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Testing the mediating effect of corporate sustainability on the relationship of institutional ownership and firm value

Dian Novita[1*], Amiruddin[2], Sri Sundari[3], Muhammad Irdam Ferdiansah[4]
[1]Department of Accounting Faculty of Economics and Social Science Fajar University, Indonesia; diannovita@unifa.ac.id (D.N.)
[2,3,4,5]Department of Accounting Faculty of Economics and Business Hasanuddin University, Indonesia; amiruddinj64@gmail.com (A.) sriamir66@gmail.com (S.S.) irdam@fe.unhas.ac.id (M.I.F.).

Abstract: Corporate sustainability is a concept associated with corporate social responsibility. Corporate social responsibility is a management concept implemented by companies that integrate social and environmental concerns into their business activities and interactions with stakeholders. Corporate sustainability not limited to social and environmental aspects. The disclosure of sustainability reports cannot be separated the implementation of good corporate governance that management framework companies with a broader future agenda. Companies implement good corporate governance able to disclose information of sustainability reports of shareholders. Therefore, when companies implement good corporate governance, the disclosure of sustainability reports will increase, thereby enhancing firm value. This study investigates indirect effect of institutional ownership on firm value through corporate sustainability with audit quality as moderating variable, this use PROCESS Macro Model 15. This analyses financial statements from 2019-2023. The research variables are 728 firm-year observations from publicly listed companies. The data collected from corporate financial statements by accessing corporate websites. Although corporate sustainability mediates the relationship between institutional ownership and firm value, the moderation by audit quality on both the direct and indirect pathways statistically insignificant. These findings highlight the central role of sustainability translating institutional oversight into market value and suggest limited moderating influence of audit quality.

Keywords: *Audit quality, Corporate sustainability, Firm value, Hayes, Institutional ownership.*

1. Introduction

Historically, the idea of corporate sustainability began to emerge in 1970. In that year, Friedman [1] stated that social responsibility for companies is to use resources in corporate activities that can increase corporate profits. The implementation of social responsibility by companies is considered a deviation from the main objective of companies, which is to maximize corporate profits [1]. This view was considered to ignore ethical issues, given that the 2008 financial crisis had proven the need for a moral capitalist system [2]. This then prompted a shift in the dimensions of sustainability performance, which had previously been limited to shareholders but expanded to include stakeholders. In several studies, various definitions of stakeholders have been proposed, ranging from limited definitions such as those who have power over the corporate [3, 4] or those who dare to take risks [5, 6] to broader definitions that include parties without power [7-9] and incorporate non-human entities such as trees [10] and God [11]. In general, it is concluded that more researchers define stakeholders in a broad concept [12]. A corporate's relationships are not limited to shareholders but also involve building sustainable relationships with other stakeholders, such as employees, consumers, regulators,

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* Correspondence: diannovita@unifa.ac.id

competitors, the supply chain, investors, and the community, which can help the corporate create long-term value.

The competitive and uncertain business world now are increasing, companies not only required to make profit, but also to maintain business sustainability in the long term. The important measure of firm value, which reflect investor confidence in company performance and future prospects. That factor believed to encourage an increase in firm value is institutional ownership. The institutional ownership can encourage management to investment and sufficient resources to supervise the company. The encourage in the company commitment to corporate sustainability to manages environmental, social and governance (ESG). Sustainability practices not only important as moral but also positive signal to investors that the company has long-term vision, can handle the non-financial risk and able adapt to envolving market demands. Signaling theory becomes very relevant. The signaling theory explain that companies can signal to the market through their strategic actions such as sustainability reports to show the quality and prospects of the business indirectly visible from the financial statement, the signal shows the strengthen market perception of firm value.

