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Moderating effects of SRI-KEHATI on the ESG-corporate value nexus

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Abstract

Environmental, social, and governance (ESG) activities have become crucial and practical for corporations due to growing concerns over these issues. This research aims to measure the impact of ESG and Dividend Yield (DY) on corporate value (CV), using Tobin's Q ratio as a proxy for CV. We analyzed a sample of 25 companies listed in the SRI KEHATI Index from 2010 to 2019, using panel data methods to assess the relationships between ESG, DY, and CV. Additionally, we examined the SRI KEHATI Index's moderating role in this context. The study found a significant negative relationship between ESG and CV, while DY positively and significantly influenced CV. When the SRI KEHATI Index is used as a moderator, it significantly enhances the positive impact on ESG and CV. This research enhances understanding of the ESG-DY-CV relationship, aiding corporations in strategy formulation and helping stakeholders with investment decisions. Its originality lies in studying the SRI KEHATI Index's moderating effects, providing a foundation for future research.

Keywords ESG, Diveden Yield, Corporate Value, SRI-KEHATI

INTRODUCTION

Advancements in industry coincide with increased pollution resulting from production processes, such as waste that can cause air and water pollution at dangerous levels. According to data from the Director of The Earth Institute of Columbia University (Agustia et al., 2019) global climate change is influenced by a lack of environmental awareness due to industrial activities. Most countries have adopted low-carbon economic transformation as a recovery and development policy oriented towards a green economy and sustainability action (Bi, 2023). However, in developing countries, ESG (Environmental, Social, and Governance) disclosure remains voluntary and is thus still a subject of debate. As a new approach in business evaluation, ESG factors are integrated into decision-making and investment systems. Implicitly, ESG plays a crucial role in business success in a globalized world, and the implementation of a strong ESG system will promote long-term sustainability and new growth pathways for companies (Deng et al., 2023; Kluza et al., 2021).

In developing countries like Indonesia, ESG practices are not specifically regulated under detailed regulations or are still ambiguous, but their principles have been adopted and disseminated across various regulations (Fachri, 2024). Therefore, many companies remain irresponsible, neglecting the environment and surrounding communities. Investors, as capital owners, naturally want to invest their capital in credible companies with long-term valuations. Several studies reveal that integrating ESG into business can influence the company's operations, ultimately affecting the company's performance in achieving its set goals, namely increasing Corporate Value (CV) (Aboud & Diab, 2018; Sari et al., 2020; Stiadi, 2023; Zaneta et al., 2023).

Currently, CV is not only determined by the company's financial performance but also holds importance for a broader range of

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stakeholders. Therefore, companies must care about the environment and the communities around their location. One of the major environmental challenges today is climate change, primarily driven by global warming. Global warming refers to the rise in temperatures across the atmosphere, oceans, and land. This warming is largely due to the greenhouse effect, which happens when solar heat is trapped in the atmosphere, leading to an increase in the Earth's temperature. The buildup of greenhouse gases in the atmosphere causes this trapping of heat. Continuous global warming can result in climate change worldwide, characterized by rising sea levels from melting polar ice, extreme weather patterns, and extended droughts. According to Stiadi (2023), global warming is intrinsically linked to greenhouse gas emissions. These emissions stem from energy consumption, agriculture, forestry, land use, industrial activities, and waste. The primary greenhouse gases include carbon dioxide (CO2), nitrogen dioxide (NO2), methane (CH4), and freon (CFC).

According to data from the International Energy Agency (IEA), global carbon emissions declined in 2020 due to widespread restrictions on community activities in response to the Covid-19 pandemic. However, in 2021, emissions surged dramatically to a record high of 36.3 gigatons of CO2, marking a 6% increase from the previous year as the global economy grew by 5.9%. The IEA reported that the majority of global carbon emissions originated from the combustion of coal and natural gas. Despite this, emissions from vehicles fell, dropping to 8% below pre-pandemic levels. The IEA also observed that carbon emissions rose in almost all countries, with the most significant increases in Brazil, India, China, the United States, and European Union countries. In light of these findings, the IEA underscored the need for increased investment in new and renewable energy technologies (NRE) and global cooperation to reduce CO2 emissions by 2023 and achieve zero emissions by 2050.

