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Research Article

A Conceptual Framework for Value Creation through Sustainability Reporting and Intellectual Capital

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Abstract
The growing importance of sustainability and knowledge-based resources has increased interest in understanding how organizations create value in dynamic business environments. Previous studies have reported positive relationships between sustainability reporting, intellectual capital, and firm value, but these constructs have largely been examined independently, providing limited explanation of how sustainability-related and knowledge-based resources interact through innovation. This study addresses this gap by proposing a conceptual framework that positions innovation performance as the strategic mechanism linking sustainability reporting and intellectual capital to organizational value creation. Using a theoretical research approach, the study integrates Stakeholder Theory, Legitimacy Theory, the Resource-Based View, and Dynamic Capabilities Theory through a structured literature review. The study's conceptual novelty lies in presenting a theoretically integrated value-creation framework explaining how sustainability reporting and intellectual capital jointly enhance sustainable organizational value through innovation performance. By moving beyond the direct relationship perspective adopted in prior research, the proposed framework offers a mechanism-based explanation of how sustainability-related and knowledge-based resources are transformed into innovation capabilities that ultimately generate sustainable organizational value, providing directions for future empirical research and managerial practice.

Keywords: sustainability reporting, intellectual capital, innovation performance, value creation, sustainable competitive advantage

JEL Classification: M14, M41, O31

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1. Introduction
In recent years, manufacturing firms have operated in an increasingly dynamic business environment, requiring them to focus not only on short-term financial performance but also on sustainable value creation. Accordingly, firm value has become an important indicator of a firm's ability to maintain competitiveness and generate long-term economic benefits (Brigham & Houston, 2021).

Corporate reporting has consequently evolved from a compliance-oriented practice toward a strategic mechanism for communicating how firms create long-term value through economic, environmental, and social activities. This development has been reinforced by the establishment of the International Sustainability Standards Board (ISSB) and the issuance of IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2), which have been adopted in Indonesia through PSPK 1 and PSPK 2 and will become effective in 2027 (IFRS Foundation, 2023).

Previous studies generally report that sustainability reporting enhances firm value by improving transparency, corporate reputation, and stakeholder confidence (Darminto et al., 2024; Alatawi et al., 2025). Similarly, intellectual capital has been recognized as a strategic resource that strengthens organizational competitiveness and long-term performance (Sardo & Serrasqueiro, 2017; Aybars & Öner, 2022). Nevertheless, empirical findings remain inconclusive, suggesting that the effects of sustainability reporting and intellectual capital depend on organizational capabilities, governance quality, and institutional contexts (Maccarrone et al., 2024; Elmanaseer & Gerged, 2025). These inconsistencies indicate that existing studies explain whether these factors influence firm value more effectively than how they create value.

This study argues that innovation performance represents the missing link in the value-creation process. Rather than generating value directly, sustainability reporting and intellectual capital provide strategic resources that can be transformed into innovative products, processes, technologies, and organizational practices, thereby strengthening long-term competitiveness and firm value (Lewandowska et al., 2022; Asni & Agustia, 2022; Sapsanguanboon et al., 2025).

Accordingly, this study develops a conceptual framework by integrating Stakeholder Theory (Freeman, 1984), Legitimacy Theory (Suchman, 1995), the Resource-Based View (Barney, 1991), and Dynamic Capabilities Theory (Teece et al., 1997). The proposed framework explains value creation as a process in which sustainability reporting and intellectual capital interact through innovation performance to enhance long-term firm value. By adopting this process-oriented perspective, the study extends the literature on sustainability reporting, intellectual capital, and value creation while providing a theoretical foundation for future empirical research.

2. Literature Review and Hypothesis

Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), argues that corporate success depends on a firm's ability to create value for multiple stakeholders rather than shareholders alone. As stakeholder expectations increasingly extend beyond financial performance to include environmental and social responsibility, sustainability reporting has become an important mechanism for reducing information asymmetry, enhancing transparency, and strengthening stakeholder relationships. Recent studies indicate that high-quality sustainability disclosure improves stakeholder confidence, corporate reputation, and access to external resources, thereby supporting long-term organizational value (Mohammad & Wasiuzzaman, 2021; Gerged et al., 2023; Gutiérrez-Ponce & Wibowo, 2024; Elmanaseer & Gerged, 2025). However, Stakeholder Theory primarily explains why firms disclose sustainability information and offers limited insight into how that disclosure translates into economic value (Santosa et al., 2022). This limitation suggests the need to integrate complementary theoretical perspectives that explain the organizational processes linking sustainability reporting with innovation and value creation.

