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# Do Sustainability Reporting and Intellectual Capital Matter for Bank Valuation? Evidence from Indonesia

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**ABSTRACT:** This study aims to examine the direct and indirect effects of sustainability reporting and intellectual capital on market performance, with financial performance as a mediating variable. The study subjects included banking companies listed on the Indonesia Stock Exchange during the 2019–2023 period. Using a purposive sampling technique, 109 observations were obtained that met the research criteria. Sustainability reporting was measured using a disclosure index based on the Global Reporting Initiative standards, while intellectual capital was proxied by the Value-Added Intellectual Coefficient. Market performance was measured using price-to-book value, while financial performance was measured by return on assets. This study also uses firm size and leverage as control variables. Hypothesis testing was conducted through multiple regression analysis with two empirical models. The results show that intellectual capital has a positive effect on financial performance and market performance. Sustainability reporting has an effect on financial performance but a negative effect on market performance. Financial performance has a positive effect on market performance and mediates the relationship between intellectual capital and market performance. However, financial performance does not mediate the relationship between sustainability reporting and market performance. These findings suggest that Indonesian banking investors prioritize intellectual capital efficiency and profitability over the extent of sustainability disclosure. This study contributes to the ESG and intellectual capital literature and provides implications for bank management and regulators.

**KEYWORDS:** Sustainability reporting; intellectual capital; financial performance; market performance; banking sector

## 1. INTRODUCTION

In recent decades, capital markets have increasingly integrated non-financial information into the investment decision-making process. Environmental, social and governance (ESG) issues, along with intellectual capital, are now considered strategic resources that influence a company's competitiveness, risk profile and long-term value creation. As a result, sustainability reporting and intellectual capital disclosure have become important mechanisms that companies use to communicate their commitment to responsible business practices and drivers of intangible value to external stakeholders (Maysari & Endri, 2025; Tamasiga et al., 2024).

Transparency plays a crucial role in the banking industry. Banks operate under strict regulatory oversight, manage systemic risk, and rely heavily on public trust. In emerging markets like Indonesia, where capital markets continue to grow rapidly, investors are increasingly demanding broader disclosure beyond traditional financial reports. The publication of sustainability reports, which are gradually being mandated by regulators and stock exchanges, reflects this shift towards increased corporate accountability and sustainable finance (Prihandini, 2024; Sebastião et al., 2024).

Financial performance remains the primary channel through which sustainability initiatives and intellectual capital investments can be translated into market value. According to signaling theory, voluntary disclosure regarding sustainability practices and knowledge-based resources can reduce information asymmetry and convey positive signals about managerial quality and future prospect, thereby influencing investor perceptions and stock prices (Indarti, 2023). At the same time, stakeholder theory suggests that companies that engage in responsible environmental and social practices can strengthen relationships with key stakeholder groups, which in turn can improve operational efficiency and profitability (Abdi et al., 2022; Biju et al., 2025).

Despite a growing body of literature examining sustainability reporting, intellectual capital, and firm value, empirical findings remain inconclusive. Some studies document a positive relationship between sustainability disclosure and corporate

performance (Abdi et al., 2022; Aras & Hacioglu Kazak, 2022; Prasad & Mondal, 2025; Yulianti & Djatnicka, 2025), arguing that ESG transparency enhances reputation and investor confidence. Other studies report insignificant or even negative effects, particularly in developing countries where sustainability reporting practices are still developing (Pramesti et al., 2024; Prayogo et al., 2025; Xaviera & Rahman, 2024). Similarly, research on intellectual capital shows mixed results, with variations across industries, institutional settings, and measurement approaches (Indriastuti & Kartika, 2021; Pramesti et al., 2024; Prayogo et al., 2025).

Furthermore, many previous studies have primarily focused on the direct effects of sustainability reporting and intellectual capital disclosure on market-based performance indicators (Gutiérrez-Ponce & Wibowo, 2023; Sofiatun & Indarti, 2025; Widiatmoko et al., 2020; Xaviera et al., 2024) or the price-to-book ratio (Prayogo et al., 2024; Yuliyanti et al., 2025). Fewer studies have explicitly examined financial performance as an intermediary mechanism linking non-financial disclosures to market performance. This scarcity is noteworthy because sustainability initiatives and strengthening intellectual capital are expected to first impact internal efficiency and profitability before being reflected in stock market value.

In the context of the Indonesian banking sector, this issue becomes increasingly relevant. Banks are knowledge-intensive organizations whose value creation relies heavily on human capital, organizational processes, and relational networks. At the same time, Indonesian regulators are increasingly emphasizing sustainable finance and ESG disclosure through financial services authority guidelines and stock exchange regulations (Gutiérrez-Ponce & Wibowo, 2023; Prasetyo & Musmini, 2025). However, empirical evidence on whether sustainability reporting and intellectual capital disclosure actually improves banks' market performance, either directly or indirectly through financial performance, is still limited.

Therefore, this study aims to examine the direct and indirect effects of sustainability reporting and intellectual capital disclosure on market performance, with financial performance as a mediating variable. Using a purposive sample of banking companies listed on the Indonesia Stock Exchange during the 2019–2023 period, this study contributes to the literature in several ways. First, it provides industry-specific evidence from a regulated and knowledge-intensive sector in an emerging market context. Second, it integrates ESG-related disclosure and intellectual capital within a unified empirical framework. Third, it offers insights into the mediating role of financial performance in shaping investor responses to non-financial information.