Indicator of Firm value reflects that the market perception of the company long-term prospect as the basic for investment decision-making by investors. Increasing firm value is the main goal of management to influence the various internal factors such as the ownership structure like institutional ownership. The institutional ownership is considered to have the significant role in monitoring managerial performance and the strategic direction of the company. The institution has capacity, resources and incentives to monitoring managerial decision, they can encourage management to implement long-term oriented policies and increasing the firm value [13]. The implementation of strategic policy is corporate sustainability, which is the companies integrated an economic, environmental and social aspects in business operation. Firm value can be maximized if shareholders delegate corporate management to competent individuals in their respective fields, such as managers or board members [14]. Maximizing firm value is considered important because it means the corporate's primary objective is aligned with its plan, which is to maximize shareholder prosperity. Putri Rizki and Dudi [15] explain that the corporate's long-term objective is to maximize shareholder prosperity and increase firm value. firm value is an important factor for companies to attract investors to invest or make capital investments in the corporate.

However, not all signals are accepted by the market. The credibility of the signal is crucial. The quality of the audit plays a key role. Audits conducted by independent and high reputation auditors increase trusting the information were submitted by the company, including the sustainability information. The high-quality audit shows credibility signaling by ensuring that reported of sustainability not only formality or window dressing but also provide the actual reporting. Therefore, is an important to further examine how institutional ownership affects firm value through sustainability practices and the audit quality became important things to strengthen the relationship. The alignment of corporate governance mechanisms with sustainability practices has gained increasing attention as firms navigate regulatory, reputational, and stakeholder expectations. Institutional ownership is often viewed as a governance force capable of steering managerial decisions toward long-term value creation, including sustainability. However, the pathway from institutional ownership to firm value is complex and potentially moderated by audit quality. This study aims to analyze whether corporate sustainability mediates the relationship between institutional ownership and firm value, and whether audit quality moderates these effects. This research not only relevant for academic but also the practically important to developing corporate governance and awareness of sustainability issues are still envolving.

2. literature Review

2.1. Signaling Theory

Signaling theory Spence [16] provides a useful framework for understanding how firms communicate information to external stakeholders particularly investors when there is information asymmetry between management and the market. In this research, the actions taken by a firm those are observable and costly to imitate serve as signals of the firm's underlying quality, prospects or strategic intentions. Signaling theory is a fundamental concept in economics and evolutionary that explains how part credibly conveys information to another part. The theory addresses situations of asymmetry information, where one party possesses more or better information than the other.

2.2. Corporate Sustainability (CS)

Artiach, et al. [17] define corporate sustainability as a measure of the impact of a corporate's policies in the economic, environmental, social, and governance spheres on society. In the context of this paper, each corporate's corporate sustainability performance is assessed in the form of an ESG (Environment, Social, and Governance) score. Corporate sustainability refers to a company's strategic commitment to operate responsibly by balancing three core pillars: environmental, social, and governance (commonly known as ESG). It goes beyond short-term profit goals by integrating long-term environmental stewardship, social well-being, and ethical governance into business operations. A sustainable company to reduce negative environmental impacts and supports social initiatives to adopts transparent governance practices. Corporate sustainability enhances a company's legitimacy, reputation and stakeholder trust. The study suggests that the implementation of good sustainability strategies can help companies build brand reputation and manage their businesses effectively [18-20].

2.3. Firm Value (FV)

Brigham and Houston [21] argue that firm value is the value assigned by the market to a corporate's performance. This value indicates the market's desire and confidence in the corporate's intrinsic value. Market appreciation is indicated by a stock price above book value, while market depreciation is shown by a stock price below book value. If the market assigns a higher value, it indicates that the market perceives the corporate to have good prospects, and vice versa. In this study, firm value is proxied by Price to Book Value (PBV) and Tobin's Q Ratio [22]. A comprehensive view of the corporate during the exclusive period is the result or achievement determined by the corporate's operational activities in utilizing its resources. Firm value is a goal in corporate finance and strategic management because it encapsulates how well a company uses its assets, manages its risks, and maintains investor confidence. It also serves as an ultimate outcome variable in governance, sustainability, and ownership studies.