Legitimacy Theory

Legitimacy Theory argues that organizations seek to maintain social acceptance by aligning their activities with prevailing societal norms and expectations (Suchman, 1995). As sustainability issues have become increasingly important to regulators, investors, and society, sustainability reporting serves as a strategic instrument for firms to demonstrate accountability and responsible business practices (Santosa et al., 2022). High-quality sustainability disclosure strengthens organizational legitimacy, enhances corporate reputation, and facilitates long-term stakeholder support (Gerged et al., 2023; Nampoothiri et al., 2024; Elmanaseer & Gerged, 2025). Nevertheless, legitimacy alone does not guarantee value creation, as firms must also possess the internal capabilities required to transform sustainability commitments into innovation and competitive advantage.

Resource-Based View

The Resource-Based View (RBV) proposes that sustainable competitive advantage originates from valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). In the knowledge-based economy, intellectual capital, including human, structural, and relational capital, represents one of the most important strategic resources for organizational success (Edvinsson & Malone, 1997; Stewart, 1997). Previous studies consistently show that effective intellectual capital management enhances organizational performance and firm value (Sardo & Serrasqueiro, 2017; Aybars & Öner, 2022; Destyasa & Bustaman, 2024). However, RBV also implies that strategic resources create value only when they are effectively utilized to support innovation and organizational competitiveness rather than merely being accumulated.

Dynamic Capabilities Theory

Dynamic Capabilities Theory extends RBV by emphasizing that sustainable competitive advantage depends not only on resource ownership but also on firms' ability to integrate, develop, and reconfigure strategic resources in response to changing business environments (Teece et al., 1997; Teece, 2007). Recent conceptual studies likewise argue that sustainable value creation increasingly relies on combining strategic resources with organizational capabilities that foster innovation and organizational renewal (Dameri & Ferrando, 2022; Songini et al., 2023). Accordingly, innovation performance represents the capability through which sustainability-related commitments and intellectual capital are transformed into sustainable organizational value.

Intellectual Capital

Intellectual capital is a knowledge-based asset that is a critical source of competitive advantage in contemporary organizations. Stewart (1997) defines intellectual capital as the collective knowledge, information, intellectual property, and experience that can be utilized to create value. Edvinsson and Malone (1997) further classify intellectual capital into three interrelated dimensions: human capital, structural capital, and relational capital.

Human capital refers to employees' competencies, skills, creativity, and experience. Structural capital encompasses organizational systems, procedures, culture, and infrastructure that facilitate the utilization and dissemination of knowledge (Santosa et al., 2022). Relational capital reflects the quality of relationships established with customers, suppliers, investors, and other stakeholders. Together, these dimensions provide the foundation for innovation and long-term competitive advantage.

Empirical evidence suggests that firms possessing higher levels of intellectual capital tend to exhibit stronger innovation capabilities and greater firm value (Sardo & Serrasqueiro, 2017; Aybars & Öner, 2022; Destyasa & Bustaman, 2024). However, intellectual capital does not necessarily translate directly into economic outcomes. Its value depends on the firm's ability to transform knowledge-based resources into productive activities that generate sustainable value.

Innovation Performance

Innovation performance reflects a firm's ability to generate and implement innovations that create value for the organization. According to the OECD (2018), innovation refers to the implementation of new or significantly improved products and processes. From this perspective, innovation performance extends beyond research and development activities and encompasses the firm's capacity to transform knowledge and resources into economically valuable outcomes.

In increasingly dynamic business environments, innovation performance has become a critical determinant of organizational competitiveness. Firms capable of sustaining innovation are better positioned to improve operational efficiency, identify new market opportunities, and respond to evolving customer needs. Innovation, therefore, serves as a key mechanism by which firms convert resources into economic value (Santosa, 2020).

Prior studies demonstrate that innovation performance contributes positively to competitiveness, organizational performance, and firm value (Lewandowska et al., 2022; Asni & Agustia, 2022). Moreover, innovation enables firms to respond more effectively to sustainability challenges and environmental changes (Sapsanguanboon et al., 2025). In this study, innovation performance is positioned as the mechanism by which sustainability reporting and intellectual capital translate into value creation.

Value Creation

Value creation refers to a firm's ability to generate sustainable economic benefits through the effective utilization of its resources and capabilities. In publicly listed companies, value creation is commonly reflected in firm value, which captures investors' expectations regarding the firm's prospects and long-term performance (Brigham & Houston, 2021).

The literature suggests that value creation is influenced not only by current financial performance but also by a firm's ability to develop strategic resources, maintain stakeholder relationships, and generate innovations that support competitive advantage (Sardo & Serrasqueiro, 2017; Darminto et al., 2024). Accordingly, value creation can be understood as the outcome of interactions among sustainability commitments, knowledge-based resources, and innovation capabilities.

Conceptual Framework

This study is based on the premise that sustainability reporting and intellectual capital are two important drivers of corporate value creation, although neither necessarily directly generates economic value. Sustainability reporting reflects a firm's commitment to sustainable business practices, whereas intellectual capital represents the knowledge-based resources embedded within the organization. The economic benefits derived from these factors depend largely on how effectively firms utilize and integrate them.