In Figure 1, the increase in pollution shows a significant spike, which is inseparable from the production activities conducted by companies that gradually impact air quality. Therefore, companies are expected to contribute to environmental sustainability and the welfare of surrounding communities. Currently, a company's success is often

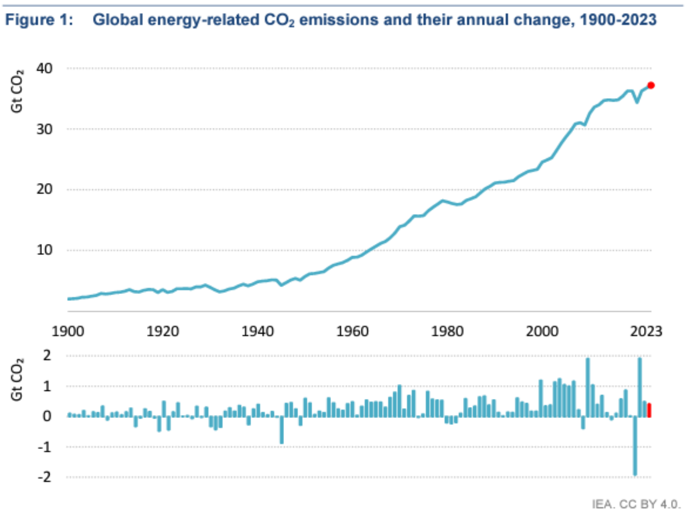

Figure 1.
Graph of global carbon emissions increase 1990-2023

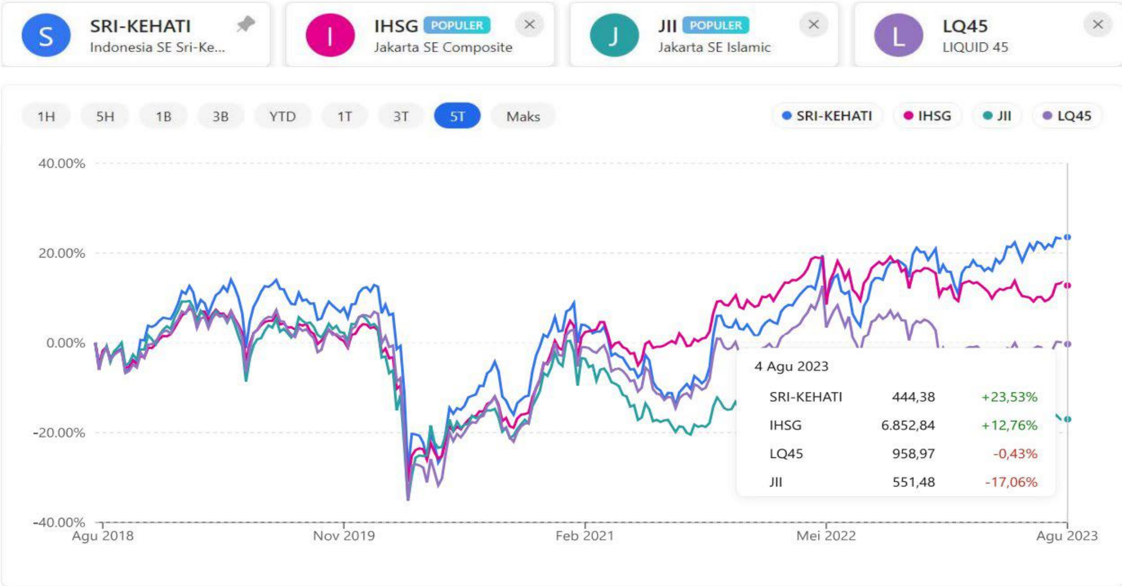

Figure 2.
Comparison graph of SRI-KEHATI index, IHSG, JII, and LQ45

measured through three main aspects (3P): People, Planet, and Profit (Deng et al., 2023). With increased investor interest in investing, companies are expected to commit to environmentally friendly practices (Stiadi, 2023). In recent years, there has been a new trend where investors must consider environmental, social, and corporate governance (ESG) factors in evaluating company performance.

