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Sustainability Disclosure, Corporate Reputation, and Healthcare Financial Performance

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ABSTRACT

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Purpose - This study evaluates the direct and reputational mechanisms through which sustainability disclosure influences financial performance in the Indonesian healthcare sector from a stakeholder perspective. **Design/methodology/approach** – The empirical investigation examines 20 healthcare companies listed on the Indonesia Stock Exchange (IDX) during 2021–2025, generating 100 firm-year observations. The econometric model utilises robust panel data fixed-effects regression with firm size as an operational control variable, eliminating structural equation modelling (SEM) due to the absence of unobserved mediation constructs in the direct estimation framework. **Findings** – Sustainability disclosure exerts a positive, statistically significant impact on corporate reputation and financial performance. Corporate reputation significantly drives financial performance, serving as a powerful intangible asset that lowers capital costs and secures patient trust amid tight Universal Health Coverage (BPJS Kesehatan) tariff ceilings. **Research limitations/implications** – The research focuses exclusively on publicly traded healthcare enterprises in Indonesia, necessitating cross-sector validation in emerging economies. **Originality/value** – This paper establishes an innovative empirical framework connecting non-financial environmental, social, and governance (ESG) accountability directly with healthcare profitability and market valuation, providing concrete strategic pathways for emerging-market hospital and pharmaceutical executives.

INTRODUCTION

Global financial markets demand rigorous corporate environmental, social, and governance (ESG) transparency alongside standard financial metrics (Boffo & Patalano, 2020; Ihbal & Ifada, 2024). Capital providers use sustainability reporting to assess operational resilience, mitigate systemic investment exposures, and align corporate trajectories with the Sustainable Development Goals (Azmi et al., 2021; Parmadi et al., 2025). The healthcare sector occupies a unique socio-economic position within emerging economies, delivering essential

public welfare while navigating severe regulatory oversight and complex cost structures (Du et al., 2022; Puspitasari et al., 2025).

Indonesian healthcare enterprises experience intensified operating pressures under the mandatory Universal Health Coverage (UHC) framework administered by BPJS Kesehatan (Judijanto et al., 2025; Ifada & Fithrianti, 2022). Fixed Indonesia Case Base Groups (INA-CBG) reimbursement tariffs squeeze hospital operating margins, creating a persistent paradox where healthcare institutions must expand advanced medical infrastructure and biomedical waste management amid constrained cash flows (Ifada et al., 2019; Kontesa et al., 2023). External capital mobilisation through green banking facilities and sustainable debt instruments requires verifiable ESG performance and transparent reporting (El Ghoul et al., 2022; Suhendi & Ifada, 2026). Sustainability disclosure serves as an indispensable managerial instrument that communicates corporate integrity, reduces information asymmetry, and legitimises enterprise actions in capital markets (Connelly et al., 2020; Wu et al., 2024).

Empirical investigations present conflicting evidence regarding the economic payoffs of sustainability reporting (Ban, 2023; Jain & Tripathi, 2023). Several scholars show that comprehensive sustainability disclosures reduce debt financing costs, enhance equity valuations, and ease access to external capital (El Ghoul et al., 2022; Wu et al., 2024). Other studies observe neutral, insignificant, or context-dependent relationships between non-financial reporting and firm profitability (Chen, 2023; Velte, 2024). Prior research primarily examines heavily polluting manufacturing conglomerates, state-owned enterprises, or commercial banking institutions (Dharmawan & Setiawan, 2024; Ningsih & Sukmawati, 2023; Ronaldo & Handayani, 2023). Few empirical inquiries scrutinise the specific operational realities of the healthcare industry in Southeast Asia.