Within the proposed framework, innovation performance serves as the mechanism through which sustainability commitments and intellectual capital are transformed into value-creating activities. Firms that successfully leverage sustainability-related information and knowledge-based resources to generate innovation are more likely to improve competitiveness, enhance efficiency, and exploit new business opportunities. Consequently, value creation is viewed as the outcome of a firm's ability to transform sustainability reporting and intellectual capital into innovations that generate sustainable economic benefits. The literature suggests that sustainability reporting and intellectual capital contribute to value creation; however, the mechanisms by which these factors generate economic value remain insufficiently explained. To address this issue, this study develops a conceptual framework that incorporates innovation performance as an intervening mechanism linking sustainability reporting and intellectual capital to value creation. The proposed framework is presented in Figure 1.

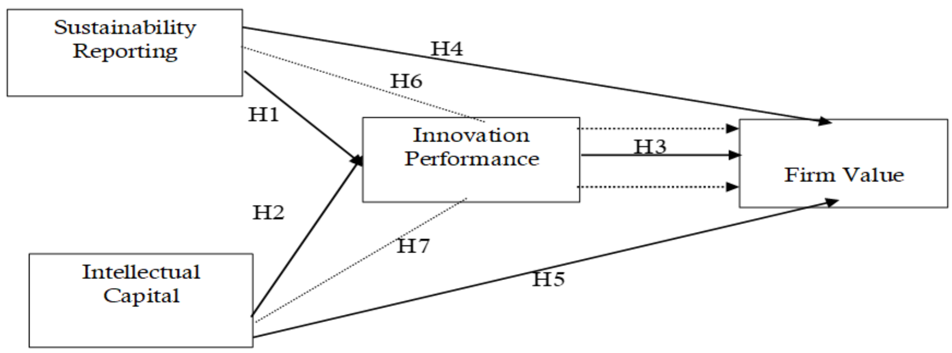

Figure 1. Theoretical model

Figure 1 presents the conceptual model developed in this study. The model is constructed by integrating Stakeholder Theory, Legitimacy Theory, the Resource-Based View, and Dynamic Capabilities Theory to explain the process of value creation. Within this framework, sustainability reporting and intellectual capital are positioned as key drivers of value creation. At the same time, innovation performance is viewed as the mechanism through which these factors can be transformed into sustainable economic benefits.

Sustainability reporting enables firms to identify, manage, and communicate the economic, social, and environmental impacts of their business activities to stakeholders. Beyond improving transparency, sustainability reporting encourages firms to evaluate sustainability-related risks and opportunities, thereby supporting organizational learning and strategic decision-making. From the perspective of Stakeholder Theory (Freeman, 1984), sustainability reporting represents a strategic communication mechanism through which firms respond to stakeholder expectations and strengthen stakeholder support. Similarly, Legitimacy Theory (Suchman, 1995) suggests that organizations disclose sustainability-related information to maintain social acceptance and demonstrate conformity with societal values and expectations. These theoretical perspectives imply that sustainability reporting can encourage firms to develop more sustainable products, processes, and technologies as part of their efforts to maintain stakeholder confidence and organizational legitimacy.

Empirical evidence generally supports this argument. Recent studies suggest that firms with stronger sustainability practices are more likely to improve innovation performance because sustainability initiatives stimulate organizational learning, resource efficiency, and the development of environmentally friendly technologies (Lewandowska et al., 2022; Sapsanguanboon et al., 2025). However, empirical evidence also suggests that sustainability disclosure does not automatically stimulate innovation. The effectiveness of sustainability reporting depends on whether sustainability commitments are genuinely integrated into firms' strategic and operational activities rather than being treated primarily as a compliance exercise or symbolic disclosure. Under such circumstances, sustainability reporting may enhance transparency and legitimacy without generating meaningful improvements in innovation performance (Jung & Yoo, 2023; Gerged et al., 2023; Elmanaseer & Gerged, 2025).

P1: Sustainability Reporting positively influences Innovation Performance.

In addition to sustainability reporting, intellectual capital represents a key strategic resource that supports firms' innovation capabilities. According to the Resource-Based View (Barney, 1991), sustainable competitive advantage originates from resources that are valuable, rare, inimitable, and non-substitutable. Within a knowledge-based economy, intellectual capital comprising human capital, structural capital, and relational capital provides firms with the knowledge, organizational routines, and collaborative networks necessary to generate innovation. However, the Resource-Based View primarily explains the strategic value of resources and offers limited insight into how they are transformed into innovation. Dynamic Capabilities Theory complements this perspective by suggesting that competitive advantage depends not only on the possession of strategic resources but also on a firm's capability to integrate, reconfigure, and deploy those resources in response to changing business environments (Teece et al., 1997).