2.4. Institutional Ownership (IO)

Institutional ownership has the ability to control management through effective monitoring processes. A high level of institutional ownership will result in greater oversight by institutional investors, thereby preventing opportunistic behavior by managers and minimizing the level of misappropriation by management that would reduce the value of the company [23]. Institutional ownership refers to the percentage of a company's shares held by large, professional investors such as mutual funds, pension funds, insurance companies, and asset management firms. These institutions typically have substantial resources, expertise and a long-term investment orientation. Institutional investors play a critical role in corporate governance. Because of their significant shareholding, they have better positioned to monitor managerial behavior, demand transparency and influence strategic decisions those related to sustainability, ethical conduct and performance. Their presence often indicates strong external pressure on management to act in the best interest of shareholders.

2.5. Audit Quality (AQ)

DeAngelo [24] defines audit quality as the joint probability assessed by the market that auditors will find violations in client accounting system reports and be able to report those violations. This definition emphasizes two important aspects of audit quality: the professional competence of the audit firm, which determines of detecting misstatements and the independence and objectivity of the auditor, which determine decisions regarding detected misstatements. Audit quality refers to the ability of the audit process to detect and report material misstatements in financial and non-financial reports. High audit quality provides assurance to external stakeholders that company disclosures as financial statements and sustainability reports are accurate, reliable and free from bias. Audit quality influenced as the auditor's independence, technical expertise, reputation, adherence to standards and whether the audit is conducted by a Big Four firm. In sustainability reporting, high audit quality increases credibility and trust in the company's ESG claims and financial practices. Audit quality, in this research is considered a function of auditor competence and auditor independence.

2.6. Research Framework

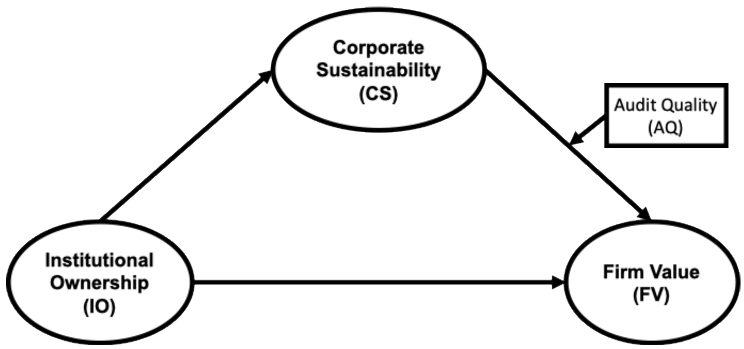

Figure 1.
Research Framework.

From the research framework that has been built, there are research achievements that are expected to be well explored through the following hypothesis approach:

Institutional ownership refers to the ownership of a company shares by institutional investors such as pension funds, mutual funds, insurance companies, and other financial entities. Institutional investors are considered to have a high capacity and incentive to monitoring managerial behavior because they have significant ownership and a long-term investment orientation [25]. Corporate sustainability is a business strategy that integrates environmental, social, and governance (ESG) considerations into a company operational activity to create long-term value [26]. From the perspective of signaling theory [16] a commitment to sustainability can serve as a positive signal to investors that the company has reliable, responsible management and capable to manage effectively of the long-term risks. The role of corporate sustainability as a mediator reflects that the influence of ownership on firm value does not occur directly, but rather through the impact on sustainability practices. Institutional investors encourage management to adopt sustainability practices as part of the company strategies and this commitment sends positive signals to the market that ultimately leads to an increase in firm value. Signaling theory also supports that sustainability acts as a signal that can enhance investors perception of the company. However, this signal will only be effective if triggered by a strong governance structure, such as institutional ownership. The capital market responds positively to sustainability signals as they are seen to reflect risk management, efficiency, and a good reputation. Several studies found that companies that consistently implement sustainability practices have higher market values and better financial performance compared to companies that do not engage in similar practices [27].

H_1 : Institutional ownership has a positive effect on corporate sustainability.
H_2 : Corporate sustainability has a positive effect on firm value.
H_3 : Corporate sustainability mediates the effect of institutional ownership on firm value.

