure does not have a significant effect on ROE, leading to the rejection of H3. Despite a relatively high average disclosure level, SDG reporting has not translated into improved firm profitability.

This finding suggests that the signaling role predicted by Voluntary Disclosure Theory has not yet materialized in the Indonesian context. While SDG disclosure is expected to reduce information asymmetry and enhance investor confidence (Beretta et al., 2025; Emma & Jennifer, 2021), the largely narrative and non-standardized nature of SDG reporting may limit its economic relevance. Consistent with Cho et al. (2015) and van der Waal & Thijssens (2020), SDG disclosure appears to function more as a legitimacy tool than as a driver of value creation.

Investor skepticism may also explain the insignificant relationship. Broad sustainability initiatives are often perceived as cost-intensive, particularly in the absence of clear performance indicators (Alareeni & Hamdan, 2020; Han et al., 2016). Given the evolving and heterogeneous nature of sustainability reporting standards in Indonesia, investors may discount SDG disclosures that lack measurable outcomes (ISMAIL et al., 2022), especially in a setting characterized by highly volatile profitability.

The Mediating Role of SDG Disclosures

The mediation analysis provides no evidence that SDG disclosure mediates the relationship between ESG score and ROE. Neither the regression results nor the Sobel test indicates a significant indirect effect, leading to the rejection of H4.

This finding highlights a disconnect between ESG performance, disclosure practices, and financial outcomes in the Indonesian capital market. Contrary to the predictions of Voluntary Disclosure Theory, SDG disclosure does not function as an effective signaling mechanism capable of transmitting ESG performance into profitability (Awuah et al., 2024; Raimo et al., 2022). Instead, the results are consistent with the notion of symbolic legitimacy, where disclosure serves regulatory compliance and reputational protection rather than economic value creation (Cho et al., 2015; van der Waal & Thijssens, 2020).

The absence of mediation also reflects contextual factors. Compared to evidence from developed markets reporting partial mediation effects (Beretta et al., 2025), the Indonesian setting is characterized by mandatory sustainability reporting, short observation periods, and

highly volatile financial performance. As ESG and SDG initiatives involve significant upfront costs, their financial benefits may require a longer time horizon to materialize (Alareeni & Hamdan, 2020). Overall, SDG disclosure has not yet evolved into a strategic mechanism for converting ESG performance into financial gains, underscoring a credibility gap in sustainability reporting within emerging markets.

5. Conclusions

This study finds that ESG score does not significantly affect SDG disclosure or financial performance (ROE) among Indonesian listed companies during 2021–2023. SDG disclosure also shows no significant relationship with ROE and does not mediate the ESG and financial performance relationship, as confirmed by the Sobel test. These results indicate a decoupling phenomenon in sustainability reporting, where relatively high levels of SDG disclosure primarily reflect symbolic compliance with POJK No. 51/2017 rather than substantive ESG integration. Firm size is the only predictor of SDG disclosure, suggesting that reporting practices are driven more by organizational resources and public visibility than by actual ESG performance.

Overall, the findings imply that ESG and SDG practices in Indonesia remain at an early stage, with short-term compliance costs outweighing measurable accounting-based benefits. SDG disclosure has not yet functioned as a credible mechanism for translating ESG performance into financial gains, indicating a credibility gap in the capital market. This study contributes to the emerging market literature by highlighting the limited economic relevance of sustainability reporting in its current form, underscoring the need for more substantive ESG disclosures.

6. Limitations and Suggestions

This study is subject to several limitations. First, ESG data availability is limited, which may reduce sample representativeness across industries. Second, the three-year observation period may be too short to capture the long-term financial effects of ESG practices. Third, SDG disclosure is measured based on disclosure presence rather than depth or quality, which limits assessment of substantive implementation. Finally, the high volatility of ROE suggests that profitability is strongly affected by macroeconomic and industry-specific factors beyond sustainability variables.

Considering these limitations, future research should extend the observation period to better reflect the long-term nature of ESG value creation and consider market-based performance measures such as Tobin's Q or stock returns. In addition, expanding ESG data sources or applying qualitative assessments of SDG implementation may also improve measurement accuracy and sample representativeness.

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