



**KEPUTUSAN DEKAN FAKULTAS EKONOMI DAN BISNIS  
UNIVERSITAS BUDI LUHUR  
NOMOR : K/UBL/FEB/000/047/09/24**

**TENTANG :**

**PENUGASAN KEGIATAN TRI DHARMA & PENUNJANG BAGI DOSEN  
FAKULTAS EKONOMI DAN BISNIS UNIVERSITAS BUDI LUHUR  
SEMESTER GASAL TAHUN AKADEMIK 2024/2025**

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5) Statuta Universitas Budi Luhur.  
6) Keputusan Pengurus Yayasan pendidikan Budi Luhur Cakti Nomor K/YBLC/KET/000/020/001/24 tentang pengangkatan Saudara Prof. Dr. Drs. Selamat Riyadi, M.Si sebagai Dekan Fakultas Ekonomi dan Bisnis Universitas Budi Luhur.

**MEMUTUSKAN**

- Menetapkan :  
PERTAMA : Menugaskan dosen-dosen Fakultas Ekonomi dan Bisnis Universitas Budi Luhur untuk melaksanakan kegiatan **Tri Dharma Perguruan Tinggi dan penunjangnya** pada Semester Gasal Tahun Akademik 2024/2025 yang meliputi:  
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Ditetapkan di : Jakarta  
Pada Tanggal : 2 September 2024

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Dekan Fakultas Ekonomi dan Bisnis



Prof. Dr. Selamat Riyadi, M.Si



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Ditetapkan di : Jakarta  
pada Tanggal : 2 September 2024

Dekan Fakultas Ekonomi dan Bisnis  
Universitas Budi Luhur



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**JAM**

Jurnal Aplikasi Manajemen  
Journal of Applied Management  
Volume 22 Issue 4  
December 2024

22 | 4 | 2024

Received September '24  
Revised November '24  
Accepted November '24

**INDEXED IN**

DOAJ - Directory of Open  
Access Journals  
ACI - ASEAN Citation Index  
SINTA - Science and Technology  
Index  
Dimensions  
Google Scholar  
ResearchGate  
Garuda  
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Index  
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**OPEN ACCESS**

e ISSN 2302-6332  
p ISSN 1693-5241



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## SUSTAINABILITY REPORT AND COMPANY PERFORMANCE: THE GEOPOLITICAL IMPACT IN INDONESIA

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**Abstract:** Recent global crises, such as the 2022 Russia-Ukraine conflict and heightened global temperatures, have emphasized the need for robust sustainability practices amid volatile geopolitical environments. This research aims to analyze the impact of geopolitical risks on companies that publish sustainability reports in relation to company performance as measured by firm value. The research sample includes 19 food and beverage companies, observed over five years (2018–2022). Data analysis is conducted using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with WarpPLS version 8.0, a robust tool for assessing complex relationships in small to medium-sized samples. The findings reveal that sustainability report disclosure positively influences firm value. However, this positive effect is significantly reduced in the presence of geopolitical risks, highlighting the vulnerability of firm performance to external political factors, even when sustainable practices are prioritized. The role of geopolitics as a moderating variable in the relationship between sustainability reports and company value is complex and crucial in the current global business context, unlike previous research that used geopolitics as an independent variable. This result underscores the importance of proactive risk management strategies to mitigate the impact of geopolitical tensions on sustainability efforts. By highlighting the moderating role of geopolitics, this study contributes to a deeper understanding of how external risks can influence the effectiveness of sustainability efforts on firm value in emerging markets.

**Keywords:** Sustainability Report, Company Values, Geopolitics

**CITATION**

Rahayu, S., Ekawanti, W., Utomo, M. N., Nainggolan, Y. T., and Jalolov, O. 2024. Sustainability Report and Company Performance: The Geopolitical Impact in Indonesia. *Jurnal Aplikasi Manajemen*, Volume 22, Issue 4, Pages 1042–1057. Malang: Universitas Brawijaya. DOI: <http://dx.doi.org/10.21776/ub.jam.2024.022.04.08>.

## INTRODUCTION

In the current era of globalization, the competition to improve company performance, as measured by firm value, is becoming increasingly intense, wherein companies are required to have quality resources to survive and compete in this era. Companies also need to consider external and internal influences that can affect their performance in achieving their goals. Every company shares the same objective of maximizing profits to increase its value. Thus, companies with higher value are more likely to attract funding compared to less profitable ones. This is because a high company value can enhance prosperity for shareholders, thereby attracting them to invest their capital in the company. This research is urgent due to the increasingly intense global focus on sustainability, especially amidst rising geopolitical risks. Previous studies indicate that geopolitical tensions, such as the Russia-Ukraine conflict, affect corporate performance and investor confidence, particularly in developing nations like Indonesia, where economic stability can be fragile. Geopolitical threats complicate companies' efforts to attract investors, who increasingly demand sustainable practices. Consequently, understanding how geopolitical risks influence the effectiveness of sustainability reporting on firm value becomes crucial. This study aims to fill that knowledge gap, offering timely insights that highlight the necessity of examining sustainability practices in high-risk political climates. Firm value is a specific condition achieved by a company, reflecting public trust in the company after undergoing operational activities over several years (Sejati & Prastiwi, 2015). One way to attract public trust is by issuing a Sustainability Report. This report allows the public to see the company's accountability across three key areas: economic performance, social performance, and environmental performance (Nelson & Meiden, 2023). This demand has been spurred by environmental phenomena occurring in mid-2023, when the world experienced record-breaking high temperatures, with the global average surface air temperature reaching its highest level according to ERA5 data operated by the European Centre for Medium-Range Weather Forecasts. This global temperature surpassed pre-industrial levels by more than 1.5 degrees Celsius, which is the most ambitious threshold set for

global warming in the 2015 Paris Agreement (Arif, 2023; Handayani & Haryati, 2023). The issue of global warming has driven companies to provide sustainability reporting, either within their annual reports or as separate disclosures on their websites (Apriliyani et al., 2021). By providing sustainability reporting information, companies hope to attract stakeholders to invest, thus increasing firm value (Faiqoh & Mauludy, 2019).