This article is structured as follows. Section 2 reviews the relevant literature and develops the research hypotheses. Section 3 describes the research methodology, including sample selection, variable measurement, and empirical model. Section 4 presents empirical results. Section 5 discusses the findings, and Section 6 concludes the study by outlining implications, limitations, and directions for future research.

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### *2.1 Theoretical Background*

This research is based on three main theoretical perspectives: stakeholder theory, signaling theory, and resource-based theory (RBT). Stakeholder theory argues that companies must consider the interests of various stakeholders, including employees, customers, regulators, and communities, to maintain long-term value creation (Indarti et al., 2024). Stakeholder theory asserts that companies have a moral and strategic obligation to disclose relevant information to all stakeholders, not just shareholders. This theory positions sustainability reporting as a means of meeting the information needs of various parties impacted by a company's activities (Benvenuto et al., 2023; García-Sánchez et al., 2024). Transparent sustainability reporting serves as a mechanism through which companies demonstrate accountability and legitimacy to these stakeholder groups, potentially improving operational results and financial performance (Deniswara et al., 2019; Triyani et al., 2020).

Signaling theory suggests that companies voluntarily disclose high-quality non-financial information to reduce information asymmetry between management and external investors. Sustainability disclosure and intellectual capital reporting can serve as positive signals regarding management competence, risk management, and growth prospects, which can ultimately impact market value (Bergh & Gibbons, 2011; Widiatmoko et al., 2025). Meanwhile, resource-based theory (RBT) emphasizes that intangible resources, such as human capital, organizational processes, innovation capabilities, and relational networks, are key sources of competitive advantage. Intellectual capital disclosure reflects a company's capacity to create value through these knowledge-based assets and is therefore expected to improve financial and market performance (Bayraktaroglu et al., 2019; Indarti et al., 2024). Together, these theories imply that sustainability reporting and intellectual capital disclosure can influence investor perceptions both directly and indirectly through improved financial performance.

### *2.2 Sustainability Reporting and Financial Performance*

Sustainability reporting communicates environmental management, social responsibility, and corporate governance practices to external stakeholders. In the banking sector, such disclosures are increasingly linked to sustainable finance initiatives, credit risk

management, and reputational capital. Companies that seriously implement ESG practices can experience lower regulatory risk, stronger customer loyalty, and better access to capital, which in turn increases profitability (Prasad & Mondal, 2025).

Empirical studies across various institutional environments demonstrate a positive relationship between sustainability disclosure and accounting-based performance measures such as return on assets and return on equity (Prasad & Mondal, 2025). This finding is consistent with stakeholder theory, which states that responsible corporate behavior strengthens stakeholder relationships and improves operational efficiency. Research by Ismail et al. (2022) on companies in Malaysia and Indonesia also demonstrated that sustainability reporting positively impacts financial performance. Given the knowledge-intensive nature of banking and the increasing regulatory pressure on sustainability disclosure in Indonesia, this study expects sustainability reporting to positively contribute to banks' financial performance. Therefore, the following hypothesis is formulated:

H1: Sustainability reporting positively impacts financial performance.

### *2.3 Intellectual Capital and Financial Performance*

Intellectual capital refers to intangible assets embedded in human resources, organizational systems, and external relationships. Integrating intellectual capital values such as knowledge, expertise, financial resources, operational strategies, and appropriate stakeholder reporting can enhance a company's performance potential (Dalwai & Salehi, 2021; Widiatmoko et al., 2025). In financial institutions, these resources support service quality, innovation, risk assessment capabilities, and customer trust (Prayogo et al., 2024). Disclosure of intellectual capital provides investors with information on how effectively a bank manages and develops these intangible assets (Anggraeni & Indarti, 2021; Ramadhan & Indarti, 2025). In the Indonesian banking sector, where competition is intense and services rely heavily on human expertise and digital infrastructure, leveraging intellectual capital is expected to improve financial performance.

Previous research has shown that intellectual capital, often measured using value-added efficiency models, has a positive impact on firm profitability (Dalwai & Salehi, 2021; Gul et al., 2022; Rudhiningtyas et al., 2022). From an RBV perspective, superior knowledge-based resource management leads to sustained competitive advantage and improved financial performance. Recent banking evidence using static and dynamic estimators also confirms that intellectual capital efficiency remains central to profitability and value creation, although the strength of its influence may vary across environments and components (Faruq et al., 2023; Rong et al., 2025). Based on the above, the following hypothesis is formulated:

H2: Intellectual capital has a positive effect on financial performance

### *2.4 Financial Performance and Market Performance*

Market performance reflects investors' assessment of a company's future prospects and risk profile and is generally represented by valuation ratios such as the price-to-book value (PBV) ratio or Tobin's Q. Financial performance, as measured by profitability indicators such as ROA, provides fundamental signals regarding managerial efficiency and earnings generation. According to signaling theory and valuation models, companies with strong financial results are more likely to attract investor interest, thus increasing their stock prices and market valuations. Numerous empirical studies document a positive relationship between accounting-based performance measures and market-based results (Indriastuti & Kartika, 2021; Oktaviani et al., 2024; L. R. Valencia, 2025). Therefore, higher profitability is expected to result in superior market performance. Based on the logic and empirical support outlined above, the following hypothesis is formulated:

H3: Financial performance has a positive effect on market performance.