Empirical evidence generally supports this argument. Previous studies have reported that firms with stronger intellectual capital tend to achieve higher innovation performance because knowledge-based resources facilitate organizational learning, knowledge sharing, and technological development (Sardo & Serrasqueiro, 2017; Aybars & Öner, 2022; Destyasa & Bustaman, 2024). Nevertheless, other studies suggest that intellectual capital alone does not necessarily lead to superior innovation outcomes when organizational knowledge is poorly managed, insufficiently shared, or unsupported by innovation-oriented capabilities. These mixed findings indicate that the effectiveness of intellectual capital depends not merely on the availability of knowledge resources but on firms' capability to mobilize and transform those resources into innovation. Accordingly, the inconsistent empirical evidence reflects differences in organizational

capabilities rather than inconsistency in the underlying theoretical arguments. Therefore, firms with stronger intellectual capital are expected to exhibit superior innovation performance.
P2: Intellectual Capital positively influences Innovation Performance.

Sustainability reporting may contribute directly to value creation by improving the quality of information available to investors and other stakeholders. From the perspective of Stakeholder Theory, transparent sustainability disclosure strengthens stakeholder confidence by demonstrating corporate accountability and responsiveness to sustainability-related expectations (Freeman, 1984). In contrast, Legitimacy Theory argues that sustainability reporting enables firms to maintain social acceptance by aligning organizational practices with prevailing societal values and expectations (Suchman, 1995). While these theories explain sustainability reporting from different perspectives, they converge in suggesting that transparent and credible disclosure enhances stakeholder relationships, reinforces organizational legitimacy, and creates conditions that support long-term value creation. Recent conceptual literature further argues that corporate reporting creates value not merely through the disclosure of sustainability information but through its integration into organizational strategy and decision-making processes (Dameri & Ferrando, 2022; Songini et al., 2023).

This perspective is supported by recent empirical evidence indicating that high-quality sustainability disclosure reduces information asymmetry, strengthens transparency, enhances stakeholder engagement, and improves investor confidence, thereby contributing positively to firm value (Darminto et al., 2024; Gutiérrez-Ponce & Wibowo, 2024; Albitar et al., 2024; Gerged et al., 2023; Elmanaseer & Gerged, 2025; Alatawi et al., 2025). Nevertheless, the relationship between sustainability reporting and value creation is unlikely to be uniform across firms. The effectiveness of sustainability disclosure depends on factors such as disclosure quality, the credibility of sustainability information, corporate governance mechanisms, and the extent to which sustainability initiatives are embedded within firms' strategic and operational activities rather than being undertaken solely for regulatory compliance. These conditions suggest that sustainability reporting creates value only when sustainability commitments are translated into credible organizational actions. Accordingly, differences in empirical findings are better interpreted as reflecting variations in implementation quality and organizational context rather than inconsistency in the underlying theoretical arguments. Therefore, firms that provide transparent, credible, and strategically embedded sustainability reporting are expected to achieve stronger value creation.
P3: Sustainability Reporting positively influences Value Creation.

Intellectual capital is widely recognized as a strategic intangible resource that contributes to value creation by enhancing productivity, organizational efficiency, and organizational adaptability. According to the Resource-Based View (Barney, 1991), sustainable competitive advantage originates from resources that are valuable, rare, inimitable, and non-substitutable. Intellectual capital, comprising human capital, structural capital, and relational capital, represents such a strategic resource because it enables firms to generate knowledge, develop organizational capabilities, and sustain long-term competitiveness. However, while the Resource-Based View explains why intellectual capital represents a source of competitive advantage, it provides only a limited explanation of how knowledge-based resources are transformed into organizational value. Dynamic Capabilities Theory extends this perspective by arguing that value creation depends on firms' capability to integrate, develop, and continuously reconfigure knowledge resources in response to changing business environments (Teece et al., 1997; Teece, 2007). Recent conceptual literature likewise emphasizes that sustainable value creation increasingly depends on firms' ability to combine strategic resources with organizational capabilities that foster continuous innovation, adaptation, and organizational renewal (Dameri & Ferrando, 2022; Songini et al., 2023). Together, these perspectives suggest that intellectual capital contributes to value creation not simply because firms possess valuable knowledge resources, but because they possess the organizational capability to transform those resources into strategic actions that generate sustainable competitive advantage.

Recent empirical evidence supports this perspective by demonstrating that intellectual capital enhances firm value through improvements in organizational learning, operational efficiency, and long-term competitiveness (Sardo & Serrasqueiro, 2017; Aybars & Öner, 2022; Destyasa & Bustaman, 2024). However, the value generated by intellectual capital is not always realized consistently across firms. Firms with substantial intellectual capital may fail to create value when knowledge resources are poorly managed, weakly integrated into organizational processes, or insufficiently translated into innovation and strategic capabilities. These conditions indicate that intellectual capital creates value only when firms effectively develop, integrate, and deploy knowledge-based resources within their strategic decision-making processes. Consequently, variations in empirical findings are more appropriately interpreted as reflecting differences in firms' knowledge management capability rather than inconsistency in the theoretical relationship between intellectual capital and value creation. Therefore, firms that effectively leverage intellectual capital are expected to achieve stronger value creation.
P4: Intellectual Capital positively influences Value Creation.