Corporate value represents a particular state attained by a company, signaling the confidence society has in the company following its years of operation and activities. One way to gain society's trust is by issuing sustainability reports. These reports allow society to directly observe the company's accountability in three crucial aspects: economic performance, social performance, and environmental performance. This trend has been catalyzed by environmental phenomena, particularly the record-breaking global temperatures experienced in mid-2023, surpassing pre-industrial levels by more than 1.5 degrees Celsius, which is the most ambitious limit for global warming under the 2015 Paris Agreement. Concerns about global warming have prompted companies to provide information on sustainability reports, whether through the medium of yearly reports or separately on company websites. Corporate hope that by providing sustainability report information, stakeholders will be interested in investing, thus further increasing the company's value. Prior studies reveal a positive relationship between sustainability reporting and firm value, but the extent of this relationship fluctuates under geopolitical stress. According to signaling theory, sustainability disclosures signal transparency and accountability, which generally increase a company's perceived value. However, legitimacy and stakeholder theories suggest that geopolitical risks can disrupt this positive impact by shifting stakeholder focus from long-term sustainability goals to immediate economic survival. Thus, while sustainability practices can enhance value, geopolitical tensions could potentially moderate or weaken their effect, highlighting a complex interaction that merits investigation.

The focus on Indonesia's food and beverage sector is particularly pertinent due to the sector's vulnerability to both global economic shifts and geopolitical disturbances. Indonesia is an emerg-

ing market with increasing environmental concerns, and food and beverage companies are significant contributors to both economic growth and environmental impact. Unlike other industries, this sector is especially sensitive to changes in consumer sentiment and investor expectations regarding sustainability. The choice of this sector and location thus allows for an in-depth exploration of how global political tensions influence a critical yet vulnerable segment of the economy. Strategic efforts made by companies to enhance their value are also inseparable from the economic and political stability of the countries in which they operate. Countries interconnected in terms of global politics and economics face various uncertainties caused by geopolitical and economic policies. Indonesia's connections with other countries result in the overflow of geopolitical risks, such as the Asian crisis in 1997, the financial crisis in 2007, the crisis due to the Covid-19 pandemic, and the issue of war between Russia and Ukraine since 2022, which could escalate the risk of World War III. Geopolitics becomes a systemic risk; tensions in Russia and Ukraine can affect economic stability in various countries, especially developing countries like Indonesia. Geopolitical risks relate to Conflict, acts of terrorism, and strained relationships between nations that disrupt the usual and harmonious course of global political and economic affairs.

Current literature primarily examines the impact of sustainability reporting on firm value without adequately addressing the moderating effect of geopolitical risks. Research by (Sumarjo et al., 2022) and others suggest mixed effects of geopolitical tension on firm performance, with some studies indicating a positive impact on firm value through heightened market prices, while others report adverse effects. This research identifies a gap in understanding how sustainability reporting interacts with geopolitical factors, specifically within emerging markets, and how this interaction might alter the value investors attribute to companies under geopolitical duress. Previous studies have stated that geopolitical risks negatively impact the economic growth of countries, especially developing ones like Indonesia, both in the short and long term, as geopolitical risks drive capital flows away from developing countries. Thus, an increase in geopolitical risk can disrupt economic

activities through declining equity markets and worsening financing conditions, affecting a company's policies and value. However, Rianto & Gaol (2023) and Sumarjo et al., (2022) found that geopolitical risks positively impact company value through stock market prices. The role of geopolitics is crucial for environmental sustainability, as it provides insights for policymakers and environmentalists to develop and implement economic and social strategies that provide sustainable benefits for companies. These studies show different results. Therefore, researching and examining the consequences of geopolitical uncertainties in Indonesia is crucial.

In summary, while sustainability reporting generally enhances firm value, geopolitical risks can diminish its positive effects, a gap this study seeks to address. The novelty of this research lies in its focus on Indonesia's food and beverage sector amid current geopolitical challenges, offering insights into the moderating role of global political instability. This study benefits both corporations and policymakers by identifying strategies for mitigating the adverse impacts of geopolitics on sustainability-driven value creation. Ultimately, this research aims to provide a nuanced understanding of how sustainability efforts influence company value in volatile political environments, serving as a resource for businesses navigating complex geopolitical landscapes. Based on these facts, The objective of this study is to assess the influence of geopolitical risks on companies issuing sustainability reports amid the issues of global warming and the potential occurrence of World War III. Thus, this study anticipates offering empirical evidence of the influence of sustainability reports on the value of food and beverage companies listed on the Indonesia Stock Exchange from 2018 to 2022, with geopolitics as a moderator and several control variables in this research model.

## LITERATURE REVIEW

### Legitimacy Theory

Legitimacy Theory posits that organizations adopt sustainable practices to align their actions with societal norms and expectations, securing their "social license" to operate. When companies engage in activities that fulfill social, economic, and environmental roles, they earn legitimacy in the eyes of both the public and regulatory

authorities. The theory, as first proposed by Dowling and Pfeffer (1975), emphasizes that a company's long-term survival is closely tied to how well it resonates with community expectations (Daromes & Kawilarang, 2020). This alignment helps prevent what is known as a legitimacy gap the disparity between organizational behavior and societal expectations, which, if unaddressed, can lead to reputational risks (Apriliyani et al., 2021). Sustainability reports play a critical role here, serving as a tool for demonstrating transparency and ethical commitment to stakeholders (Hernawati et al., 2021). Legitimacy theory explains the social foundations of sustainability, highlighting why it is essential for companies to align with societal expectations to avoid reputational risks. Legitimacy theory suggests that sustainability practices reduce reputational risks and enhance public trust. This aligns with firm value because socially accepted and responsible firms tend to enjoy better community relations and often encounter fewer regulatory obstacles.