### *2.5 Sustainability Reporting and Market Performance*

Sustainability reporting can influence market performance by shaping investor perceptions of a company's legitimacy, risk management quality, and long-term growth prospects. Based on signaling theory, sustainability reports serve as a strategic communication medium for companies to convey their commitments, capabilities, and governance quality to the market. Transparent disclosure of sustainability information can reduce information asymmetry and help investors assess a company's ability to manage environmental, social, and governance risks (Connelly et al., 2011; Pramesti et al., 2024; Prayogo et al., 2024). This signal will be stronger if the information provided is credible, consistent, measurable, and verifiable, thus being perceived as an indicator of management quality and the company's ability to create long-term value (Connelly et al., 2011; Spence, 1973).

As environmental, social, and governance (ESG) aspects increasingly factor into investment decisions, transparent sustainability reporting can also enhance a company's reputation and reduce investor perceptions of uncertainty and risk (Pramesti et al., 2024; Prayogo et al., 2024; Yuliyanti et al., 2025). Numerous empirical studies have shown that sustainability reporting is positively related to a company's market value and performance, as sustainability information is one of the factors investors consider when assessing a company's quality, risk, and prospects (Abdi et al., 2022; Yulianti & Djatnicka, 2025; Yunita & Prastiwi, 2021). In the context of the Indonesian capital market, the strengthening of sustainable finance policies and the banking sector's

high exposure to ESG risks further strengthen the relevance of sustainability reporting in investment decision-making. Based on these theoretical arguments and empirical findings, this study proposes the following hypothesis:

H4: Sustainability reporting has a positive effect on market performance.

### *2.6 Intellectual Capital and Market Performance*

Intellectual capital is an intangible asset that is not directly recorded in financial statements but has the potential to create value and competitive advantage for a company (Edvinsson & Malone, 1997; Stewart, 1997). Based on stakeholder theory, intellectual capital disclosure is a form of accountability and strategic communication to investors, creditors, regulators, customers, employees, and the public. Freeman (1984) views a company as a value-creating system for stakeholders, so information about human capital, structural capital, and relational capital is important to demonstrate a company's ability to create long-term value.

In the banking context, intellectual capital disclosure helps stakeholders assess the quality of human resources, technology, service innovation, reputation, customer relationships, and knowledge governance, which are not fully reflected in financial statements. Because this information is often inadequately accommodated in traditional financial reporting, voluntary disclosure can reduce information asymmetry and increase investor confidence in assessing a company's prospects (Freeman, 1984; Rieg & Vanini, 2023; Salvi et al., 2020). The resource-based view also positions intellectual capital as a valuable, rare, difficult-to-imitate, and difficult-to-substitute strategic resource, thus serving as the basis for sustainable competitive advantage (Barney, 1991). In the banking industry, employee competency, information technology capabilities, risk management systems, customer databases, organizational culture, reputation, and long-term customer relationships are intangible resources that can strengthen a bank's competitiveness (Barney, 1991; Bontis, 1998; Salvi et al., 2020).

Based on these two perspectives, intellectual capital disclosure serves not only as a means of transparency but also as a signal regarding the quality of strategic resources and the company's ability to generate profit, growth, and long-term value. The more extensive intellectual capital disclosure, the more positive the market's assessment of the company's prospects and sustainability, thus predicting improved bank market performance. Empirical findings indicate that companies with higher intellectual capital efficiency or more extensive disclosure tend to have higher market value (Deniswara et al., 2019; Indriastuti & Kartika, 2021; Pangestuti et al., 2022; Pramesti et al., 2024; Yunita & Prastiwi, 2021). Therefore, this study expects intellectual capital disclosure to positively impact bank market performance.

H5: Intellectual capital positively impacts market performance.

### 2.7 Research Model

The research model illustrates the relationships between the variables to be tested in this study, namely the influence of sustainability reporting and intellectual capital on a company's financial and market performance. The research model is presented in Figure 2.1.

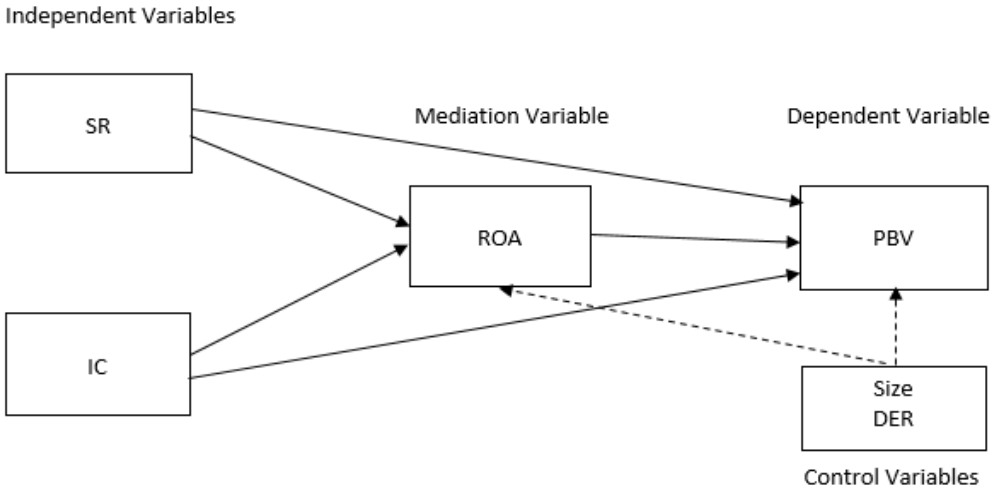



**Figure 2.1 Research Model**

Information:

SR : Sustainability Report
IC : Intellectual capital
ROA : Return on Assets

PBV : Price to Book Value
Size : Firm Size
DER : Debt to Equity Ratio

## 3. RESEARCH METHODOLOGY

***Research Design***

This study uses a quantitative explanatory research design to examine the direct and indirect effects of sustainability reporting and intellectual capital on market performance, with financial performance as a mediating variable. This analysis is based on secondary data obtained from annual reports, sustainability reports, and financial statements of banking companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. A panel data structure is used by combining cross-sectional observations from each bank with time series observations over five years. Hypothesis testing is conducted using multiple linear regression analysis and mediation analysis procedures.