Company commits to sustainability such as managing environmental impact, engaging in social responsibility and practicing corporate governance. These actions also serve as positive signals to investors and the public reflecting the company's long-term vision and approach to managing non-financial risks. However, the sustainability reporting becomes more common, the market has become increasingly aware that not all signal gives the truth. Some companies may use sustainability disclosure as a form of window dressing or greenwashing, where the intent is more about image than genuine impact. This is where audit quality has a critical role. High-quality audits conducted by reputable, independent and professional auditors help ensure financial and non-financial disclosures are accurate and reliable. When a company's sustainability efforts are backed by credible audit assurance, the market believe that the signal is real not only performative. According to Signaling Theory Spence [16] suggests that the value of signaling depends on credibility. If sustainability disclosures are accompanied by high audit quality, the signal becomes stronger and more convincing, increasing investor confidence and enhancing firm value. On the other hand, when audit quality is low, the sustainability signals may lose their strength. Investors might doubt the integrity of the information and the potential positive impact of sustainability on firm value could diminish or disappear entirely. Therefore, it is reasonable to expect that audit quality moderates the relationship between corporate sustainability and firm value. In firms with high audit quality, sustainability practices are more likely to be rewarded by the market. In firms with poor audit quality, even genuine sustainability efforts may fail to generate investor trust and increased firm value.

H_4 : Audit quality moderates the relationship between corporate sustainability and firm value.

The corporate sustainability mediates the relationship between institutional ownership and firm value is well-supported by both theory and evidence. Institutional investors especially those with long-term orientations are known to influence managerial behavior toward more responsible and sustainable business. These practices send positive signals to the market, reinforcing a company's legitimacy, reputation and risk management capacity of which contribute to increased firm value [26]. However, this indirect relationship may not always be equally strong across all companies. The key factor that could affect the strength of this mediation is audit quality. According to signaling theory, the credibility of a signal such as sustainability disclosure depends not only on the signal, but also validate the mechanisms. High-quality audits performed by reputable and independent auditors serve precisely provide assurance that sustainability practices and disclosures are trustworthy and not just symbolic gestures. The concept of moderated mediation becomes relevant. In this research, audit quality acts as a moderator in the second stage of the mediation pathway between corporate sustainability as mediator and firm value. If the high quality of audit, the sustainability signal becomes more believable, thereby strengthening the indirect effect of institutional ownership on firm value through corporate sustainability. If the audit quality is low, sustainability initiative may not be interpreted positively by the market, thereby weakening the mediation effect. Hayes [28] on moderated mediation describes such situations as conditional indirect effects where the strength of a mediation pathway depends on the level of a moderator variable. In this case, the indirect effect of institutional ownership on firm value by corporate sustainability upon audit quality. Hummel and Schlick [29] found that sustainability disclosures subject to independent verification have a significantly stronger impact on stakeholder perceptions. Similarly, García-Sánchez, et al. [30] demonstrate that external assurance especially from high-quality auditors amplifies the financial value derived from corporate sustainability activities.

H_5 : The indirect effect of institutional ownership on firm value through corporate sustainability is moderated by audit quality (moderated mediation).

3. Research Methodology

This study uses a quantitative research method. It analyzes financial reports to produce a value that is used as a performance measurement tool for the period 2019-2023. The research variables are 728 firm-year observations from publicly listed companies. The researchers collected data directly from corporate financial reports by accessing corporate websites and the Indonesia Stock Exchange (IDX) website. The financial statement data was then processed to find answers and support the hypotheses formulated. After obtaining the processed results, they were aligned with the hypotheses and conclusions were drawn based on the processed results. Statistical analysis techniques were used to measure corporate sustainability in mediating the influence (political connections, earning management) on firm value using PROCESS Macro Model 14 [28]. Andrew Hayes introduced an analytical tool he calls Conditional Process Analysis, which is claimed to be useful when the research objective is to understand the mechanism through which the effect of a variable under certain conditions (the presence of mediation) is transmitted to another variable.

4. Research Result

This research approach that can be discussed further with the empirical results obtained.

Table 1.
Direct Effect.