Innovation performance represents a firm's capability to transform strategic resources into products, processes, services, and technologies that create economic value. From the perspective of the Resource-Based View (Barney, 1991), innovation reflects the outcome of firms' ability to leverage valuable knowledge-based resources to achieve sustainable competitive advantage. However, the Resource-Based View primarily emphasizes the strategic importance of organizational resources. It offers a limited explanation of the processes by which those resources are continually renewed and transformed into value. Dynamic Capabilities Theory extends this perspective by explaining that long-term value creation depends on a firm's capability to integrate, build, and reconfigure strategic resources in response to technological change, market dynamics, and evolving stakeholder expectations (Teece et al., 1997; Teece, 2007). Accordingly, innovation performance is viewed not merely as an organizational outcome, but as the capability through which sustainability-related commitments and knowledge-based resources are translated into sustainable organizational value.

Recent conceptual literature emphasizes that sustainable value creation depends not only on firms' possession of strategic resources but also on their capability to continuously transform those resources into innovative outcomes that sustain competitive advantage (Dameri & Ferrando, 2022; Songini et al., 2023). This perspective is consistent with Dynamic Capabilities Theory, which argues that firms create value by continuously integrating, developing, and reconfiguring strategic resources in response to changing business environments (Teece et al., 1997; Teece, 2007). Empirical evidence further supports this argument by showing that firms with stronger innovation performance are better positioned to improve operational efficiency, strengthen product differentiation, respond to changing market demands, and ultimately enhance organizational value (Lewandowska et al., 2022; Asni & Agustia, 2022; Sapsanguanboon et al., 2025). However, innovation does not automatically generate organizational value. The economic benefits of innovation depend on firms' ability to commercialize innovative outputs, align innovation strategies with market opportunities, and continuously adapt organizational capabilities to dynamic business environments. These conditions suggest that innovation creates value only when it is effectively integrated into firms' strategic decision-making and resource deployment. Accordingly, differences in empirical findings are more appropriately interpreted as reflecting variations in firms' innovation management capabilities and strategic execution rather than as inconsistencies in the underlying theoretical relationship between innovation performance and value creation. Therefore, firms that achieve superior innovation performance are expected to generate stronger long-term organizational value. Accordingly, the following proposition is proposed:
P5: Innovation Performance positively influences Value Creation.

The relationship between sustainability reporting and value creation is unlikely to be entirely direct. Beyond serving as a disclosure mechanism, sustainability reporting provides strategic information that supports organizational learning, strategic decision-making, and innovation (Dameri &

Ferrando, 2022; Songini et al., 2023). From the perspectives of Stakeholder Theory and Legitimacy Theory, sustainability reporting enables firms to respond to stakeholder expectations and strengthen organizational legitimacy (Freeman, 1984; Suchman, 1995). However, these sustainability-related commitments create value only when translated into organizational actions that enhance long-term competitiveness, with innovation performance representing the capability through which this transformation occurs.

Empirical evidence indicates that sustainability-oriented practices stimulate innovation, while innovation enhances competitiveness and value creation (Lewandowska et al., 2022; Asni & Agustia, 2022; Sapsanguanboon et al., 2025). Nevertheless, sustainability reporting is unlikely to generate innovation when treated merely as a compliance requirement rather than being integrated into strategic decision-making and organizational learning. Accordingly, innovation performance is expected to mediate the relationship between sustainability reporting and value creation.
P6: Innovation Performance mediates the relationship between Sustainability Reporting and Value Creation.

Similarly, the relationship between intellectual capital and value creation is unlikely to be entirely direct. Intellectual capital provides firms with knowledge-based resources that support organizational learning and strategic decision-making. Recent conceptual studies suggest that these resources create sustainable value only when transformed into organizational capabilities that foster innovation and continuous renewal (Dameri & Ferrando, 2022; Songini et al., 2023). Consistent with the Resource-Based View and Dynamic Capabilities Theory, intellectual capital contributes to value creation when firms effectively integrate, develop, and deploy knowledge resources to support innovation (Barney, 1991; Teece et al., 1997; Teece, 2007).

Empirical evidence indicates that intellectual capital strengthens innovation capability and competitive advantage (Sardo & Serrasqueiro, 2017; Aybars & Öner, 2022; Destyasa & Bustaman, 2024), while innovation enhances organizational competitiveness and firm value (Lewandowska et al., 2022; Asni & Agustia, 2022; Sapsanguanboon et al., 2025). However, knowledge resources generate sustainable value only when effectively integrated into innovation activities and strategic decision-making. Accordingly, innovation performance is expected to mediate the relationship between intellectual capital and value creation.
P7: Innovation Performance mediates the relationship between Intellectual Capital and Value Creation.