***Population, Sample, and Data Screening***

The population of this research includes all banking companies listed on the Indonesia Stock Exchange (BEI) during the 2019–2023 period. The sample was selected using a purposive sampling technique based on three criteria, namely companies registered consecutively during the observation period, publishing annual reports and sustainability reports every year, and having complete data for all research variables. Applying these criteria yields 109 firm-year observations.

Before testing the hypothesis, data was filtered to detect outliers using standardized residuals and distribution diagnostics in SPSS. In Model 1, 14 observations were removed so that the final sample was 95 observations. In Model 2, 25 observations were removed to obtain 84 observations for the final analysis. Removal of outliers is carried out to prevent distortion of parameter estimates and fulfill classical regression assumptions.

***1.3 Variable Measurement***

*3.3.1 Market Performance*

Market performance is measured using the Price-to-Book Value (PBV) ratio, which reflects how the capital market values a company relative to its book value. PBV is widely used in banking studies to capture investor expectations regarding future growth and risk (Pramesti et al., 2024).

*3.3.2 Financial Performance*

Financial performance is measured by Return on Assets (ROA), which is calculated as net profit divided by total assets. ROA indicates management's efficiency in utilizing company assets to generate profits and is commonly used in banking research (Widiatmoko et al., 2023).

*3.3.3 Sustainability Reporting*

Sustainability reporting is measured using the Sustainability Reporting Disclosure Index (SRDI), which is compiled through a content analysis of sustainability reports from annual reports. This index is based on disclosure items aligned with the Global Reporting Initiative (GRI) standards. Each item is scored dichotomously: a score of 1 is given if the company discloses the relevant item and a score of 0 otherwise. The total score is then divided by the maximum possible score to obtain the disclosure ratio (Pramesti et al., 2024; Sofiatun & Indarti, 2025).

*3.3.4 Intellectual Capital*

Intellectual capital is represented by the Value-Added Intellectual Coefficient (VAIC) model, which captures the value creation efficiency of human capital, structural capital, and capital employed. VAIC is calculated as the sum of Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), and Capital Employed Efficiency (CEE) (Indarti, 2023; Pramesti et al., 2024).

*3.3.5 Control Variables*

To reduce omitted-variable bias, two control variables were included: Firm Size (SIZE), measured by total assets (Indarti & Widiatmoko, 2023); Leverage (DER), measured using the debt-to-equity rasio (Widiatmoko & Indarti, 2024). These controls are commonly used in capital market research to capture scale effects and financial risk.

***3.4 Empirical Models***

To test the research hypotheses and the mediating role of financial performance, this study uses two regression models:

Model 1_Financial Performance Equation:

$ROA_{it} = \alpha + \beta_1 SRDI_{it} + \beta_2 VAIC_{it} + \beta_3 SIZE_{it} + \beta_4 DER_{it} + \varepsilon_{it}$

This model is used to test H1 and H2.

Model 2_Market Performance Equation:

$PBV_{it} = \alpha + \beta_1 SRDI_{it} + \beta_2 VAIC_{it} + \beta_3 ROA_{it} + \beta_4 SIZE_{it} + \beta_5 DER_{it} + \varepsilon_{it}$

This model is to test H3, H4, and H5 and reveal the mediating role of ROA. Indirect impacts are evaluated by examining the significance of the relationship between sustainability reporting and intellectual capital disclosure and ROA as well as between ROA and PBV.

## 4. RESULTS AND HYPOTHESIS TESTING

### *4.1 Descriptive Statistics*

Table 1 presents descriptive statistics for all variables based on 95 observations. The average price-to-book value (PBV) of 1.54 indicates that banking companies' stock prices generally exceed their book value. This value reflects positive investor sentiment, although market valuations are still moderate and not yet overvalued.

The Sustainability Reporting Index (SRDI) had an average value of 0.50, indicating that banks disclosed approximately half of the items in the index. This level of disclosure is still considered moderate. These results indicate that although attention to sustainability has increased, banks still need to expand their disclosure of economic, social, and environmental information.

**Table 1: Descriptive Statistics**

| | N | | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|---|
| | Valid | Missing | | | | |
| PBV | 95 | 0 | 0.306 | 5.284 | 1.540 | 1.174 |
| SRDI | 95 | 0 | 0.341 | 0.692 | 0.499 | 0.082 |
| VAIC | 95 | 0 | 0.879 | 30.293 | 6.509 | 4.795 |
| ROA | 95 | 0 | 0.000 | 0.031 | 0.012 | 0.008 |
| SIZE | 95 | 0 | 372.136 | 199254.469 | 35731.213 | 49579.396 |
| DER | 95 | 0 | 0.193 | 16.372 | 6.096 | 2.843 |

**Source:** processed data

Intellectual capital efficiency, as measured by VAIC, averaged 6.51, reflecting the knowledge-intensive nature of the banking industry. An average VAIC of 6.51 indicates that banking companies are relatively capable of leveraging their intellectual capital, both through human resources, organizational structure, and capital employed, to create added value. This condition reinforces the banking industry's knowledge-based nature, where efficient management of intangible assets is a critical factor in supporting company performance.