	Coeff	SE	t-value	p-value
IO → CS	0.2307	0.0398	5.7895	0.0000
CS → FV	1.0167	0.0631	16.1181	0.0000

Table 1 shows the direct relationship between institutional ownership and corporate sustainability and firm value. Based on the results of the PROCESS analysis, a direct effect was found for institutional ownership on corporate sustainability and corporate sustainability on firm value. Institutional ownership on corporate sustainability (direct effect = .2307, se = .0398, t-value = 5.7895 and p-value = .0000). These results indicate that the direct relationship between institutional ownership and corporate sustainability is positive and significant so that hypothesis 1 (H1) is accepted. Corporate sustainability on firm value (direct effect = 1.0167, se = .0631, t-value = 16.1181 and p-value = .0000) these results indicate that the direct relationship between corporate sustainability and firm value is positive and significant so that hypothesis 2 (H2) is accepted.

Table 2.
Indirect Effect.
IO -> CS -> FV.

AQ	Effect	BootSE	BootLLCI	BootULCI
-0.3986	0.2442	0.0526	0.1476	0.3522
0.0000	0.2346	0.0466	0.1467	0.3298
0.3986	0.2249	0.0487	0.1364	0.3269

Table 2 shows that the indirect effect of institutional ownership (IO) on firm value (FV) through corporate sustainability (CS) is significant at all levels of audit quality (AQ). Regardless of high or low audit quality, institutional ownership still influences firm value through corporate sustainability. The effect value decreases slightly from low AQ (0.2442) to high AQ (0.2249), but this difference is not statistically significant. This is in line with the insignificant results of the moderated mediation index, indicating that audit quality does not significantly change the strength of the mediation effect. Therefore, Hypothesis 3 (H3) is accepted.

Table 3.
Moderated.
Test(s) of highest order unconditional interaction(s):

	Coeff	SE	t-value	p-value	LLCI	LLCI
M*W	-0.1046	0.1449	0.7219	0.4706	0.3891	0.1799

Note: Focal predict: CS (M).
Mod var: AQ (W)

Table 3 shows that audit quality (AQ) does not moderate the relationship between corporate sustainability (CS) and firm value (FV). The p-value, which is far above the significance limit (0.05), indicates that changes in the level of audit quality do not significantly strengthen or weaken the influence of CS on FV. The negative direction of the coefficient (-0.1046) theoretically suggests that an increase in audit quality tends to slightly reduce the strength of the relationship between CS and FV, but because this result is not significant, this tendency cannot be used as a statistically strong conclusion. Hypothesis 4 (H4) is rejected.

Table 4.
Index of Moderated Mediation.

	Index	BootSE	BootLLCI	BootULCI
AQ	-0.0241	0.0502	-0.1250	0.0736

Table 4 shows the results of the Index of Moderated Mediation value of -0.0241 with a Confidence Interval (CI) of [-0.1250; 0.0736] containing zero, indicating no evidence of moderation by audit quality (AQ) on the mediating effect of corporate sustainability (CS) on the relationship between institutional ownership (IO) and firm value (FV). The mediating effect of CS in linking IO and FV is consistent, whether the audit quality is low, medium, or high. It is expected that audit quality can strengthen the credibility of sustainability information so that its influence on firm value becomes greater. However, this result indicates that audit quality does not play a significant role as a differentiator the market may already respond sufficiently to sustainability signals without requiring reinforcement from audit quality. The level of audit quality across companies in the sample is relatively homogeneous. Investors consider sustainability performance as a primary factor, while audit quality is considered a secondary factor. Applicable regulations or reporting standards make sustainability information relatively equal in quality in the eyes of investors. Therefore, hypothesis 5 (H5) is rejected.