### Stakeholder Theory

Based on stakeholder theory first articulated by R. Edward Freeman in 1984, it is assumed the performance of a company is influenced by stakeholders who have vested interests in the organization. This underscores the need for companies to enhance clarity in decision-making and provide stakeholders with useful and transparent information (Triwacananingrum & Wijaya, 2022). The theory explains that a company's sustainability depends on the support of stakeholders, which the company must strive for. The stronger the support given by stakeholders to the company, the more it can enhance the company's value to compete within its business environment. Stakeholder Theory emphasizes the relational aspect, illustrating that companies enhance value by addressing stakeholder needs, which drives long-term support and resource access. Sustainability practices, such as environmental stewardship and social responsibility, enhance relationships with stakeholders by aligning the company's goals with those of society. For instance, sustainability reports provide transparency, enhancing stakeholder confidence and loyalty, which in turn supports firm value through reduced operational risks and increased

brand loyalty (Hayati et al., 2020). A sustainability report serves as a communication tool Among the company and its stakeholders. It includes the company's economic resources utilization influenced and controlled by stakeholders. Based on this, economic resource capacity can determine stakeholder power. This power can be in the form of capability in determining the utilization of restricted economic resources (capital and workforce), significant media reach, authority over the company, or the capacity to impact the consumption of goods and services (Hayati et al., 2020). Therefore, companies can respond by satisfying stakeholder desires and expectations. Based on these arguments, stakeholder theory explicitly explains that stakeholder expectations necessitate information disclosure policies regarding company activities (Faiqoh & Mauludy, 2019; (Utomo et al., 2020).

### Signaling Theory

The foundational idea of signaling theory, introduced by Spence (1973), posits that the sender (owner of information) furnishes a signal or information that mirrors a company's status (Handayani & Haryati, 2023). The theory emphasizes the dissemination of information needed by investors. This information can assist investors in making investment decisions in the respective company. This aligns with Rizki et al.'s disclosure that signaling theory encourages management to disclose private information that is interesting and sought after by investors. Specifically, information can be considered good news if the company discloses sustainability information through economic, social, and environmental performance disclosures. This information is expected to be a positive signal that can influence company performance by creating positive market reactions that drive increased company value (Yondrichs et al., 2021). Signaling Theory adds the market perspective, demonstrating how sustainability serves as a positive signal to investors and the broader market, indicating quality and ethical management. This theory underscores that sustainability disclosures act as signals of firm quality. Investors interpret these signals as positive indicators, associating sustainability with good governance and stable financial prospects, thus potentially increasing stock performance and firm valuation.

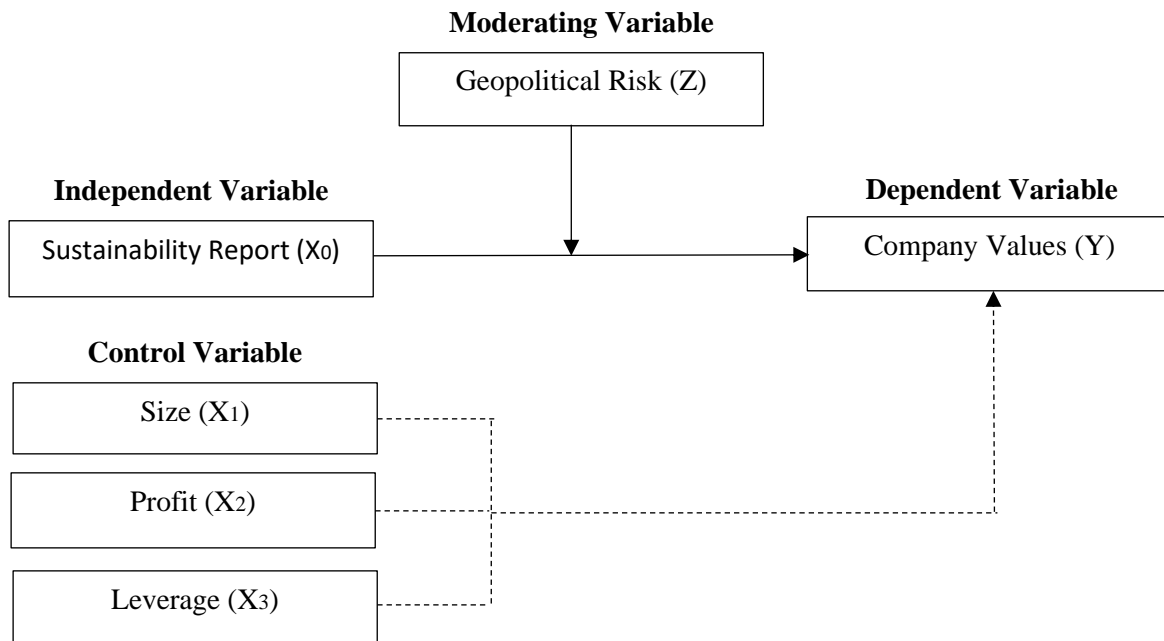


Figure 1. Theoretical Framework of the Research

**HYPOTHESIS DEVELOPMENT**

**Impact of Sustainability Report on Company Value**

According to (Sejati & Prastiwi, 2015), a sustainability report as a non-financial report with three disclosure dimensions, namely economic, environmental, and social, enables a company to grow sustainably. The importance of disclosing economic, environmental, and social aspects is a strategy for leading the company towards going concern and shaping the company's value. From the perspective of stakeholder theory, the disclosure of sustainability information is critical for managing relationships with various stakeholders, such as investors, consumers, regulators, and the community. By addressing the concerns and expectations of stakeholders through sustainability reporting, companies are able to create a stronger connection with these groups, fostering trust and enhancing their legitimacy in the eyes of these stakeholders. As companies increasingly recognize the importance of their environmental and social impacts, their ability to satisfy the demands of stakeholders can play a significant role in the company's reputation and value. Signaling theory further explains the role of sustainability reports in providing signals to investors and other stakeholders. Transparency in reporting, particularly con-

cerning a company's economic, environmental, and social performance, serves as a signal of the company's commitment to long-term sustainability and responsible business practices. By disclosing such information, companies send a positive signal to the market about their stability, governance, and future prospects, which in turn can enhance their attractiveness to investors and positively influence their market value. This signaling effect is essential in shaping investor perceptions and the company's overall value. The formation of this hypothesis is supported by Sukirno & Murni, (2023) study which found that the social, environmental, and economic dimensions of sustainability reports positively influence company value. This finding is reinforced by (Friske et al., 2023) that the company's value is a manifestation of public trust in its how well the company is seen to handle its resources and its level of concern for its environment and society.