Financial performance, as measured by ROA, has an average value of 0.012. This value indicates that the banking companies in the sample were able to generate profits of approximately 1.2% of total assets. Although relatively small, this ROA level is still reasonable, given the banking industry's large asset structure compared to other sectors.

Company size shows significant variation across banks, both in terms of total assets and business capacity. Meanwhile, leverage, as measured by the DER, has a relatively high average value. This reflects the banking sector's heavy reliance on third-party funds and other liabilities as its primary funding source.

### *4.2 Normality and Classical Assumption Tests*

*4.2.1 Model 1: Determinants of Financial Performance*

Table 2 presents the regression results of Model 1. The skewness to standard error ratio of 1.21 is within the tolerance limit of ±1.96, so the residuals are normally distributed. The Durbin–Watson value of 1.839 is also between du = 1.7462 and 4 – du = 2.2538, indicating the absence of positive or negative autocorrelation. The multicollinearity test results show that all independent variables have tolerance values above 0.10 and variance inflation factor (VIF) values below 10. These results indicate that the research model does not contain symptoms of multicollinearity.

**Table 2: Summary of Regression Results_Model 1**

| Variable | Coefficient (B) | Std. Error | t-Statistic | Sig. | Collinearity Statistics | | Conclusion |
|---|---|---|---|---|---|---|---|
| | | | | | Tolerance | VIF | |
| Constant | 0.013 | .004 | 3.595 | 0.001 | | | — |
| SRDI | 0.001 | .008 | 0.136 | 0.892 | .831 | 1.203 | Not significant |
| VAIC | 0.000 | .000 | –3.467 | 0.001 | .917 | 1.091 | Significant (–) |
| SIZE | 8.601E-8 | .000 | 6.899 | 0.000 | .926 | 1.080 | Significant (+) |

| Variable | Coefficient (B) | Std. Error | t-Statistic | Sig. | Collinearity Statistics | | Conclusion |
|---|---|---|---|---|---|---|---|
| | | | | | Tolerance | VIF | |
| DER | 0.000 | .000 | –1.867 | 0.065 | .930 | 1.076 | Not significant |
| Dependent Variable: ROA (N = 95) | | | | | | | |
| Skewness = 0.300; Std. Error of Skewness = 0.247 | | | | | | | |
| F-statistic = 18.542 ($p < 0.001$) | | | | | | | |
| Adjusted $R^2$ = 0.427 | | | | | | | |
| Durbin–Watson = 1.839 | | | | | | | |

Table 3 presents the results of the heteroscedasticity test for Model 1 using the Glejser method. Based on the information in Table 3, it can be seen that all variables have significance values above 0.05. It can be concluded that there is no heteroscedasticity problem in the regression model.

**Table 3: Heteroskedasticity Test Result _Model 1**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .002 | .000 | | 3.751 | .000 |
| SRDI | -.006 | .007 | -2.543 | -.886 | .378 |
| VAIC | .000 | .000 | 2.904 | 1.010 | .315 |
| SIZE | -2.471E-7 | .000 | -.330 | -1.611 | .111 |
| DER | -8.159E-6 | .000 | -.147 | -1.371 | .174 |

Dependent Variable: ABS_RES

*4.2.2 Model 2: Determinants of Market Performance*

A summary of Model 2 regression results is presented in Table 4. Based on the information in Table 4, the skewness value of 0.455 with a standard error of 0.263 indicates that the data has a normal distribution. This is also supported by the skewness ratio to standard error of 1.73, which is still within the tolerance limits of normality. Furthermore, the Durbin–Watson value of 2.182 indicates that the model does not experience symptoms of autocorrelation, because the value is between du = 1.7781 and 4 – du = 2.2219. Thus, the residuals in the regression model can be said to be independent. This condition indicates that Model 2 has met the basic assumptions of regression, especially regarding normality and autocorrelation. The results of the multicollinearity test show that the tolerance and VIF values have met acceptable criteria, so there is no indication of multicollinearity problems.

**Table 4: Summary of Regression Results_Model 2**

| Variable | Coefficient B | Std. error | t-Statistic | Sig. | Collinearity Statistics | | Conclusion |
|---|---|---|---|---|---|---|---|
| | | | | | Tolerance | VIF | |
| Constant | 1.382 | .284 | 4.857 | 0.000 | | | — |
| SRDI | –2.590 | .594 | –4.361 | 0.000 | .836 | 1.197 | Significant (–) |
| VAIC | 0.033 | .011 | 2.872 | 0.005 | .974 | 1.027 | Significant (+) |
| SIZE | 4.052E-6 | .000 | 4.008 | 0.000 | .892 | 1.121 | Significant (+) |
| ROA | 46.196 | 3.727 | 12.396 | 0.000 | .838 | 1.193 | Significant (+) |
| DER | 0.020 | .017 | 1.175 | 0.244 | .779 | 1.283 | Not significant |
| Dependent Variable: PBV | | | | | | | |
| Skewness = 0.455; Std. Error of Skewness = 0.263 | | | | | | | |
| F-statistic = 44.745 ($p < 0.001$) | | | | | | | |
| Adjusted $R^2$ = 0.725 | | | | | | | |
| Durbin–Watson = 2.182 | | | | | | | |

The results of the heteroscedasticity test using the Spearman rho method for Model 2 are presented in Table 5. The information in Table 5 shows that all variables have a significance value above 0.05 so that the regression model does not experience heteroscedasticity problems.

