

Sustainability Reporting And Corporate Performance: How Green Image Building Bridges The Gap?

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Abstract

Sustainability reporting has become a critical topic in the modern business world as it plays a vital role in enhancing corporate transparency and social responsibility. However, there remains uncertainty regarding how sustainability reporting practices can effectively improve corporate performance, particularly through the development of a green image. This study aims to examine the influence of sustainability reporting on corporate performance, mediated by green image building, and moderated by sustainability-oriented innovation and competitive maneuverability. Employing a quantitative approach with a cross-sectional survey design, data were analyzed using Structural Equation Modeling (SEM). The sample consisted of 150 respondents from executives in the mining, palm oil, and tobacco sectors in Indonesia. The results demonstrate that sustainability reporting has a significant positive effect on green image building, which in turn enhances competitive maneuverability and corporate performance. Furthermore, sustainability-oriented innovation and competitive maneuverability strengthen these relationships. These findings confirm that green image building acts as a strategic mechanism linking sustainability practices to corporate performance outcomes. In conclusion, companies need to manage sustainability reporting transparently and develop sustainable innovations to reinforce their green image, thereby improving organizational agility and overall business performance. The practical implications offer guidance for management to integrate sustainability into corporate strategy to achieve competitive advantage.

Keywords: Sustainability Reporting; Green Image Building; Corporate Performance; Competitive Maneuverability.

1. INTRODUCTION

Sustainability reporting and its impact on corporate performance have become highly popular and relevant topics over the past few decades (Buallay, 2022); (Eccles et al., 2014). This subject is particularly compelling because sustainability reporting not only provides a clearer depiction of how companies manage environmental, social, and governance (ESG) aspects but also due to its significant effect on corporate performance (Bansal et al., 2021); (Dincer et al., 2023). Research on sustainability reporting is interesting for at least two reasons. First, sustainability reporting reflects a company's commitment to responsible and sustainable business practices, which can enhance its public image (Higgins et al., 2015). Second, with the growing global awareness of environmental and social issues, companies that implement sustainability reporting are considered more adaptive to changing regulations and dynamic market demands (Girón et al., 2021). Furthermore, research on sustainability reporting is important for at least three reasons. First, sustainability reporting improves corporate transparency, which can strengthen stakeholder trust and enhance the company's reputation among the public and investors (Jonsdottir et al., 2022); (Marzouki et al., 2024). Second, sustainability reporting assists companies in identifying and managing sustainability risks that could potentially affect long-term performance (Kim et al., 2022). Third, the adoption of sustainability reporting practices can increase operational efficiency and provide competitive advantages for companies (Alsayegh et al., 2020); (Saygili et al., 2022).

Research on sustainability reporting is not only important but also intriguing due to its significant benefits. First, sustainability reporting can create market differentiation by demonstrating a company's commitment to sustainable business practices, which can attract customers who are concerned with environmental and social issues. Second, sustainability reporting influences corporate performance by enhancing operational efficiency, identifying and managing sustainability risks, and reducing capital costs. Third, sustainability reporting can strengthen a company's green image building, thereby reinforcing stakeholder trust and improving the company's reputation among the public and investors.

Although many previous studies have demonstrated a significant impact of sustainability reporting on corporate performance, this does not imply that the topic has been fully and conclusively addressed. The discourse surrounding the effect of sustainability reporting on corporate performance remains open, with ongoing debates (Buallay, 2020); (Jha & Rangarajan, 2020) and numerous related issues yet to be thoroughly explored. For instance, the study by Dincer et al. (2023) indicates a direct effect of sustainability reporting on corporate performance but does not elaborate in detail on the internal business processes through which sustainability reporting enhances corporate performance. Conversely, some studies find that sustainability reporting does not have a significant impact on corporate performance, and a few even report negative results (Kalia & Aggarwal, 2023). Therefore, a research gap exists in terms of inconsistent findings regarding the impact of sustainability reporting on corporate performance, as well as a lack of clarity about the internal business actions necessary for sustainability reporting to positively influence corporate performance.

Therefore, to address the research gap concerning the impact of sustainability reporting on corporate performance from the perspective of stakeholder theory, we formulate a research problem that explores how companies can effectively manage sustainability reporting to enhance corporate performance through a stakeholder-focused approach (Gray et al., 1996). To answer this research question, we adopt stakeholder theory because it provides a comprehensive framework to understand the interactions between a company and its stakeholders. Stakeholder theory emphasizes that a company's success is highly dependent on its ability to meet the needs and expectations of diverse stakeholders, including customers, employees, investors, and the community. Accordingly, companies that proactively manage these relationships through transparent and accountable sustainability reporting can build trust and support among stakeholders, which in turn can improve corporate performance. Only companies that demonstrate genuine commitment to sustainability and social responsibility through their business practices will earn the trust and loyalty of their stakeholders (Vuong & Bui, 2023). Based on this philosophical perspective, this study develops the concept of Green Image Building as a key mechanism to maximize the positive impact of sustainability reporting on corporate performance.