**H1:** Sustainability report disclosure has a positive effect on company value.

**Impact of Sustainability Report on Company Value with Geopolitics as a Moderator**

In terms of science, geopolitics provides an objective insight that nations coexist and interact with each other in the world community (Rianto &

Gaol, 2023; Santoso et al., 2023). The impact of geopolitics can be interpreted as the consequences arising from inter-state relations in the form of geopolitical conflicts such as war issues, terrorism actions, economic crises, unstable political situations, and other factors that can affect international relations' peace and the global business environment. This condition leads many investors to feel the need to know a company's value when investing. The disclosure of sustainability reports is one of the indicators that investors pay attention to in evaluating companies in a geopolitically affected country (Sukirno & Murni, 2023). Legitimacy theory suggests that companies seek to gain or maintain approval from society by aligning their actions with societal norms and expectations. In the context of geopolitics, companies operating in geopolitically unstable regions may face challenges to their legitimacy. By disclosing comprehensive sustainability reports, companies can signal their alignment with global norms and their commitment to responsible practices, thereby enhancing their legitimacy despite geopolitical tensions. This alignment helps build public trust, which can positively impact the company's reputation and overall value. According to stakeholder theory, companies must manage relationships with various stakeholders, including investors, customers, employees, and local communities. Geopolitical instability increases uncertainty, and investors are particularly concerned with how companies manage such risks. Sustainability reports serve as a tool for addressing stakeholder concerns, demonstrating how the company is managing geopolitical risks and ensuring long-term stability. Signaling theory posits that companies use information disclosure to send signals to investors and other stakeholders about their stability, risk management practices, and future prospects. In geopolitically volatile regions, companies that disclose clear and transparent sustainability reports send a positive signal to investors that they are managing geopolitical risks effectively and are committed to long-term growth and sustainability. This positive signal can reduce perceived risks and increase investor confidence, leading to higher market valuations. The measurement of geopolitical impact refers to the geopolitical risk index by counting newspaper articles discussing geopolitical tensions, such as the threat of war, military buildup,

escalation of war, and terrorist actions (Caldara & Iacoviello, 2018). This geopolitical risk index has been used in various studies related to company value. Sumarjo et al., (2022) and Shaik et al., (2023) research shows that global geopolitical risk uncertainty can affect company value reflected through stock market performance in developing countries, including Indonesia, either positively or negatively depending on time, sluggishness, volatility regimes, and stock markets.

**H2:** Geopolitics moderates the impact of sustainability report on company value

The above description explains the relationship between variables in this study. Thus, the theoretical framework of this study integrating legitimacy, stakeholder, and signaling theories to formulate hypotheses that link Sustainability Reports, company performance, and the impact of geopolitical factors. The hypothesis of this research is that Sustainability Reports have a positive impact on company value, and Geopolitics functions as a moderating variable, which strengthens or weakens the relationship between sustainability reports and company value, depending on the stability and geopolitical policies in the country. This description is depicted in the research framework presented in the following figure.

## METHOD

The determination of samples in this study uses the purposive sampling method, which is a sampling technique based on specific criteria that align with the research objectives. Purposive sampling is appropriate in this context because it allows the researcher to select a sample that meets specific characteristics relevant to the study, ensuring that the sample is directly related to the research focus. In this case, the criteria for selecting the sample include manufacturing companies in the food and beverage sector listed on the Indonesia Stock Exchange during the period 2018-2022. Additionally, the companies must have used the Global Reporting Initiative (GRI) G4 standard as a method for disclosing their sustainability reports. This specific focus on companies that follow GRI standards ensures the reliability and comparability of the sustainability reports being studied. Based on these criteria, a sample of 19 companies was obtained for a five-year observation

period, resulting in a total of 95 observation data points (19 companies x 5 years). The inclusion of certain control variables is essential to account for factors that might influence company value, aside from sustainability reports and geopolitics. The control variables selected in this study are Size, Profit, and Leverage, and each has a particular relevance. Company size is often an important determinant of a firm's ability to invest in sustainability practices. Larger companies may have more resources and infrastructure to implement and report on sustainability, which can influence their value. Additionally, larger firms may be perceived as less risky by investors, affecting their market value. Profitability is a key indicator of financial performance and often correlates with company value. A company's profit can impact its stock price, investor perception, and overall market value. By controlling for profit, the study can isolate the effect of sustainability reporting on company value, separate from the influence of profitability. Leverage refers to the degree to which a company uses debt to finance its operations. High leverage may introduce financial risk, potentially affecting the company's market value. Controlling for leverage ensures that any observed effects on company value are not simply due to differences in financial structure. By controlling for these variables, the study aims to provide a clearer understanding of how sustainability reports and geopolitics affect company value, while minimizing the influence of other potential factors.

### Sustainable Reporting Score (SRS)

The Variable Sustainable Reporting Score (SRS) is evaluated through assessment using the Environmental Disclosure Score based on the Global Reporting Initiative (GRI) G4, which consists of 150 items. This assessment is conducted by calculating the ratio between the number of items disclosed by the company and the total number of items in the GRI G4 indicators (Utomo et al., 2020). Sustainable reporting disclosure in this study is assessed using dummy variables classified as follows: Zero (0): Used if the company does not disclose the GRI G4 environmental indicator items; One (1): Used if the company discloses the GRI G4 environmental indicator items. The process of assessing sustainable reporting in this study is formulated as follows:

$$\text{Sustainable Reporting Score} = \sum_{i=1}^n \frac{X_i}{n}$$

X = Number of items disclosed by the company, n = Number of GRI G4 indicator items.

### Company Value

This research uses Tobin's Q as an indicator to represent company performance, as measured by firm value. Tobin's Q indicator refers to a measurement developed by Lindenberg & Ross (1981), which is the comparison of the market value of equity and the market value of debt with the total asset value. The company value indicator in this study is formulated as follows:

$$\text{Company Values (Q)} = \frac{\text{nilai pasar ekuitas} + \text{nilai pasar hutang}}{\text{total aset}}$$

### Geopolitical Risk (GPR)

Geopolitical risk in this research is measured using the GPR index which is sourced from 11 electronic newspapers both domestic and global publications like The Boston Globe, Chicago Tribune, The Daily Telegraph, Financial Times, The Globe and Mail, The Guardian, Los Angeles Times, The New York Times, The Times, The Wall Street Journal, and The Washington Post (Giambona et al., 2017). The quantity of articles concerning geopolitical risk each month in these newspapers becomes the main indicator in calculating the GPR index.