**Table 5 Heteroskedasticity Test Result_Model 2**

| | | | SRDI | VAIC | SIZE | ROA | DER |
|---|---|---|---|---|---|---|---|
| Spearman's rho | Unstandardized Residual | Correlation Coefficient | .066 | -.029 | -.116 | -.141 | -.022 |
| | | Sig. (2-tailed) | .551 | .796 | .291 | .199 | .840 |
| | | N | 84 | 84 | 84 | 84 | 84 |

***4.3 Regression Results: Model 1 (Financial Performance Equation)***

Table 3 presents the regression results of Model 1, which examines the effect of SRDI, VAIC, SIZE, and DER on ROA. The test results indicate that the regression model is simultaneously significant with an F value of 18.542 and $p < 0.001$. The adjusted $R^2$ value of 0.427 indicates that the independent variables in the model are able to explain 42.7% of the variation in ROA, while the remainder is explained by other factors outside the model.

The test results show that sustainability reporting, as measured by SRDI, has no significant effect on ROA (B = 0.001; p = 0.892), thus H1 is not supported. Conversely, intellectual capital efficiency, as proxied by VAIC, has a positive and significant effect on ROA (B ≈ 0.000; p = 0.001). This finding supports H2, which states that intellectual capital has a positive effect on financial performance.

The test results show that company size (SIZE) has a positive and significant effect on ROA (B = 8.601E–8; $p < 0.001$). This finding suggests that larger companies tend to have better financial performance. Meanwhile, leverage, as proxied by DER, has no significant effect on ROA (B ≈ 0.000; p = 0.065).

***4.4 Regression Results: Model 2_Market Performance Equation***

Table 4 presents the regression results of Model 2, which examines the effect of SRDI, VAIC, ROA, SIZE, and DER on PBV. The test results indicate that the regression model is simultaneously significant with an F value of 44.745 and $p < 0.001$. The adjusted $R^2$ value of 0.725 indicates that the independent variables in the model are able to explain 72.5% of the variation in PBV. Meanwhile, other factors outside the model explain the remaining 27.5%, so Model 2 has relatively high explanatory power regarding the company's market performance.

Sustainability reporting, as measured by the SRDI, showed a negative and significant effect on PBV (B = –2.590; $p < 0.001$). This finding suggests that the market does not always respond positively to increased sustainability disclosure, thus rejecting H4. Conversely, intellectual capital efficiency, as proxied by VAIC, had a positive and significant effect on PBV (B = 0.033; p = 0.005). This result supports H5, which states that intellectual capital efficiency contributes to improved corporate market performance.

Meanwhile, financial performance, as measured by ROA, has a positive and significant effect on PBV (B = 46.196; $p < 0.001$), thus supporting H3. These findings indicate that companies with higher profitability tend to have better market valuations. Company size also has a positive and significant effect on PBV (B = 4.052E–6; $p < 0.001$), indicating that larger companies tend to have higher market valuations. Meanwhile, leverage, as measured by DER, does not significantly affect PBV (B = 0.020; p = 0.244).

***4.5 Summary of Hypothesis Testing***

Table 6 presents a summary of the results of hypothesis testing based on the regression coefficient values and their significance levels.

**Table 6 The Result of Hypothesis Testing**

| Hypothesis | Relationship | Expected Sign | Result |
|---|---|---|---|
| H1 | SRDI → ROA | + | Not supported |
| H2 | VAIC → ROA | + | Supported |
| H3 | ROA → PBV | + | Supported |
| H4 | SRDI → PBV | + | Not supported (negative) |
| H5 | VAIC → PBV | + | Supported |

### *4.6 Indirect Effects of Sustainability Reporting and Intellectual Capital*

The indirect effect is analyzed by considering the mediating role of financial performance, as proxied by return on assets (ROA). Based on the two-stage regression framework, indications of mediation can be identified if the independent variable significantly influences ROA in Model 1, and ROA subsequently significantly influences market performance, as proxied by price to book value (PBV) in Model 2.

The test results show that sustainability reporting as measured by the sustainability reporting disclosure index (SRDI) does not have a significant effect on ROA in Model 1. Thus, no empirical evidence was found to support the indirect effect of sustainability reporting on market performance through financial performance.

In contrast, intellectual capital efficiency, represented by VAIC, was shown to have a significant effect on ROA in Model 1. Furthermore, ROA also showed a positive and significant effect on PBV in Model 2. These findings indicate that financial performance acts as a mediating pathway in the relationship between intellectual capital efficiency and market performance. In other words, intellectual capital efficiency can indirectly improve a company's market performance through improved financial performance. However, to more strongly confirm the significance of the indirect effect, mediation testing can be supplemented with the Sobel test or bootstrapping approach, so that conclusions regarding the mediation effect have a more comprehensive statistical basis.