The long-term goal for businesses is to maintain the sustainability of the company; this can be achieved by addressing ESG issues. Companies that implement these sustainability principles will attract investor interest (Agustia et al., 2019; Deng et al., 2023). Investors are now aware that neglecting ESG risks can affect a company's overall performance. ESG has become crucial in addressing stakeholder needs, compelling companies to offer transparent reporting on environmental, social, and governance (ESG) issues within their sustainability reports (Velte, 2020).

Empirical evidence shows that companies with high ESG performance tend to have higher returns on investment (Derwall et al., 2005; Statman & Glushkov, 2009) and better profitability ratios (Hassel & Semenova, 2013). The market will evaluate and anticipate greater investments in companies with good governance, thereby increasing their stock prices (Jackling & Johl, 2009). Communication between the company and stakeholders is often reflected through ESG information. By disclosing information about their business activities, companies strive to build positive expectations and views from stakeholders (Safriani & Utomo, 2020). ESG disclosure also aims to gain strong legitimacy from society and stakeholders. With this strong legitimacy, it is expected that the company's image will improve due to its awareness and concern for the environment and surrounding communities. Velte (2020) research shows that a positive ESG disclosure score correlates with greater returns on assets, and the same applies to positive ESG performance related to company value (Buallay, 2019). Stakeholder theory and legitimacy theory encourage companies not only to focus on profitability but also to provide benefits to stakeholders and adhere to social norms and values recognized in the communities where they operate.

Besides ESG, Dividend Yield (DY) is considered one of the indicators to see Corporate Value (CV). DY includes decisions about the annual profit distribution to company shareholders in the form of dividends, as well as using those profits for rights issue to increase capital. The "Bird in the Hand" theory proposed by Gordon (1963) states that receiving dividends on shares is more advantageous than obtaining capital gains due to lower risk. As a result, companies can maximize stock prices by offering high dividends and maintaining a large dividend payout ratio.

In this study, the quality of ESG and DY on CV will be moderated by companies that meet the criteria of the Sustainability, Responsibility, Investment (SRI)-KEHATI Index. According to kehati.or.id webiste, the SRI-KEHARI index is an indicator or reflection of stock price movements that guide investors to select stocks from issuers with very good sustainable performance, applying good corporate governance, and having awareness of environmental sustainability (Planet), empowering surrounding communities (People), and still practicing business ethics (Profit). The stocks in this index consist of 25 listed company stocks selected based on various stringent criteria.

Based on Graph 2, it is evident that the SRI-KEHATI index demonstrates statistically significant development compared to other indices over the period from 2018 to 2023. The SRI-KEHATI index exhibits a significantly higher growth rate compared to other popular indices such as LQ45, JII, and IHSG over the last five years, namely 23.53% compared to -0.43%, -17.06%, and 12.76% respectively. Companies included in the SRI-KEHATI Index are rigorously selected based on ESG scores and evaluated every six months, leading to the inclusion or exclusion of companies if their ESG scores fail to meet the standards. Companies included in the SRI-KEHATI Index from 2010 to 2019 are selected as the research sample. This is because the researchers aim to identify issuers consistently included in the SRI-KEHATI index before the COVID-19 pandemic.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The influence of ESG on corporate value

According to stakeholder theory, a company's engagement with stakeholders encourages investment commitment in the company (Shah & Guild, 2022). Simply put, a company's value can only be realized by meeting the needs of its stakeholders. The ESG concept provides a comprehensive framework for companies to achieve this goal. Proactive implementation of ESG management by companies has several benefits, such as strengthening relationships with stakeholders, including employees, clients, and the community. Additionally, it helps enhance internal efficiency and development of the company and shapes a positive corporate image in the public eye (A. Almaqtari et al., 2022). Ultimately, this facilitates companies in attracting investors and driving more efficient business growth.