### Control Variables

The control variables used in this research include Size, Profit, and Leverage. Size is measured by total assets, Profit using the Return on Asset (ROA) proxy, while Leverage is measured by the Debt Equity Ratio (DER). The use of these control variables will enhance the relationship between the Sustainable Report variable and Company Value (Desoky & Mousa, 2013). The analysis method applied in this research is Partial Least Squares (PLS) - Structural Equation Modeling (SEM) with the support of WarpPLS version 8.0. This software is also used as a tool to test hypotheses. The formulated hypothesis equation model can be explained as follows:

$$Tobin's Q = \alpha + b_1SRS + b_2Size + b_3ROA + b_4Lev + b_5GPR * SRS + e$$

Description:

- Tobins Q = Company Values
- SRS = Sustainable Reporting Score
- Size = Company Size (log natural total assets)
- ROA = Return On Assets
- Lev = Leverage
- GPR = Geopolitics Risk

## RESULTS

### Descriptive Statistics

Descriptive statistics consist of elements such as maximum, minimum, mean, and standard deviation. Details about these elements are shown in the following Table 1.

Table 1 shows that the approximate Tobin's Q company value has an average value of 2.335. The standard deviation of this variable is 2.009, which is smaller than the average value, indicating less variability in the observed data. The average Tobin's Q value of 2.335 indicates that the market values the company at more than twice its book value of assets. In general interpretation, Tobin's Q value above 1 indicates that the market has a positive perception of the company. The minimum value of this variable is 0.310, while the maximum value is 12.236.

The Sustainable Reporting disclosure has an average score of 0.271. This score indicates that the companies sampled in this study on average have met or reported about 27.1% of the 150 GRI G4 element items in their Sustainable Reporting. This percentage reflects the extent to which these companies are involved in providing sustainable information in accordance with the GRI G4 guidelines framework. The minimum value of this vari-

able is 0.044 or 4.4%, while the maximum value is 0.495 or 49.5%. The standard deviation value of Sustainable Reporting is lower than the average score (0.11 < 0.271), confirming that the data is less variable and closer to the average score.

Geopolitical Risk has an average value of 0.041, indicating that geopolitical risk is at a lower level. This variable has a minimum value of 0.023 and a maximum value of 0.093. The standard deviation of geopolitical risk is lower than the mean value (0.027 < 0.041), which means the data is less variable and less distributed.

Company Size has an average score of 28.918 (in logarithm) after processing 95 observation data. This result indicates that the size of the sampled companies falls into the category of large companies. This magnitude is in line with the (BKPM, 2019) Republic of Indonesia Law No. 20 of 2008, which states that large companies are those with a net worth exceeding 15 billion Indonesian Rupiah. Profitability proxied by ROA has an average score of 0.099, indicating that on average, companies are capable of generating a net profit of 9.9% of their total assets. Meanwhile, Leverage has an average score of 0.442, meaning that 44.2% of the company's funds come from debt (Indonesia, 2020).

### Goodness of Fit Test

During the Goodness of Fit testing phase, the extent to which the developed model fits the original data is evaluated. Information about the test results can be found in Table 2 below. This evaluation includes P-values for the variables APC, ARS, AARS, the values of AVIF and AFVIF, as well as other indicators such as Tenenhaus GoF, SPR, RSCR, and SSR. The results of this test provide an overview of how well the model fits the observed data, forming the basis for deciding whether to accept or reject the model (Latan & Ghozali, 2017).

**Table 1. Descriptive Statistic**

Variable	Min	Max	Mean	SD	Mode
Tobin's Q	0.310	12.263	2.335	2.009	0.310
Sustainable Reporting Score	0.044	0.495	0.271	0.110	0.176
Geo Politics Risk	0.023	0.093	0.041	0.027	0.023
Size	27.271	32.826	28.918	1.425	27.271
ROA	-0.117	0.718	0.099	0.111	-0.117
Leverage	0.000	2.900	0.442	0.387	0.000

**Table 2. Goodness of Fit of the Structural Model**

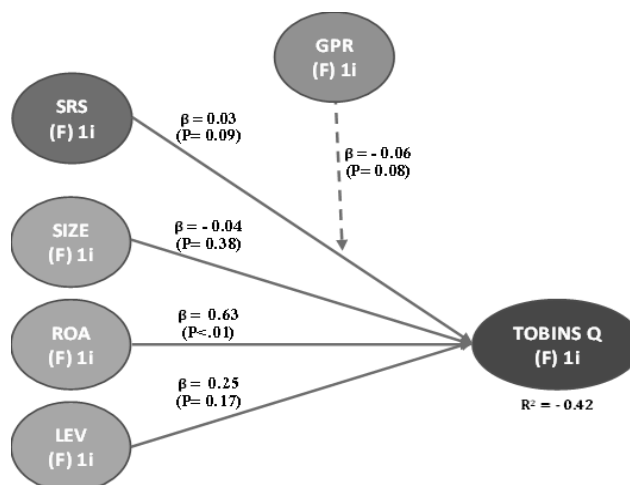
Criteria	Parameter	Rule of Thumb	Conclusion
Average path coefficient (APC)	=0.204, P=0.011	Acceptable P < 0.1	Accepted
Average R-squared (ARS)	=0.417, P=0.036	Acceptable P < 0.1	Accepted
Average adjusted R-squared (AARS)	=0.385, P=0.080	Acceptable P < 0.1	Accepted
Average block VIF (AVIF)	1.141	acceptable if $\leq 5$ , ideally $\leq 3.3$	Accepted
Average full collinearity VIF (AFVIF)	1.325	acceptable if $\leq 5$ , ideally $\leq 3.3$	Accepted
Tenenhaus GoF (GoF)	0.646	small $\geq 0.1$ , medium $\geq 0.25$ , large $\geq 0.36$	Accepted
Sympson's paradox ratio (SPR)	1	acceptable if $\geq 0.7$ , ideally = 1	Accepted
R-squared contribution ratio (RSCR)	1	acceptable if $\geq 0.9$ , ideally = 1	Accepted
Statistical suppression ratio (SSR)	0.800	acceptable if $\geq 0.7$	Accepted