## 5. DISCUSSION

The results of the first hypothesis test indicate that sustainability reporting has no effect on financial performance, as measured by return on assets (ROA). Based on stakeholder theory, sustainability disclosure should increase the trust and support of investors, customers, regulators, and other stakeholders, thereby improving company performance (Donaldson & Preston, 1995; Freeman, 1984). However, the sustainability information provided by banks in Indonesia is not yet strong enough to influence stakeholders' economic decisions and increase profitability because its implementation is still oriented towards regulatory compliance and has not been fully integrated into the bank's strategy and operational activities. Furthermore, companies generally only gain economic benefits when sustainability aspects have been integrated into the company's organizational processes and decision-making (Eccles et al., n.d.; Khan et al., 2016). These findings contradict those of Abdi et al. (2022), Aras & Hacioglu Kazak (2022), Prasad & Mondal (2025), and Yuliyanti et al. (2025), who found a positive effect of sustainability disclosure on company performance due to differences in industry characteristics, disclosure quality, ESG implementation maturity level, and study period. However, these findings align with those of Pramesti et al. (2024), Prayogo et al. (2025), and Xaviera & Rahman (2024), who found that sustainability reporting had no or negative effect on company performance, particularly in developing countries where sustainability reporting practices are still in the development stage.

Based on the second hypothesis test, it was proven that intellectual capital efficiency has a positive effect on financial performance. This finding indicates that increasingly efficient intellectual resource management can improve a bank's ability to generate return on assets (ROA). These results support resource-based theory, which explains that employee competencies, organizational routines, information systems, technology, and innovation capabilities can become sources of competitive advantage if companies manage them effectively (Barney, 1991; Grant, 1991). In the banking context, good human capital and digital infrastructure management can improve service quality, risk assessment accuracy, decision-making speed, and operational efficiency, thereby encourage more productive asset utilization and increase bank profitability. These findings also support signaling theory because effective utilization of intellectual capital reflects management quality, adaptability, and long-term growth potential for stakeholders (Connelly et al., 2011; Spence, 1973). These findings align with those of Dalwai & Salehi (2021) , Gul et al. (2022), and Rudhiningtyas et al. (2022), who demonstrated that efficient management of knowledge-based resources can enhance a company's competitive advantage and financial performance. These similar findings confirm that intellectual capital plays a crucial role in the banking industry, which relies heavily on knowledge, technology, human resource quality, and information management capabilities. However, these findings contradict those of Indriastuti and Kartika (2021), Pramesti et al. (2024), and Prayogo et al. (2025), who found no effect of intellectual capital on financial performance due to differences in sample characteristics, observation periods, measurement methods, technological maturity levels, and the company's ability to convert intangible resources into economic benefits.

The research findings in the third hypothesis confirm that financial performance has a positive influence on market performance, as measured by price to book value (PBV). This finding indicates that the higher a bank's ability to generate profits from its managed assets, the higher the market's valuation of the company. Return on assets (ROA) reflects management's

effectiveness in utilizing all assets to generate profits. Therefore, an increase in ROA can strengthen investor confidence in the bank's operational efficiency, financial stability, and growth prospects. This finding supports signaling theory, which explains that companies convey information to external parties to reduce information asymmetry between management and investors (Connelly et al., 2011; Spence, 1973). In the context of this research, a high ROA is a positive signal regarding the quality of asset management and the company's ability to generate profits. This signal can increase investor confidence and interest in a company's shares, leading investors to place a higher valuation than the company's book value. Therefore, improved financial performance can drive an increase in PBV, an indicator of market performance. The results of this study align with those of Indriastuti and Kartika (2021), Oktaviani et al. (2024), and H. L. Valencia & Susanto (2024) , who found that financial performance or profitability positively influences firm value. These similar results confirm that accounting-based profitability indicators remain relevant fundamental information for investors in assessing a company's prospects and value. Although previous studies used different sample characteristics and industry sectors, the results consistently demonstrate that a company's ability to generate profits can shape positive market perceptions and increase firm value.

Testing the fourth hypothesis demonstrates a negative impact of sustainability reporting on market performance, as measured by price-to-book value (PBV). This finding indicates that the more extensive a bank's sustainability disclosure, the lower the market's valuation of the company during the study period. Investors may view the implementation and reporting of sustainability activities as additional costs that do not yet generate direct economic benefits. In the context of Indonesian banking, investors may perceive the sustainability reporting required by POJK No. 51/POJK.03/2017 as regulatory compliance, rather than a strategy for creating corporate value. Based on signaling theory, sustainability reporting should be a positive signal regarding a company's commitment to managing environmental, social, and governance risks, but its effectiveness depends on the credibility, relevance, and ability of the signal to differentiate company quality (Connelly et al., 2011). Investors may perceive disclosures that are general, uniform, or unsupported by measurable targets and achievements as symbolic or greenwashing. Consequently, sustainability reports can raise investor concerns about ESG costs and the mismatch between disclosure and actual sustainability performance (Hummel & Schlick, 2016; Mahoney, 2012). The results of this study differ from those of Yuliyanti et al. (2025), who found that ESG factors positively influence firm value in Asia, and partially differ from those of Abdi et al. (2022), who showed that governance dimensions can increase the market-to-book ratio, although the influence of each ESG dimension on firm value is not always equal. These differences in results may be due to industry characteristics, disclosure quality, the study period, market performance measures, and the level of investor maturity in utilizing ESG information. Therefore, the negative relationship in this study indicates that the market has not yet fully appreciated sustainability reporting as a value creation signal because its economic benefits are not yet visible and the quality of disclosure has not yet convinced investors.