5. Finding and Discussion

Signaling theory Spence [16] explains the companies are perceived as possessing internal information or asymmetric information to investors or public. To reduce this asymmetry information, companies send signals to the market which take the form of financial reports, sustainability disclosures, or corporate social responsibility (CSR). These signals shows that the company has good prospects and manage responsible. Corporate sustainability is a positive signal sent by companies to shows their commitment to long-term sustainability, risk management, and good governance. However, the effectiveness of this signal is greatly influenced by who behind the company, including its ownership structure. Institutional ownership strengthening and motivating the delivery of these sustainability signals. Therefore, the presence of institutional ownership within company structure provides additional incentives for management to make credible sustainability signals to the market. Companies owned by institutional investors more actively disclose sustainability information because institutional investors value ESG aspects as part of the firm value, sustainability disclosure enhances the company's reputation in the capital market and consistent sustainability signals attract more institutional investors.

Corporate sustainability is about making business decisions that balance economic success, environmental responsibility and social impact. Companies embed sustainability into their strategy are not only addressing climate change, labor rights and governance risks. When markets are uncertain and information is incomplete, firms use visible actions like sustainability reports or green innovation as signals to show their true quality and reliability. The message is the company that takes risks seriously, operates ethically and plans for the future. But for this signal to work, it has to be credible. Sustainability isn't just about marketing it has to be backed by real actions, commitments and transparency. When it is, the market often rewards the company with higher value stronger investor confidence, a better reputation and sometimes even a higher stock price. Finding in this research, corporate sustainability is not only an ethical strategy, but also a strategic communication tool reinforced by institutional pressure to create a positive investors perception. Corporate sustainability reflects a corporate's commitment to economic, social and environmental sustainability. Sustainability improves reputation, operational efficiency and regulatory compliance, which directly impact firm value. Firm value increases when sustainability is used. Institutional investors encourage companies to adopt corporate sustainability as a tool to strengthen legitimacy, operational efficiency, and stakeholder relationships, thereby enhancing market perceptions of firm value.

Investment landscape, companies are no longer judged solely by how much profit they make but how they make it. This shift has brought corporate sustainability to the attention. Sustainability not just about being environmentally and socially responsible, it's about reporting to the market that the company is managing long-term risks, building resilience and ethically. The key drivers is institutional ownership. Large institutional investors care about how companies behave, not just what they earn this quarter. These investors increasingly expect companies to act responsibly, publish credible sustainability reports, and align their strategies with environmental, social and governance (ESG) principles. The perspective of signaling theory Spence [16] that the companies operate of asymmetry information were by management knows much more about the firm's intentions, risks and capabilities than outside investors do. They send signals and corporate sustainability is one of the clearest, most powerful signals available today. When the market sees that a company is genuinely committed to sustainability under the watchful of serious institutional investors often reacts positively. Share prices rise, investor confidence increases and the company becomes more attractive. This means that corporate sustainability becomes the bridge: it connects the pressure from institutional ownership with improved firm value. In other words, institutional owners push for sustainability, sustainability builds trust and credibility, and that trust leads to a stronger valuation in the market. Institutional ownership pushes companies to act more sustainably. Corporate sustainability becomes a credible signal to the market. That signal leads to increased firm value. Therefore, corporate sustainability mediates the relationship between institutional ownership and firm value.

Audit quality is considered for trustworthiness. When companies communicate their commitment to sustainability through ESG reports or social responsibility, the market wants to know whether this information is credible. Auditors validate the information presented by the company. From a signaling theory perspective Spence [16] a high-quality audit is expected to strengthen the sustainability signal a company sends to the market. This means that if a company implements sustainability and supported by a credible audit, the market will respond more positively, increasing the firm value. However, in this research the results differed from expectations. Audit quality did not significantly moderate the relationship between corporate sustainability and company value. In other words, whether the audit is high-quality or not the effect of sustainability on company value remains the same. This occurs because the sustainability signal is strong enough without an audit, so the market or investors perceive a company's reporting of sustainability commitment as credible, even without third-party support. The company already has a good reputation and has long been consistent in ESG practices. A high-quality audit is no longer the determining factor. In practice, the market may pay more attention to a company's concrete sustainability actions, rather than who audits it. The primary focus remains on financial performance or other risks, rather than the validity of ESG reports. Audit quality has an important role in the credibility and reliability of sustainability information to investors and other stakeholders. High-quality audits by independent and experienced auditors provide assurance that the corporate sustainability information is valid, free from manipulation and compliant with standards. Audit quality that moderates the relationship between corporate sustainability and corporate value can reduce information asymmetry and moral hazard risks, and ensure that corporate value reflects actual sustainability performance. This contrasts with the findings of tests showing that audit quality not moderating corporate sustainability and firm value. Audits are more often associated with financial statements rather than sustainability reports, meaning that audit quality cannot be used as an indicator to assess the validity of corporate sustainability. Stakeholders may question whether traditional auditors possess the competence to verify sustainability-related disclosures [31]. Corporate sustainability is already a strong enough signal and is trusted by the market, even without the additional role of audit quality. For companies, it can be an important reminder when sustainability is implemented in a real and transparent, market trust on consistency and concrete actions not just on who verifies it.