Table 2 describes the evaluation of the research model's suitability conducted through several significant parameters. This model's suitability is obtained through statistical testing involving P-values for the variables APC, ARS, and AARS, all of which show significant values (< 0.1). Specifically, the APC value of 0.204, ARS of 0.417, and AARS of 0.385 indicate that the model has good fit. Further analysis was conducted on the values of AVIF and AFVIF, which consistently meet the criteria (< 3.30) and indicate no multicollinearity issues among exogenous variables. This is reinforced by the Tenenhaus GoF value of 0.646 (> 0.36), depicting that the predictive power of the research model is very strong, hence the model is acceptable. Furthermore, the Simpson's Paradox Ratio (SPR) with a value of 1 > 0.7 indicates the absence of causality issues in the model. Similarly, the R-square Change Ratio (RSCR) value of 1 (> 0.9) provides confidence that this model is

free from negative R-squared contributions. Special attention is also given to the Statistical Suppression Ratio (SSR) with a value of 0.80 (> 0.7), indicating that this research model does not encounter statistical issues related to effect suppression. Effect suppression occurs when the path coefficient is higher than the path correlation value. Overall, the results of the Goodness of Fit testing affirm that this research model has a very good level of fit with the available data. This evaluation indicates that the research model is compatible with the data, meaning it can be relied upon for further analysis.

**Results of Variable Relationship Estimation**

The relationships between variables, both main and control variables, will be used to answer research questions and explain the hypotheses developed in this study. Estimated relationships between variables are presented in Figure 2.



**Figure 2. Results of Variable Relationship Estimation**

In Figure 2 an Adjusted R Square ( $R^2$ ) value of 0.417 is observed, indicating that the variation in sustainable reporting scores, the interaction of geopolitical risk with sustainable reporting scores, and control variables can collectively influence company value by 41.7%. The remaining 58.3% is influenced by other factors outside the scope of this research model. The Q Square ( $Q^2$ ) value is 0.442 ( $>0$ ), indicating that this research model possesses predictive validity.

Referring to Figure 2, the outcomes of hypothesis testing conducted in this study can be explained. Hypothesis 1 states that "Sustainability report disclosure positively affects company value." Based on the hypothesis testing results, the disclosure score of sustainability reporting significantly and positively affects company value with a path coefficient of 0.09. This outcome confirms the hypothesis, consequently Hypothesis 1 is endorsed. Meanwhile, Hypothesis 2 posits that "Geopolitics moderates the impact of sustainability report on company value." Referring to the hypothesis testing results, the interaction between geopolitical risk and sustainability reporting disclosure score significantly and negatively affects company value with a coefficient value for a path 0.08. Put differently, geopolitical risk is capable of moderating the impact of sustainability reporting disclosure on company value by acting as a weakening factor. Therefore, this result supports or accepts Hypothesis 2.

The relationship between control variables and company value has also been tested. Company size has a negative and nonsignificant effect on company value, indicating that increasing or decreasing company size does not have any impact on company value. Return on assets (ROA) has a significant positive effect on company value, meaning that the higher the ROA generated by the company, the higher the market valuation of the company. The influence of leverage on company value is positive but not significant, indicating that leverage does not affect company value.

## DISCUSSION

### Sustainability Report Disclosure Has a Positive Effect on Company Value

Drawing from the findings of the initial hypothesis test, which suggest that the disclosure of sustainability reports significantly impacts the

value of food and beverage companies listed on the Indonesia Stock Exchange. These results are in line with the research by Sukirno & Murni (2023) and Friske et al., (2023) which highlight the importance of sustainability report disclosure in influencing investor perceptions and decisions, which ultimately can affect company value through several mechanisms, including increased transparency and trust, risk reduction, access to capital, and operational efficiency. This research specifically focuses on food and beverage companies listed on the Indonesia Stock Exchange (IDX), analyzing the impact of sustainability report disclosures on their value within the context of the Indonesian market. Previous Studies (Sukirno & Murni, 2023; Friske et al., 2023) while these studies emphasize the role of sustainability disclosures in influencing investor perceptions and company value, their scope may not be limited to the food and beverage sector, or to companies in Indonesia. They could cover a broader range of industries or geographical regions, providing a more general view of the global or national trends in sustainability disclosure.

The disclosure of sustainability reports demonstrates a company's transparency in disclosing information about environmentally-friendly business methods, encompassing efforts to manage social, environmental, and the governance of corporations impacts responsibly. For example, a company may disclose efforts to reduce carbon emissions or improve working conditions, thereby reducing risks related to regulatory changes, legal sanctions, or community protests that could harm its reputation and operations. By disclosing relevant information about sustainable practices, companies can attract investors interested in these aspects. This can increase the company's access to capital by attracting more investors, including those committed to sustainable investing, which in turn can enhance the company's value. Sustainability report disclosure can also encourage companies to improve operational efficiency by identifying opportunities to reduce waste, save energy, or enhance resource efficiency. These measures can not only reduce operational costs but also improve the company's long-term performance, thereby increasing its value.

Certainly, in the context of signaling theory, a sustainability report can serve as a positive sig-

nal to investors and other stakeholders about a company's dedication to socially and environmentally conscious business conduct. Through a sustainability report, companies can demonstrate their dedication to sustainable business practices, which involve caring for the environment, promoting social welfare, and upholding strong corporate governance. By providing information about a company's sustainability efforts, the report can enhance market perceptions pertaining to the company's extended duration performance and reduce uncertainty about the societal and ecological effects of its business activities. This can foster greater trust and confidence from investors and other stakeholders, which in turn can positively influence the company's value. However, it is important to note that the impact of sustainability reports on company value may also be influenced by other factors, such as company profitability, the quality of the report itself, the consistency between the practices announced in the report and the company's actual actions, and the market's reaction to the information presented in the report.