The research findings on the fifth hypothesis confirm that intellectual capital disclosure has a positive effect on market performance, as proxied by price-to-book value (PBV). This finding indicates that investors place a higher value on banks that disclose information regarding human resource competencies, technological and digital capabilities, organizational systems, innovation, and customer relationships. This information helps investors understand intangible resources that are not fully reflected in conventional financial statements but play a crucial role in creating corporate value. Therefore, the market may appreciate intellectual capital disclosure even though its economic benefits are not yet fully reflected in current accounting earnings (Rieg & Vanini, 2023; Salvi et al., 2020). These findings support signaling theory, which explains that companies can convey certain information to reduce information asymmetry between management and investors (Connelly et al., 2011; Spence, 1973). In the context of this research, intellectual capital disclosure is a positive signal regarding management quality, innovation capability, technological readiness, employee competency, and company growth prospects. Relevant and credible information can reassure investors about the bank's sustainable competitiveness, increase investor confidence, and encourage higher market valuations. The results of this study align with those of Solikhah et al. (2020), who found a positive effect of intellectual capital disclosure on bank market value, and Putra and Ratnadi (2021), who demonstrated that investors consider such disclosures in investment decision-making. Salvi et al. (2020) also showed that the quality of disclosure of human capital, structural capital, and social and relational capital is positively related to firm value, while a meta-analysis by Rieg & Vanini (2023) found that intellectual capital disclosure is market-relevant and associated with increased firm market value. Therefore, disclosure of knowledge-based resources is valuable information for investors, particularly in the banking industry, which relies heavily on technology, human competency, information, and the quality of customer relationships.

## 6. CONCLUSION AND IMPLICATIONS

### *6.1 Conclusion*

This study analyzes the direct and indirect effects of sustainability reporting and intellectual capital disclosure on market performance, with financial performance as a mediating variable, in Indonesian banking companies listed on the Indonesia Stock Exchange for the 2019–2023 period. The results indicate that intellectual capital disclosure positively impacts both financial and market performance. This finding confirms that knowledge-based resource management, organizational capabilities, and intangible assets play a significant role in increasing profitability and strengthening investor perceptions of firm value. Conversely, sustainability reporting has no effect on financial performance and a negative effect on market performance, indicating that sustainability information is not yet fully perceived by investors as a signal of value creation.

Financial performance has been shown to have a positive effect on market performance, confirming that investors still strongly consider profitability when assessing banking companies. Financial performance does not mediate the relationship between sustainability reporting and market performance, but it does mediate the effect of intellectual capital disclosure on market performance. Overall, investors in the Indonesian banking sector tend to value intellectual capital efficiency and profitability performance more than sustainability reporting. Therefore, intellectual capital needs to be managed as a strategic asset to create corporate value, while sustainability reporting needs to be more substantively integrated into strategy and operational activities so that its economic benefits can be positively appreciated by the market.

### *6.2 Theoretical Implications*

This study makes important contributions to the literature in several ways. First, it extends ESG-performance research by providing sector-specific evidence from banking institutions in emerging markets, where regulatory frameworks and disclosure practices are still evolving. Second, the findings highlight the importance of distinguishing between accounting-based and market-based outcomes when assessing the economic consequences of sustainability initiatives and intellectual capital investments. Third, the results refine signaling theory by demonstrating that not all voluntary disclosures are interpreted positively by investors; sustainability reporting can be perceived as a compliance mechanism rather than a value-enhancing signal. Finally, the strong role of intellectual capital supports the resource-based view, emphasizing that intangible assets remain central to value creation in knowledge-intensive industries.

### *6.3 Practical and Policy Implications*

For bank managers, the research findings suggest that investments in intellectual capital—such as employee training, digital transformation, and organizational systems—are rewarded with increased profitability and higher market valuations. Therefore, transparent communication of these capabilities can strengthen investor confidence. Conversely, the negative market response to sustainability reporting suggests that banks should focus on improving the quality and credibility of ESG disclosures. Rather than emphasizing token compliance, sustainability reports should clearly demonstrate how environmental and social initiatives are integrated into core business strategies, risk management, and long-term value creation. For regulators and stock exchange authorities, these findings underscore the importance of developing clearer sustainability reporting standards and assurance mechanisms to enhance comparability and reliability across companies. Strengthening ESG literacy among investors can also help capital markets better incorporate sustainability information into the valuation process.

### *6.4 Limitations and Future Research*

This study has several limitations that provide opportunities for future research. First, the analysis relies on accounting-based and market-based proxies, namely ROA and PBV, which may not fully capture the multidimensional aspects of performance. Future studies could incorporate alternative measures such as Tobin's Q, ROE, or risk-adjusted returns. Second, sustainability reporting is measured using a disclosure index, which focuses on the extent to which information is provided, rather than on its quality or credibility. Future research could distinguish between symbolic and substantive disclosure or incorporate external ESG ratings. Third, the use of SPSS-based regressions limits the ability to model unobserved heterogeneity across firms and years. Future studies could employ panel data techniques such as fixed-effects or random-effects models to increase robustness. Finally, extending the sample period, comparing the banking sector with non-financial sectors, or conducting cross-country analysis would provide deeper insights into how the institutional environment shapes the assessment of sustainability disclosure and intellectual capital.

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