Signaling theory suggests that companies need to have strong positive signals to communicate their success (Spence, 1974). Good ESG performance can provide positive signals to the market, earn trust and recognition from stakeholders, and build good working relationships. Additionally, with excellent ESG performance, companies can leverage ESG investments as a tool to demonstrate their operational quality and differentiate themselves from competitors. This can help attract high-quality customers and reduce contract costs. Companies listed in the SRI KEHATI index almost always report their ESG performance to shareholders, with the expectation that investors can confidently invest their funds in the companies they are interested in (Suhartoko & Perwiro, 2023)

ESG Performance is beneficial in signaling to investors that the company has made its best efforts, which will ultimately increase investor interest in the company. This is reflected in the increase in the company's value and stock price (Sopian et al., 2018). This finding is supported by previous research conducted by (Jallo & Mus, 2024; Laili et al., 2019; Stiadi, 2023), which indicates that ESG activities can enhance Corporate Value. Based on the above description, the hypothesis in this research is:

H1: ESG has a positive and significant influence on Corporate Value

H2: Companies listed in the SRI KEHATI index positively moderate the relationship *between ESG performance and Corporate Value.*

The influence of dividend yield (DY) on corporate value

According to Suganda and Sabbat (2014), dividend distribution based on signaling theory indicates the future profitability prospects of a company. Dividend Yield (DY) is a ratio that shows the percentage of profits received by shareholders from the company. This ratio indicates that the company is capable of distributing profits, which in turn can increase investor interest in the capital market. The higher the stock price, the greater the desire of investors to own or buy the shares, thereby increasing Corporate Value (Gumanti et al., 2020).

However, investors must exercise caution when selecting stock instruments for investment, as not all companies distribute dividends to their shareholders (Chakkravarthy et al., 2023). This depends on their operational profit within a year. Companies listed in the SRI KEHATI index provide investment guidelines, as companies included in this index must have a market capitalization above 1 trillion, assets above 1 trillion, a Free Float Ratio above 10% based on active shares in the exchange with public ownership, and a positive Price-Earnings Ratio (PER) in the last six months (Dewi & Oriana, 2014).

Previous research has found that DY has a significant positive influence on CV (Crane et al., 2016; Laili et al., 2019; Mahirun et al., 2023). However, Husna and Satria (2019) revealed that DY has a significant negative influence on CV. Based on the above findings, the hypothesis in this study is:

H3: Dividend Yield has a positive and significant influence on Corporate Value

H4: Companies listed in the SRI KEHATI index positively moderate the relationship between Dividend Yield and Corporate Value

The influence of SRI-KEHATI indexed companies in moderating the relationship between ESG and dividend yield on corporate value

ESG serves as a metric for communicating to stakeholders the operational impact of a business on the environment, society, and corporate governance. Companies aim to obtain capital efficiently to enhance their profitability. To meet these various demands, issuers must adopt appropriate and beneficial strategies for investors. Dividend Yield (DY) is also often considered by investors before deciding to invest (Mahirun et al., 2023). DY is often seen as a sign that the company has stable profits and a strong cash flow. Companies that consistently pay dividends can attract more investors because they are seen as safer and more profitable investments.