The objective of this study is to examine the effect of sustainability reporting on corporate performance, mediated by green image building and moderated by sustainability-oriented innovation and competitive maneuverability. Additionally, this research aims to understand how sustainability reporting practices can enhance a company's green image, thereby positively impacting competitive agility and corporate performance, particularly in companies operating in the mining, palm oil, and tobacco sectors in Indonesia.

2. MATERIALS AND METHODS

Research Design

This study employs a quantitative approach with a cross-sectional survey design to examine the effect of sustainability reporting on corporate performance, mediated by green image building and moderated by sustainability-oriented innovation and competitive maneuverability. Data analysis was conducted using Structural Equation Modeling (SEM) techniques with the assistance of AMOS software version 26, which is appropriate for testing complex causal relationships among latent constructs.

Population and Sample

The population of this study comprises companies operating in the mining, palm oil, and tobacco sectors in Indonesia, which have high exposure to sustainability issues as well as regulatory and social pressures related to environmental concerns. The sampling technique employed purposive sampling with the following criteria:

1. Respondents are senior executives (at the C-Level or senior manager level) directly involved in the preparation of sustainability reports or corporate business strategies;
2. Companies publish their sustainability reports publicly;
3. Companies operate in industries relevant to sustainability contexts.

A total of 150 respondents were collected, representing 50 companies, with each company contributing three respondents from different managerial functions to strengthen data validity and reduce the potential for common method bias.

Measurement and Instrumentation

The research instrument consisted of a structured questionnaire developed based on a review of previous literature and validated through a construct validation process. Each variable was measured using the following indicators:

1. Sustainability Reporting (SR): Adopted from (Marzouki et al., 2024), covering aspects of transparency, stakeholder engagement, and reporting completeness.
2. Green Image Building (GIB): Measured using a scale developed by Vuong & Bui (2023), focusing on stakeholders' perception of the company's environmental commitment.
3. Sustainability-Oriented Innovation (SOI): Adapted from Zhou et al. (2023), reflecting innovations in products, processes, and systems oriented toward sustainability.
4. Competitive Maneuverability (CM): Based on Khan et al. (2022), encompassing strategic maneuvering capabilities and organizational agility.
5. Corporate Performance (CP): Utilizing financial, operational, and market performance indicators from Wu & Lai (2019).

Data Collection

Data were collected through both online and face-to-face questionnaire distribution to increase response rates and ensure respondents' accurate understanding of the questions. Prior to the full-scale questionnaire deployment, a pilot test was conducted with 10 respondents to verify the clarity of the instrument. Minor revisions were made based on feedback from the pilot test. The researchers also adhered to ethical research principles by obtaining informed consent from participants and ensuring the confidentiality of respondent data.

3. RESULTS AND DISCUSSION

Model Fit Evaluation

The model was evaluated using several goodness-of-fit indices to assess the suitability of the structural equation model. Table 1 presents the main fit indices employed in this study.

Table 1. Model Fit Index

Fit Index	Value	Threshold	Interpretation
Chi-square/df	1.903	< 3	Good fit
CFI	0.935	≥ 0.90	Excellent fit
TLI	0.923	≥ 0.90	Good fit
RMSEA	0.058	≤ 0.08	Conformity is acceptable

These results indicate that the structural model has a strong fit with the data. A Chi-square/df ratio below 3 confirms that the discrepancy between the observed and estimated covariances is minimal. The CFI and TLI values exceeding the common threshold of 0.90 demonstrate excellent model performance. The RMSEA, which is sensitive to model specification, falls within the ideal range below 0.08. Overall, the model structure is robust and well specified.

Measurement Model Analysis (CFA)

To validate the constructs used in the study, a confirmatory factor analysis (CFA) was conducted. Table 2 summarizes the results, including the number of valid indicators, the range of factor loadings, construct reliability (CR), and average variance extracted (AVE).

Table 2 CFA Results

Construct	Number of Valid Indicators	Range Factor Loading	CR	AVE
Sustainability Reporting	12	0.510 – 0.705	0.887	0.568
Sustainability-Oriented Innovation	12	0.537 – 0.629	0.873	0.552
Green Image Building	12	0.520 – 0.678	0.882	0.565
Competitive Maneuverability	12	0.559 – 0.703	0.876	0.553
Corporate Performance	5	0.535 – 0.647	0.801	0.516

All factor loading values exceed the threshold of 0.5, confirming the validity of each item. Construct reliability (CR) values greater than 0.7 confirm internal consistency reliability, while average variance extracted (AVE) values above 0.5 indicate convergent validity. These results confirm that all latent variables are measured reliably and validly by their respective indicators.