3. Research Design and Conceptual Framework Development

Research Approach

This study adopts a theoretical research approach to develop a conceptual explanation of how firms create value through the interaction of sustainability reporting, intellectual capital, and innovation performance. Rather than examining causal relationships using empirical observations, theoretical research seeks to advance understanding by integrating existing theories and empirical insights into a coherent explanatory framework (Jaakkola, 2020).

The proposed model is grounded in four complementary theoretical perspectives. Stakeholder Theory explains why firms engage in sustainability reporting to address stakeholder expectations and secure organizational support (Freeman, 1984). Legitimacy Theory highlights the role of sustainability disclosures in maintaining social acceptance and organizational legitimacy (Suchman, 1995). Resource-Based View (RBV) emphasizes intellectual capital as a strategic resource that can generate sustainable competitive advantage (Barney, 1991). Dynamic Capabilities Theory extends this perspective by explaining how firms transform resources into value-generating capabilities through innovation (Teece et al., 1997).

The integration of these theories provides a foundation for understanding value creation as a dynamic process rather than a direct outcome of sustainability disclosure or knowledge-based resources alone. Accordingly, innovation performance is positioned as the mechanism by which sustainability-related commitments and intellectual resources translate into sustainable economic value.

Literature Selection Strategy

The proposed conceptual framework was developed through a structured review of the literature on sustainability reporting, intellectual capital, innovation performance, and value creation. Peer-reviewed Scopus-indexed journal articles served as the primary source of evidence, complemented by seminal theoretical publications and internationally recognized sustainability reporting standards.

Relevant studies were identified using combinations of keywords related to sustainability reporting, ESG disclosure, integrated reporting, intellectual capital, innovation performance, value creation, and firm value. After applying predefined selection criteria, 163 peer-reviewed journal articles were identified.

The retrieved articles were subsequently screened for their relevance to the research objectives, resulting in 137 studies for thematic analysis. Using an inductive thematic coding approach, 13 core conceptual studies were identified as the primary basis for developing the proposed framework. In contrast, the remaining studies supported the broader theoretical discussion and identification of research gaps. The overall literature selection process is presented in Figure 2.

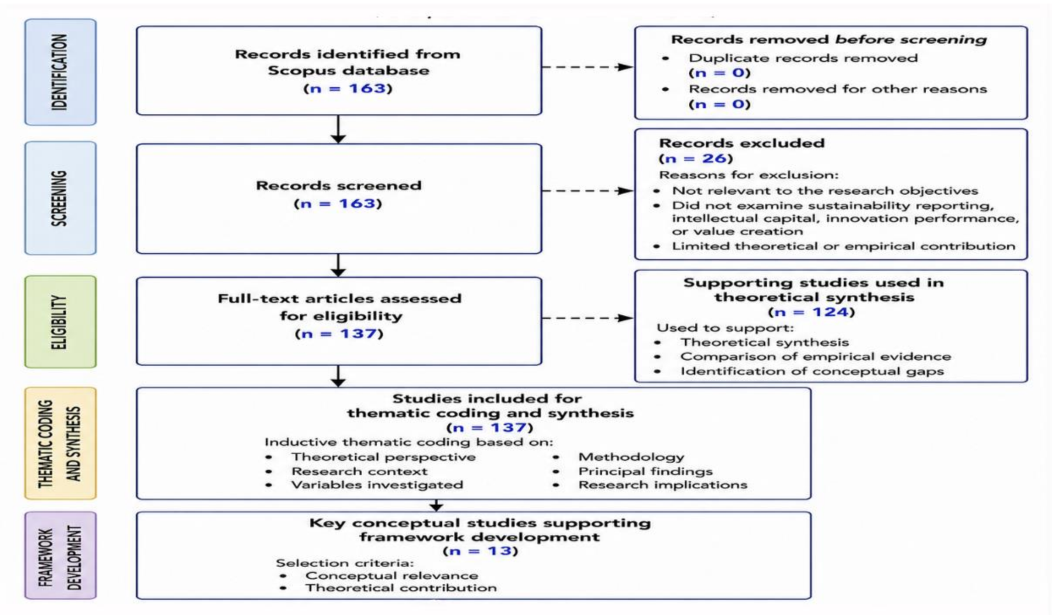

Figure 2. Structures Literature Search, Screening, Thematic Coding, and Copceptual Framework Development Process (*Adapted from PRISMA 2020*)

Conceptual Model Development

The proposed model is developed from the premise that value creation depends not only on sustainability-related disclosures or knowledge-based resources but also on firms' ability to transform these strategic resources into capabilities that enhance competitiveness, adaptability, and long-term performance.

Sustainability reporting and intellectual capital have increasingly been recognized as key drivers of organizational success. Sustainability reporting enhances transparency, accountability, and stakeholder engagement by communicating firms' economic, environmental, social, and governance performance (IFRS Foundation, 2023), whereas intellectual capital provides the knowledge-based resources required to develop sustainable competitive advantage (Edvinsson &

Malone, 1997; Pulic, 2000). Together, these strategic resources create favorable conditions for long-term value creation.