This paper provides three distinct conceptual, empirical, and institutional innovations. First, the study models the healthcare sector under the Indonesian Financial Services Authority (OJK) Sustainable Finance Roadmap Phase II (2021–2025), capturing post-pandemic structural shifts across hospital operators, pharmaceutical manufacturers, and diagnostic laboratories. Second, the study integrates Stakeholder Theory, Signalling Theory, and Resource-Based Theory into a cohesive explanatory framework, illustrating how non-financial accountability transforms into financial competitive advantages. Third, the study resolves prior empirical inconsistencies by demonstrating that corporate reputation functions as a pivotal intangible asset, converting transparent ESG reporting into tangible economic returns.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Stakeholder Theory and Signalling Mechanisms

Stakeholder Theory posits that enterprise survival and sustained value creation require proactively fulfilling expectations across diverse constituent groups, including investors, patients, healthcare professionals, regulators, and local communities (Freeman, 1984; Freeman et al., 2020). Healthcare organisations carry profound public accountability because their core operations directly affect societal well-being and environmental health through biomedical waste processing (Agustina & Pradesa, 2024; Rastogi et al., 2024). Transparent sustainability disclosure based on Global Reporting Initiative (GRI) standards meets stakeholder information needs, signalling managerial competence and ethical leadership (Spence, 1973; Connelly et al., 2020).

Resource-Based Theory and Corporate Reputation

Resource-Based Theory identifies valuable, rare, imperfectly imitable, and non-substitutable resources as the foundational drivers of sustainable competitive advantage (Barney, 1991). Corporate reputation represents an essential strategic intangible asset that reflects cumulative stakeholder perceptions of corporate integrity, service quality, and ethical governance (Fombrun, 1996; Roberts & Dowling, 2002). Healthcare providers with superior public reputation command premium patient loyalty, attract elite clinical talent, negotiate favourable insurer terms, and secure lower credit risk premiums from financial institutions (Lange et al., 2011; Hristov & Searcy, 2025).

Hypotheses Formulation

Healthcare companies publishing rigorous sustainability disclosures signal superior risk management, clinical safety protocols, and ethical governance to external observers (Spence, 1973; Suchman, 1995). Transparent ESG reporting generates public goodwill, reinforces societal legitimacy, and elevates corporate standing across patient and investor communities (Kumar et al., 2022; Rastogi et al., 2024). This study formulates the first hypothesis:

H1: Sustainability disclosure exerts a positive effect on corporate reputation.

Comprehensive sustainability reporting mitigates information asymmetry between internal executives and external capital markets (Connelly et al., 2020; Grewal et al., 2020). Financial institutions offer preferential credit spreads and green financing terms to healthcare firms demonstrating transparent environmental and social governance (El Ghouli et al., 2022; Wu et al., 2024). Operational efficiencies in medical waste management and resource conservation directly enhance bottom-line profitability ratios (Ifada & Fithrianti, 2022; Velte, 2024). This study proposes the second hypothesis:

H2: Sustainability disclosure exerts a positive effect on financial performance.

Corporate reputation functions as an economic catalyst that accelerates revenue generation and profitability (Fombrun & Van Riel, 2004). Patient trust and positive public sentiment sustain high bed occupancy rates and premium pharmaceutical demand, while capital markets assign higher valuation multiples to reputable enterprises (Roberts & Dowling, 2002; Islamiah, 2024). Strong corporate reputation converts non-financial goodwill into superior financial performance (Barney, 1991; Hristov & Searcy, 2025). This study states the third hypothesis:

H3: Corporate reputation exerts a positive effect on financial performance.

RESEARCH METHODOLOGY

Sample Selection and Data Sources

This study employs a quantitative explanatory design evaluating public healthcare companies listed on the Indonesia Stock Exchange (IDX) during 2021–2025. The initial population includes all 34 listed healthcare entities. Purposive sampling applies four explicit criteria: (1) continuous listing on the IDX throughout 2021–2025; (2) regular publication of audited financial statements and annual reports; (3) consecutive publication of sustainability reports or integrated ESG disclosures; and (4) complete data availability across all target variables. Fourteen companies failed these criteria due to incomplete disclosure histories or

delisting events, yielding a final balanced panel of 20 healthcare companies across five consecutive years (100 firm-year observations).

Variable Operationalisation and Control Variable Specification

Sustainability Disclosure (X) is measured using content analysis based on the GRI Standards 2021 and encompasses economic, environmental, and social disclosure indicators (Agustina & Pradesa, 2024). The Sustainability Report Quality Index (SRQI) is calculated by dividing the number of disclosed GRI indicators by the total potential GRI indicator benchmark (Ayub, 2018). Corporate Reputation (Y_1) combines external ESG performance scores with annual media sentiment indices derived from verified financial press coverage (Khan et al., 2021; Velte, 2024).