The SRI-KEHATI Index can emerge as an alternative to various investment instruments on the Indonesia Stock Exchange (IDX). Companies indexed by SRI-KEHATI are selected through several stages, namely not engaged in pesticide, nuclear, weapons, tobacco, alcohol, pornography, gambling, and Genetically Modified Organisms (GMO) businesses. These companies are also selected based on financial aspects, including having a market capitalization above Rp 1 trillion based on the latest audited financial statements, assets above Rp 1 trillion, a free float ratio above 10% based on active shares owned by the public, and a positive Price-to-Earnings Ratio (PER) in the last six months. Based on the above findings, the hypothesis in this study is:

H5: The SRI-KEHATI Index positively moderates the relationship between ESG and Dividend Yield on Corporate Value

METHODS

The data in this research are from companies indexed by SRI-KEHATI 2010 to 2019. The year 2010 was chosen because we aimed to observe which companies remained consistent in upholding ESG since the beginning of 2009. Additionally, we concluded our data set in 2019

Table 1.
Descriptive statistic

Variables	Mean	Median	Maximum	Minimum	Std. Dev.
CV	2.217	1.790	8.120	0.000	1.485
ESG	6.937	7.185	9.470	2.650	1.466
DY	2.773	2.260	20.380	0.000	2.199
SRI	0.816	1.000	1.000	0.000	0.388
DAR	0.228	0.200	1.520	0.000	0.191
ROA	8.275	5.080	47.830	-39.060	9.854
Total Observations					250

to maintain the integrity of our findings, avoiding potential distortions caused by the COVID-19 pandemic following (Agarwal et al., 2023).

The source of ESG scores and financial data from Refinitiv. The ESG score, ranging from 0 to 100, assesses a company's environmental, social, and governance (ESG) performance based on disclosed data. Higher scores indicate better ESG practices across the three pillars: environmental, social, and governance (Agarwal et al., 2023; Duan et al., 2023). Meanwhile, companies indexed by SRI-KEHATI were exclusively analyzed from the Announcement of Listed Stocks Included in the SRI-KEHATI Index Calculation published on the IDX website. Out of the 25 listed companies from 2010, we progressively analyzed which issuers consistently persisted until 2019. Major cap companies such as PT Antam, PT Astra International, Bank Central Asia, Bank Rakyat Indonesia, etc., are examples of firms consistently included in the SRI KEHATI index.

This research employed a panel regression framework, particularly utilizing the random effect model. The results of the Hausman test showing significance higher than 0.05, affirm the appropriateness of selecting the random effect model over the fixed effect model. Additionally, we conducted additional classical assumption tests, including normality tests, Breusch-Pagan tests for heteroskedasticity, and coefficient correlation analysis, to reduce estimation bias.

To assess the correlation between ESG and Dividend Yield with Corporate Value, this study computed the following multivariate regression model:

$$C.Value_{i,t} = \alpha_{i,t} + \beta_1 ESG_{i,t} + \beta_2 DY_{i,t} + \sum_{i=0}^{n} \beta_k Z_{k,i,t} + e_{i,t} \quad (1)$$

Corporate Value is measured using the Tobin’s Q model ratio by considering the sum of market equity value and total liabilities divided by total assets. The subscript "i" is used to represent each company, and "t" indicates different time points within the studied year.

Furthermore, we estimated the following equation to address our second hypothesis:

$$C.Value_{i,t} = \alpha_{i,t} + \beta_1 SRI + \sum_{i=0}^{n} \beta_k Z_{k,i,t} + e_{i,t} \quad (2)$$

We substituted the focus variable from ESG to SRI KEHATI. SRI KEHATI is a dummy variable that takes a value of 1 if the company is included in the SRI KEHATI Index membership in the second evaluation period, and 0 otherwise. If SRI KEHATI has a positive and significant coefficient, it indicates that companies included in the SRI KEHATI Index exhibit better performance compared to those that are not included.