Despite the growing body of research, previous studies have predominantly examined sustainability reporting and intellectual capital as direct determinants of firm value or organizational performance (Sardo & Serrasqueiro, 2017; Darminto et al., 2024; Alatawi et al., 2025). Although both constructs contribute positively to organizational outcomes, existing studies offer limited explanations of the processes by which they generate economic value. Consequently, the value-creation mechanism linking these strategic resources remains insufficiently understood.

To address this limitation, this study proposes that innovation performance is the critical mechanism by which sustainability reporting and intellectual capital translate into value creation. Drawing upon Dynamic Capabilities Theory, firms create value by mobilizing sustainability-related commitments and knowledge-based resources to develop innovative products, processes, technologies, and organizational practices (Teece et al., 1997). From the perspectives of Stakeholder Theory, Legitimacy Theory, and the Resource-Based View, sustainability reporting encourages organizational learning and responsiveness to stakeholder expectations, while intellectual capital provides the knowledge and capabilities necessary to support innovation and strategic renewal (Freeman, 1984; Suchman, 1995; Barney, 1991).

Accordingly, the proposed framework positions innovation performance as the central mechanism linking sustainability reporting and intellectual capital to value creation. By integrating Stakeholder Theory, Legitimacy Theory, the Resource-Based View, and Dynamic Capabilities Theory, the model extends previous literature by explaining how sustainability-related commitments and knowledge-based resources jointly create sustainable firm value through innovation performance. The resulting conceptual model is presented in Figure 1.

Key Constructs of the Proposed Model

The proposed model comprises four key constructs: sustainability reporting, intellectual capital, innovation performance, and value creation. Sustainability reporting represents a strategic communication mechanism that enhances transparency, stakeholder engagement, and organizational legitimacy by disclosing firms' economic, environmental, and social performance (IFRS Foundation, 2023). Intellectual capital refers to the knowledge-based resources embedded in employees, organizational systems, and stakeholder relationships that support sustainable competitive advantage (Edvinsson & Malone, 1997; Pulic, 2000). Innovation performance reflects a firm's capability to transform these strategic resources into new products, processes, technologies, and organizational practices that improve competitiveness (Teece et al., 1997). Finally, value creation represents the long-term economic benefits generated through the effective integration of sustainability-related commitments, intellectual capital, and innovation capabilities. Together, these constructs provide the foundation of the proposed value-creation framework.

Proposed Relationships

The proposed framework explains value creation as a dynamic process in which sustainability reporting and intellectual capital function as complementary strategic resources. At the same time, innovation performance acts as the central mechanism linking these resources to long-term organizational value. Sustainability reporting enhances transparency, stakeholder confidence, and organizational learning, whereas intellectual capital provides the knowledge and organizational capabilities necessary to support innovation. Drawing upon Stakeholder Theory, Legitimacy Theory, the Resource-Based View, and Dynamic Capabilities Theory, the framework suggests that firms create sustainable value by transforming sustainability-related commitments and knowledge-based resources into innovation that strengthens competitiveness and firm value. Accordingly, innovation performance is expected to mediate the relationships between sustainability reporting, intellectual capital, and value creation.

4. Theoretical Contributions and Implications

Theoretical Contributions

Before discussing the theoretical contributions of the proposed framework, it is important to situate the model within the existing literature. Table 1 summarizes representative prior studies, identifies the major research gaps, and highlights the theoretical contributions and specific novelty of the proposed conceptual framework.

Table 1. Comparative Analysis of Previous Studies, Research Gaps, Theoretical Contributions, and the Novelty of the Proposed Conceptual Framework

Previous Study	Key Findings	Research Gap	Proposed Contribution
Mohammad & Wasiuzzaman (2021)	ESG disclosure improves firm performance.	Intellectual capital and innovation are not considered.	Integrates sustainability reporting and intellectual capital through innovation performance.
Xie et al. (2022)	Green innovation enhances organizational performance.	Sustainability reporting and intellectual capital are excluded.	Integrates strategic resources into a unified framework.
Gerged et al. (2023)	Sustainability reporting strengthens firm value.	Internal value creation mechanisms remain unexplained.	Positions innovation performance as the connecting mechanism.
Jung & Yoo (2023).	ESG activities improve firm performance.	Internal organizational capabilities receive limited attention.	Explains the complementary role of intellectual capital and innovation.
Macchioni et al. (2024)	Environmental innovation creates firm value.	Sustainability reporting is not incorporated.	Integrates sustainability reporting with innovation and intellectual capital.
Nampoothiri et al. (2024)	Disclosure compliance alone does not improve firm value.	Organizational capabilities are overlooked.	Explains value creation through innovation supported by intellectual capital.
Elmanaseer & Gerged (2025).	Sustainability disclosure enhances firm value.	Internal organizational capabilities remain underexplored.	Integrates intellectual capital and innovation performance into value creation.
Alatawi et al. (2025)	Sustainability disclosure supports long-term firm value.	Intellectual capital and innovation are omitted.	Develops an integrated value creation framework.
Songini et al. (2023)	Innovation capabilities support sustainable value creation.	An integrated conceptual framework is lacking.	Proposes a unified framework linking sustainability reporting, intellectual capital, innovation performance, and firm value.