The results of this first hypothesis test are also consistent with the framework of legitimacy theory, which asserts that organizations strive to maintain congruence between their activities and societal expectations to gain legitimacy and support from stakeholders. By issuing a sustainability report, companies signal their commitment to addressing social and environmental issues, thereby enhancing perceived legitimacy in the eyes of stakeholders such as investors, customers, employees, and regulators. A well-crafted sustainability report can demonstrate how a company integrates sustainable practices into its core business operations, aligning its activities with societal norms and expectations. This alignment can enhance stakeholders' perceptions of the company's legitimacy, trust, and reputation. As a result, the company may enjoy various benefits, including increased investor trust, improved customer loyalty, enhanced employee morale, and reduced regulatory scrutiny.

Referring to the stakeholder theory framework stresses the importance of organizations taking into account the concerns of all stakeholders, not solely shareholders, when making decisions. By publishing sustainability reports, companies demonstrate their commitment to addressing the

concerns of various interested parties, such as staff, clients, vendors, neighboring communities, and environmental factors. A well-crafted sustainability report can provide transparent information about social, environmental, and corporate governance practices, fostering trust and confidence among stakeholders. This enhanced trust can generate greater support from stakeholders, improve relationships, and ultimately, provide greater long-term value for the company. Overall, by aligning company management actions with the principles of stakeholder theory, signaling theory, and legitimacy theory, and communicating their efforts through sustainability reporting, companies can strengthen relationships with stakeholders and enhance the overall value proposition of the corporation.

### **Geopolitics Moderates the Impact of Sustainability Report on Company Value**

The outcomes of the second hypothesis examination conducted in this study indicate that Geopolitical Risk can moderate by weakening the influence of sustainability reporting disclosure on Company Value. These findings support the study conducted by (Sumarjo et al., 2022) and (Shaik et al., 2023), implying that geopolitical factors have a significant impact in reducing the influence of sustainability reporting on company value. Geopolitical risk refers to political and economic factors arising from the relationships between countries or geopolitical regions that may potentially affect a company's business conditions. For example, geopolitical risks such as trade tensions between two countries can reduce the impact of sustainability reporting disclosure on company value. Although companies have sought to enhance transparency and sustainability performance, political uncertainty caused by such trade tensions can reduce the effectiveness of disclosure in influencing market perceptions and company value.

Geopolitical Risk as a factor weakening the influence of sustainability reporting disclosure on Company Value also indicates, in the context of unstable geopolitical conditions or conflicts between countries, factors such as political uncertainty, regulatory changes, trade tensions, or supply disruptions can reduce the positive impact of sustainability efforts disclosed in company reports. In such situations, even if a company has

implemented strong sustainability practices and detailed its achievements through sustainability reports, the company's value may not increase as much as expected or may even decline due to the negative effects of geopolitical risks. Therefore, geopolitical risk acts as a factor weakening the relationship between sustainability reporting and company value by reducing the expected positive impact of these sustainability practices. Hence, it is crucial for companies to consider and effectively manage geopolitical risks within their sustainability strategies to minimize their potential negative impacts on company value.

The statement is reinforced by the current geopolitical situation characterized by the potential issue of World War III, which could weaken the influence of sustainability reports on the value of companies in Indonesia. Several reasons indicate why this may occur: 1) Shifting priorities: In the current geopolitical instability, the attention and priorities of governments and businesses may shift from environmental and social issues to security and political concerns. This could lead to a lack of support or attention to sustainability initiatives, 2) Regulatory constraints: Countries interconnected in the global economy with Indonesia may impose protectionist policies or stricter regulations in times of geopolitical instability, which could hinder companies' efforts to implement sustainable practices. Tighter regulations or policy changes could pose additional challenges for companies in complying with sustainability standards, 3) Decreased investor interest: Investors may become more cautious in allocating their funds in the current unstable geopolitical situation, focusing more on political and economic risks rather than environmental or social factors. This could result in decreased investor interest in companies that emphasize sustainability. The model is applied in the context of business in Indonesia and its impact on managerial decision-making, along with additional perspectives on geopolitical risks.

### **Application of the Model in the Context of Business in Indonesia**

This model, which likely integrates theories such as legitimacy theory, stakeholder theory, and signaling theory, can be applied in the context of Indonesian business to understand how companies respond to sustainability pressures, geopolitical

risks, and stakeholder expectations. Legitimacy Theory: In Indonesia, businesses, especially those operating in industries such as food and beverage, must align with local and global sustainability standards to maintain legitimacy with stakeholders such as consumers, regulators, and investors. For example, companies may be required to comply with government regulations on environmental practices or disclose their sustainability efforts to maintain consumer trust and protect their reputational value. Stakeholder Theory: Businesses in Indonesia must recognize the diverse interests of their stakeholders, including local communities, employees, customers, and government bodies. In an environment influenced by rising geopolitical tensions, stakeholders may demand greater corporate responsibility in terms of environmental sustainability, labor rights, and community engagement. Indonesian companies need to meet these demands to retain stakeholder support and achieve long-term stability. Signaling Theory: In Indonesia, companies can use sustainability disclosures as a signal of their commitment to socially responsible practices. This is especially relevant in markets such as food and beverage, where consumer preferences are increasingly shifting toward brands that demonstrate environmental awareness and corporate social responsibility.

### **Impact on Managerial Decision-Making**

The application of this model affects managerial decision-making in several key ways: Strategic Decision-Making: Managers in Indonesian companies are likely to prioritize sustainability initiatives, balancing the need for environmental compliance, operational efficiency, and profitability. This model helps managers understand the need to align corporate actions with societal expectations and regulatory demands to maintain legitimacy in the marketplace. Risk Management: Managers must consider both external risks (such as geopolitical instability) and internal risks (such as operational inefficiencies). By using this model, decision-makers can assess the impact of external factors like geopolitical risks on their company's sustainability strategies and make more informed choices about risk mitigation strategies (e.g., diversifying supply chains or increasing local production). Resource Allocation: This model can help managers allocate resources to sustainability

initiatives, ensuring they make investments that not only support long-term profitability but also build strong relationships with stakeholders. For example, managers may allocate budgets to develop sustainable products, improve supply chain transparency, or invest in technologies that reduce environmental impact.