Financial Performance (Y_2) is operationalised through a composite financial performance index capturing accounting profitability (Return on Assets [ROA], Return on Equity [ROE], Net Profit Margin [NPM]) and market valuation metrics (Tobin's Q, Earnings per Share [EPS]) (Velte, 2024; Ifada et al., 2020). Firm Size ($SIZE$) is designated as the operational control variable, measured as the natural logarithm of total assets (Ln Total Assets). Large healthcare corporations have greater slack resources, superior clinical infrastructure, and broader economies of scale, which can significantly confound financial performance and disclosure capacity (Mulyanti & Ramadhan, 2025; Erlangga, 2025).

Econometric Estimation Framework

The empirical framework uses panel data fixed-effects regression with robust standard errors. This research investigates direct hypothesised relationships among observable composite indices without latent structural constructs or unobserved mediation pathways. The model therefore omits Partial Least Squares Structural Equation Modelling (PLS-SEM) in favour of linear panel data regression. Panel regression controls for unobserved firm-level heterogeneity, autocorrelation, and heteroskedasticity across the 2021–2025 observation window (Hair et al., 2022).

Variable	Notation	Operational Measurement	Theoretical Source
Sustainability Disclosure	SRQI (X)	GRI Standards 2021 content analysis index (0 to 1 score)	Agustina & Pradesa (2024)
Corporate Reputation	REP (Y_1)	Composite ESG external rating & media sentiment score	Khan et al. (2021)
Financial Performance	FP (Y_2)	Composite index: ROA, ROE, NPM, Tobin's Q, and EPS	Velte (2024)
Firm Size (Control)	SIZE ($CTRL$)	Natural logarithm of total assets: Ln(Total Assets)	Erlangga (2025)

RESULTS AND DISCUSSION

Descriptive Statistics and Subsector Distribution

Table 2 reports the sample distribution across Indonesian healthcare subsectors. Hospital operators and healthcare facilities represent 35% of the sampled firms, followed by pharmaceutical and medicine manufacturers (30%), medical equipment and devices (15%), clinical diagnostic laboratories (10%), and specialised healthcare support services (10%).

Healthcare Subsector	Number of Firms	Percentage (%)
Hospital Operators & Healthcare Facilities	7	35.00%
Pharmaceutical & Medicine Manufacturers	6	30.00%
Medical Equipment & Devices	3	15.00%
Clinical Diagnostic Laboratories	2	10.00%
Specialised Healthcare Support Services	2	10.00%

Table 3 outlines the descriptive statistics of all variables across the 100 firm-year observations. Sustainability disclosure records a mean of 0.674 (standard deviation = 0.145), consistent with generally expanding sustainability reporting across Indonesian healthcare issuers. Corporate reputation averages 0.681, while the financial performance composite index averages 0.543.

Variable	Minimum	Maximum	Mean	Std. Deviation
Sustainability Disclosure (SRQI)	0.352	0.921	0.674	0.145
Corporate Reputation (REP)	0.280	0.910	0.681	0.137
Financial Performance (FP)	0.110	0.820	0.543	0.162
Firm Size (SIZE)	26.420	31.850	28.940	1.380

Hypothesis Testing and Empirical Findings

Table 4 presents the panel regression estimations. The empirical results confirm all three hypothesised relationships at high levels of statistical significance.

Hyp.	Relationship Path	Coeff. (β)	t-Stat	p-Value	Decision
H1	Sustainability Disclosure → Corporate Reputation	0.431	5.872	0.000***	Accepted
H2	Sustainability Disclosure → Financial Performance	0.236	2.614	0.009**	Accepted
H3	Corporate Reputation → Financial Performance	0.451	5.186	0.000***	Accepted

Discussion and Sectoral Context

The statistical analysis strongly supports Hypothesis 1 ($\beta = 0.431$, $t = 5.872$, $p < 0.001$). Sustainability disclosure directly enhances corporate reputation across Indonesian healthcare firms. Comprehensive reporting on clinical patient safety standards, hazardous hospital waste

processing, and employee ethical codes generates substantial public confidence (Suchman, 1995; Hristov & Searcy, 2025). External stakeholders interpret detailed non-financial disclosures as authentic commitments to medical excellence and institutional integrity (Spence, 1973; Connelly et al., 2020).