Institutional ownership associated with controlling by management, including encouragement of corporate sustainability practices. Institutional investors are generally long-term oriented, encouraging companies to implement ESG (Environmental, Social, and Governance) principles in order to maintain their reputation and business continuity, which ultimately increases firm value [32, 33]. It is expected that institutional ownership indirectly influences firm value by encouraging corporate sustainability practices and the influence is stronger if the firm has high audit quality. This constitutes a form of moderated mediation, where audit quality is positioned as strengthening the relationship between the mediator (corporate sustainability) and the outcome variable (firm value). Based on theoretically explanation in line with signaling theory, institutional investors encourage companies to implement sustainability as a signal that the company is responsible and long-term oriented. If the signal is reinforced by an independent and high-quality audit, the market should respond by giving the company a higher valuation. However, the results of the study indicate that this moderated mediation is not statistically significant. This means that audit quality neither strengthens nor weakens the indirect effect between institutional ownership and firm value through corporate sustainability. The sustainability signal is strong enough without additional audits. The explanation is that a company's sustainability practices already provide a strong signal, especially when conducted consistently and transparently. Under these circumstances, the presence of a high-quality audit does not significantly enhance this signal. Institutional ownership and sustainability are already mutually reinforcing. Institutional investors not only encourage sustainability practices but can also act as guarantors of credibility. The market may view the presence of institutional ownership as a sufficient indicator of a company's trustworthy sustainability practices, without the need for additional strengthening of audit quality. The market has not yet placed added value on sustainability audits. Investors focus more on a company's financial performance or historical reputation, so audit quality is not yet a determining factor in assessing sustainability signals. Audit quality is generally viewed as an external governance mechanism capable of strengthening transparency and accountability in sustainability reporting. However, in this context, audit quality is not strong enough to mediate the moderating effect of institutional ownership through corporate sustainability on firm value.

6. Conclusion

The conclusion of the study shows that institutional ownership has an effect on firm value that is mediated by corporate sustainability. Meanwhile, the influence of corporate sustainability on firm value moderated by audit quality, the influence of institutional ownership on firm value moderated by audit quality, and the influence of institutional ownership on firm value mediated by corporate sustainability and moderated by audit quality are not significantly influential. This is because audit quality, which is considered capable of increasing firm value through supervision by institutional investors, does not have a significant influence.

Sustainability initiatives like reducing environmental impact, treating employees fairly, and maintaining ethical business practices are more than just corporate social responsibility. In the eyes of investors, these actions send a positive signal that the company is forward-thinking, managing its risks, and committed to long-term value. Because these actions are often voluntary and can be costly to implement, they are seen as credible not just lip service or greenwashing. This is where the link to firm value becomes clear. When the market recognizes and trusts these sustainability efforts especially when they are backed by strong institutional ownership investors tend to respond positively. The result is a stronger reputation, better investor confidence, and ultimately, a higher firm value. Institutional ownership encourages companies to send strong signals to the market through corporate sustainability practices. And when these signals are seen as genuine and trustworthy, they help enhance the firm’s value. This entire process is well explained through the lens of signaling theory, making it a valuable framework for understanding how ownership structure, sustainability, and firm value are connected.

Transparency:
The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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