### **Additional Perspectives on Geopolitical Risks**

Geopolitical risks play a significant role in shaping business decisions and can be integrated into the model to provide a stronger analysis: **Impact of Geopolitical Conflicts:** Geopolitical instability, such as the ongoing Russia-Ukraine conflict, can disrupt global supply chains, increase raw material costs, and create uncertainty in trade policies. Indonesian companies operating in international markets, or those reliant on imports and exports, need to consider these risks when making decisions. The model can be used to assess how geopolitical tensions may reduce the effectiveness of sustainability initiatives by affecting operational costs or limiting access to resources. **Trade Policies and Economic Sanctions:** Geopolitical risks, such as trade restrictions or economic sanctions imposed by other countries, can directly affect Indonesian businesses. Companies need to be aware of how shifting trade relations can affect their ability to import/export goods, access foreign markets, or raise capital. This model helps managers identify strategic responses, such as shifting production to local markets or diversifying suppliers. **Global Climate and Sustainability Policies:** With increasing geopolitical tensions, there is also a growing global focus on environmental sustainability, with international policies shaping business practices. Geopolitical risks can affect Indonesian businesses in terms of how they align with global climate agreements or sustainability commitments. Managers need to stay updated on international environmental policies (e.g., carbon pricing, green energy mandates) that may influence regulatory compliance and market demand for sustainable products. **Local and Regional Conflicts:** Geopolitical risks specific to Indonesia, such as regional instability, can affect supply chain security, employee safety, and investor confidence. Businesses must assess how these risks could affect local operations and what strategic decisions can help mitigate these impacts (e.g., in-

creasing local sourcing, enhancing security measures). Integrating these additional perspectives into the model enriches the understanding of how external geopolitical risks shape managerial decisions in the context of sustainability and firm value. By considering the broader geopolitical landscape, businesses in Indonesia can adopt more resilient strategies that balance their sustainability efforts with the realities of external risk factors.

## **IMPLICATIONS**

### **Theoretical Implications**

From a theoretical standpoint, this study contributes to the body of knowledge by integrating sustainability reporting, geopolitical risks, and company value within the context of emerging markets like Indonesia. The research affirms the relevance of legitimacy theory, stakeholder theory, and signaling theory in understanding how sustainability disclosures can influence company value, especially in a geopolitically volatile environment. The study further highlights the importance of considering the dynamic interaction between geopolitical risks and business operations, which can affect corporate legitimacy and investor trust. Additionally, it provides empirical evidence supporting the argument that sustainability disclosures not only improve transparency and reputation but also serve as a critical mechanism for mitigating risks associated with geopolitical tensions.

### **Practical Implications for Businesses**

For businesses, especially those in the food and beverage sector in Indonesia, the research underscores the importance of proactive risk management strategies. Companies should prioritize integrating sustainability disclosures into their long-term strategic planning to ensure that they are prepared to address potential geopolitical risks. By doing so, businesses can better manage the impact of geopolitical volatility, enhance investor confidence, and maintain their competitive advantage. Additionally, sustainability efforts should be viewed not only as a regulatory compliance measure but as a strategic approach to build transparency and trust with stakeholders. This integration will help businesses navigate the challenges posed by external geopolitical factors while maintaining their sustainability goals and protect-

ing their long-term value.

### Practical Implications for Policymakers

For policymakers, the study encourages the development of more comprehensive and forward-thinking policies to protect companies from the negative impacts of geopolitical risks. Policymakers can play a critical role by providing incentives or support for companies that prioritize sustainability initiatives. Furthermore, they should consider designing policies that reduce potential external risks such as political instability, trade disruptions, or environmental challenges that could undermine sustainability efforts. Supportive and adaptive policy frameworks can help companies in Indonesia remain resilient and sustainable, even amid global geopolitical uncertainties.

### RECOMMENDATIONS

For policymakers, this study suggests the need for the development of a more comprehensive policy framework to help companies sustain their value amid volatile global conditions. The policy should include incentives that encourage companies to continue focusing on sustainability, even when facing geopolitical challenges. In addition, policymakers need to ensure support in the form of regulations that can mitigate the impact of external risks, as well as provide clear guidelines on sustainability disclosures that are relevant to geopolitical conditions. By considering the moderating role of geopolitics, this study provides deeper insights into how external risks can affect the success and effectiveness of sustainability efforts on firm value in emerging markets. This study has limitations, namely the low number of research samples due to the limited number of manufacturing companies in the food and beverage subsector that use the GRI G4 standard guidelines in their sustainable reporting disclosure method.

### CONCLUSIONS

The revelation of sustainability reports significantly influences company value through the perception of investors and financial analysts, as found in this research. However, geopolitical risks have the potential to reduce the impact of disclosing sustainability reports on company value. This indicates that factors such as political tensions be-

tween countries, changes in government policies, or international conflicts can create uncertainty that affects how the market evaluates a company's sustainability efforts. Thus, even though companies engage in transparent sustainability reporting, its impact may be limited in the presence of significant geopolitical risks. These findings underscore the importance of understanding the geopolitical context in analyzing the impact of sustainability reporting on company value. Furthermore, in light of these research based on these discoveries, it can also be inferred that while sustainability reports can benefit companies in strengthening reputation, trust, and stakeholder relationships, geopolitical factors such as economic uncertainty, regulatory changes, and decreased investor interest may diminish these positive impacts. Therefore, it is essential for companies to give priority to sustainability practices and transparency, even when faced with geopolitical challenges. This can help them maintain trust and support from stakeholders and strengthen their position in the face of external uncertainties. Additionally, awareness of the importance of sustainability and a commitment to acting responsibly toward the environment and society can be critical factors in maintaining long-term company value and enhancing the company's position in an increasingly complex and dynamic market.

### ACKNOWLEDGMENTS

Thanks are extended to those who have supported and assisted in funding the publication of this journal article, funded by Budi Luhur University and Tarakan Borneo University through the Research and Community Service Grant Program 2023.

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