As summarized in Table 1, previous studies generally indicate that sustainability reporting enhances firm value by improving transparency, reducing information asymmetry, strengthening corporate legitimacy, and increasing stakeholder confidence. Although studies by Mohammad and Wasiuzzaman (2021), Gerged et al. (2023), and Aydoğmuş et al. (2022) report positive effects of sustainability reporting and ESG-related practices on firm value, Nampoothiri et al. (2024) and Elmanaseer and Gerged (2025) demonstrate that these relationships depend on institutional settings, governance quality, and disclosure practices. These findings suggest that sustainability reporting alone is insufficient to explain value creation. Accordingly, the proposed framework reconceptualizes sustainability reporting as a strategic capability that enhances firm value through innovation performance rather than merely as a disclosure mechanism.

Similarly, prior research consistently recognizes intellectual capital as a strategic resource that strengthens competitive advantage and firm value. As shown in Table 1, recent studies, including Jung and Yoo (2023), Macchioni et al. (2024), and Xie et al. (2022), increasingly emphasize the role of innovation in transforming knowledge-based resources into superior organizational outcomes. Nevertheless, sustainability reporting, intellectual capital, and innovation have largely been examined independently, providing only a partial explanation of how these strategic resources jointly contribute to firm value. Building on the Resource-Based View and Dynamic Capabilities Theory, the proposed framework positions innovation performance as the mechanism through which sustainability reporting and intellectual capital are transformed into sustainable firm value.

Overall, the literature remains fragmented because sustainability reporting and intellectual capital are predominantly treated as independent determinants of firm value, while innovation is rarely conceptualized as the connecting mechanism. Unlike previous conceptual models, the proposed framework integrates Stakeholder Theory, Legitimacy Theory, the Resource-Based View, and Dynamic Capabilities Theory to explain value creation as a process in which sustainability reporting and intellectual capital interact through innovation performance. This integrated perspective extends the value creation literature by explaining how sustainability reporting and intellectual capital jointly enhance firm value through innovation performance. It also provides theoretical implications for corporate finance, sustainability reporting, and innovation management while establishing a stronger foundation for future empirical validation across different industrial and institutional contexts.

Managerial Implications

From a managerial perspective, the proposed framework suggests that sustainability reporting should be viewed not merely as a compliance or disclosure mechanism, but as a strategic capability that supports organizational innovation and long-term value creation. Likewise, investments in intellectual capital are unlikely to enhance firm value unless they are effectively translated into innovation performance. Accordingly, corporate decision-makers should align sustainability initiatives, knowledge-based resources, and innovation strategies to strengthen competitive advantage and create sustainable firm value.

5. Future Research Directions

Future empirical research may validate the proposed framework across different industrial contexts, particularly manufacturing, mining, energy, and technology-intensive industries, where sustainability practices, innovation, and knowledge-based resources play strategic roles in shaping firm value. To enhance comparability across studies, sustainability reporting may be operationalized using internationally recognized frameworks such as the GRI Standards, IFRS S1 and S2, or an ESG disclosure index. At the same time, intellectual capital may be measured using the Value Added Intellectual Coefficient (VAIC™) or Modified VAIC (MVAIC). Innovation performance may be operationalized through indicators such as R&D intensity, green innovation, patent output, or new product development. In contrast, firm value may be measured using market-based proxies, including Tobin's Q, Price-to-Book Value (PBV), or market capitalization. The proposed relationships may be examined using Structural Equation Modeling (SEM) to assess the mediating role of innovation performance, panel data regression to investigate firm-level relationships over time, or longitudinal analysis to capture the dynamic process of value creation. Future studies may also incorporate governance quality, institutional pressures, digital transformation, or organizational capabilities as contextual factors that influence the proposed relationships. Empirical validation of the proposed framework would strengthen theoretical understanding of value creation and provide practical evidence for sustainability accounting and financial management.

5. Conclusions

This study proposes an integrated conceptual framework that explains value creation through the interaction among sustainability reporting, intellectual capital, and innovation performance. By integrating Stakeholder Theory, Legitimacy Theory, the Resource-Based View, and Dynamic Capabilities Theory, the framework demonstrates that sustainability reporting and intellectual capital create sustainable value not merely through direct effects but through firms' capability to transform these strategic resources into innovation. Consequently, innovation performance is positioned as the central mechanism linking sustainability-related commitments and knowledge-based resources with long-term firm value. The framework contributes to the growing literature on sustainability reporting, intellectual capital, and value creation while providing a foundation for future empirical research and managerial practice.

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