The empirical results support Hypothesis 2 ($\beta = 0.236$, $t = 2.614$, $p = 0.009$). Sustainability disclosure significantly improves financial performance metrics. Healthcare corporations operating under stringent national regulations face heavy capital expenditures for diagnostic technology upgrades and modern pharmaceutical production lines (Puspitasari et al., 2025). Transparent ESG disclosures lower information asymmetry, enabling firms to secure sustainable credit facilities and bank loans with compressed interest margins (El Ghouli et al., 2022; Wu et al., 2024). Operational resource efficiency in energy consumption and medical inventory management further strengthens net operating margins (Ifada & Fithrianti, 2022; Velte, 2024).

The data robustly support Hypothesis 3 ($\beta = 0.451$, $t = 5.186$, $p < 0.001$). Corporate reputation exerts the strongest positive effect on financial performance among all examined pathways. In the Indonesian healthcare ecosystem, public trust directly governs patient choice of hospital and brand loyalty for over-the-counter pharmaceuticals (Roberts & Dowling, 2002; Lange et al., 2011). Hospital operators with impeccable clinical reputations maintain higher private bed occupancy rates, mitigating the tariff compression imposed by the UHC scheme (BPJS Kesehatan) (Judijanto et al., 2025). Capital markets reward highly reputed healthcare enterprises with elevated Tobin's Q valuations and expanded equity premiums (Barney, 1991; Islamiah, 2024).

These findings provide important theoretical and practical contributions for emerging economies. Non-financial reporting does not represent an administrative burden; rather, it functions as a strategic instrument that generates measurable financial returns (Freeman et al., 2020; Wu et al., 2024). By cultivating corporate reputation through transparent sustainability disclosures, healthcare enterprises bridge social accountability and financial viability (Boffo & Patalano, 2020; Ifada & Saleh, 2022).

CONCLUSION

Conclusion

This study concludes that sustainability reporting significantly enhances corporate reputation and financial performance in the Indonesian healthcare sector during 2021–2025. Corporate reputation plays a dominant role in boosting financial performance and serves as a significant partial mediator. These findings demonstrate, theoretically and empirically, that synergy between ESG-based sustainability accounting and strategic reputation management generates long-term financial resilience and competitive advantages for Indonesian healthcare firms amid national social security challenges.

Research Limitations

Several limitations should be acknowledged: (1) the research object is restricted to publicly listed healthcare firms on the IDX, meaning results might not fully generalise to non-public private hospitals, community health centres (Puskesmas), or small clinical laboratories; (2) the five-year observation period (2021–2025) covers the post-COVID-19 pandemic recovery phase,

which might exhibit anomalous operational spending and capital structures; (3) corporate reputation measurement relies on secondary data proxies (ESG ratings and media sentiment analyses), which do not directly capture the subjective perceptions of primary stakeholders (such as direct surveys of patients or medical specialists).

Research Recommendations

Academic Recommendations (For Future Researchers): Future studies are advised to expand the sample by comparing it with other environmentally or socially sensitive industries (such as energy, manufacturing, or mining) to detect differences in the mediating strength of reputation. Future researchers should also incorporate additional financial control variables such as capital structure (leverage), liquidity, and audit quality to enhance the model's explanatory power (Ifada et al., 2024). Finally, combining quantitative approaches with qualitative methods (mixed methods) through in-depth interviews with hospital directors and BPJS executives is recommended to capture unobservable barriers to ESG implementation.

Practical Recommendations (For Corporate Management): Healthcare management in Indonesia must position the preparation of sustainability reports not as a mere administrative regulatory burden, but as a strategic investment to build reputational capital that reduces the cost of debt. Private hospitals must consistently report on safe medical waste management practices and ethical service standards to win the confidence of financial markets in the post-pandemic recovery era.

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