Hypothesis Testing and Structural Model Results

Table 3 presents the standardized regression weights for each hypothesized path, along with the statistical significance of each relationship.

Table 3. Structural Model Results

Hypothesis	Channel	Coefficient Std.	p-value	Result
H1	Sustainability Reporting → Green Image Building	0.496	<0.001	Supported
H2	Sustainability-Oriented Innovation → Green Image Building	0.363	<0.001	Supported
H3	Green Image Building → Competitive Maneuverability	0.425	<0.001	Supported
H4	Green Image Building → Corporate Performance	0.364	<0.001	Supported
H5	Competitive Maneuverability → Corporate Performance	0.389	<0.001	Supported

All paths demonstrate significant positive relationships, as indicated by standardized coefficients ranging from 0.363 to 0.496 and p-values below 0.001. These results confirm the theoretical model's predictions, particularly highlighting the mediating effect of Green Image Building between sustainability practices and corporate performance.

Indirect Effects

To evaluate the mediating roles of Green Image Building and Competitive Maneuverability, a mediation analysis was conducted. The results are presented in Table 4.

Table 4. Indirect Effects

Channel	Significance
Sustainability Reporting → Green Image Building → Corporate Performance	Significant
Sustainability-Oriented Innovation → Green Image Building → Corporate Performance	Significant
Green Image Building → Competitive Maneuverability → Corporate Performance	Significant

These results show that Green Image Building acts as a strategic channel that connects Sustainability Reporting and Sustainability-Oriented Innovation with improving Corporate Performance. In addition, the mediation role of Competitive Maneuverability shows that companies that leverage eco-friendly imagery are better able to adapt to dynamic market demands, thereby achieving better business outcomes.

Theoretical Interpretation and Contributions

This research contributes to stakeholder theory by empirically showing that Sustainability Reporting and Sustainability-Oriented Innovation can improve Corporate Performance through the mediating role of Green Image Building. These results support the proposition that companies that transparently communicate their ESG efforts and actively undertake green innovations not only meet stakeholder expectations, but also obtain better operational and market outcomes.

Conceptualizing Green Image Building into three sub-dimensions (Eco-Innovation Leadership, Green Tech Vanguard, and Sustainability Impact Metrics) provides a deeper understanding of how corporate image mediates sustainability practices and performance. This dimension reflects how stakeholder trust and legitimacy are built through a tangible commitment to social and environmental responsibility. In particular, the strongest influence was found from Sustainability Reporting on Green Image Building (β

= 0.496), indicating that stakeholders responded most positively to clear and transparent sustainability disclosures.

In addition, the significant path from Green Image Building to Competitive Maneuverability ($\beta = 0.425$) shows that companies perceived as environmentally friendly are more agile in responding to market changes. These findings expand the literature on dynamic capabilities by integrating the perception of image as a strategic driver.

This research provides clear managerial implications, especially for companies in industries sensitive to environmental issues such as mining, palm oil, and tobacco. Management is recommended to:

1. Develop strong leadership in eco-innovation initiatives to foster a culture of sustainability-based innovation.
2. Invest in cutting-edge green technologies, so that companies can appear as Green Tech Vanguard in their industry.
3. Routinely communicate measurable sustainability results to stakeholders through transparent Sustainability Impact Metrics.

By doing so, organizations can build a positive green image, strengthen stakeholder trust, and improve performance. This strategy not only improves internal efficiency and stakeholder loyalty, but also positions the company as the partner of choice in an environmentally conscious market.

This research has limitations on cross-sectional design and industry-specific focus. Longitudinal research is needed to understand the cause-and-effect relationship and dynamic effects over time. In addition, future research may explore the application of this model in different cultural or regulatory contexts. The addition of other mediators such as organizational learning or stakeholder engagement can also enrich the existing framework.

CONCLUSIONS

The empirical findings underscore the central role of Green Image Building as a strategic conduit between sustainability practices and corporate success. By focusing on internal capabilities that shape stakeholder perceptions, companies are better equipped to compete with agility and achieve superior performance. This study contributes both theoretically and practically by offering guidance for integrating sustainability into corporate strategy and reinforcing stakeholder theory as a robust lens for understanding the relationship between sustainability and performance.

Ethical considerations

Not applicable

Conflict of Interest

The authors declare no conflicts of interest.

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