For the third hypothesis, we estimated it with the following equation:

$$C.Value_{i,t} = \alpha_{i,t} + \beta_1 ESG_{i,t} + \beta_2 DY_{i,t} + \beta_3 SRI_{i,t} + \beta_4 ESG * SRI_{i,t} + \beta_5 DY * SRI_{i,t} + \sum_{i=0}^{n} \beta_k Z_{k,i,t} + e_{i,t} \quad (3)$$

Table 2.
Correlation matrix

Variable	CV		ESG		DY		SRI		DAR		ROA
CV	1.000										
ESG	-0.097		1.000								
DY	0.463	***	-0.232	***	1.000						
SRI	0.287	***	-0.196	***	0.238	***	1.000				
DAR	-0.330	***	-0.088		-0.163	***	-0.205	***	1.000		
ROA	0.249	***	0.139	***	0.259	***	0.184	***	-0.113	**	1.000

Notes: This table displays the simple correlations of variables selected from SRI-KEHATI Index from 2010 to 2019. ***, **, and * indicate significance levels at the 1%, 5%, and 10%, respectively.

This equation aims to assess the moderating effect of the SRI KEHATI Index on the relationship between ESG and Dividend Yield with Corporate Value.

RESULTS AND DISCUSSION

The descriptive statistics of various variables applied in this research are respectively depicted in Table 1. The average ESG value is 6.937 with a standard deviation of 1.466, indicating a high level of corporate consciousness indexed by SRI KEHATI regarding environmental, social, and governance aspects within the pharmaceutical industry. The average DY is 2.773 with a standard deviation of 2.199, providing insight that companies indexed by SRI KEHATI offer significant dividends to investors. SRI, with mean and SD values of 0.816 and 0.388 respectively, demonstrates a high average value level between the SRI KEHATI index and others.

Table 2 displays the correlation matrix for all variables used in this study. No variables were found to have a high correlation with corporate value (CV). According to Lee (2006), the correlation coefficients between corporate value and other variables are below 0.6, indicating no significant multicollinearity issues. Therefore, all variables are suitable for estimating the equations.

Additionally, the negative correlation between ESG and CV suggests that the first hypothesis (H1) is not supported. However, the DY variable shows a positive correlation with CV at a high level of significance, supporting the second hypothesis. Meanwhile, the SRI variable also demonstrates a significant positive correlation with CV at a significance level below 1%.

For the control variables, DAR has a negative correlation with CV, while ROA is positively correlated. The negative correlation of DAR with corporate value can be explained by Desmita and Sihombing (2024) and Wibowo (2020) findings that a higher DAR level indicates a greater proportion of assets financed by debt. This reflects that companies listed in the SRI-KEHATI index tend to avoid high debt levels to minimize the risk of default, thereby maintaining investor confidence.

On the other hand, the positive correlation of ROA with CV indicates that higher ROA values result in greater profits generated by the company for each unit of assets. According to Negara (2019), this is appealing to investors, especially for companies included in the SRI-KEHATI index, as it reflects greater potential returns on investment, ultimately enhancing corporate value.

In this research regression analysis with random effect model to examine the relationship between Environmental, Social, and Governance (ESG) factors and Dividend Yield on corporate value, as well as the relationship between SRI-KEHATI Index and corporate value. Additionally, we assessed the

Tabel 3.
The relationship between ESG, dividend yield, SRI-KEHATI index, and corporate value

Variables	CV					
	(1)		(2)		(3)	
Constant	2.014	***	1.4238	***	6.3885	***
	(0.584)		(0.311)		(1.4264)	
ESG	-0.088				-0.729	***
	(0.068)				(0.164)	
DY	0.217	***			0.436	***
	(0.036)				(0.171)	
SRI			0.468	**	-4.730	***
			(0.210)		(1.407)	
ESG*SRI					0.739	***
					(0.174)	
DY*SRI					-0.247	
					(0.171)	
DAR	-0.132		0.106		-0.693	
	(0.505)		(0.527)		(0.531)	
ROA	0.029	***	0.047	***	0.025	**
	(0.011)		(0.011)		(0.011)	
Adjusted R^2	0.208		0.094		0.282	
F Statistic	17.398	***	9.579	***	14.986	***
B&Pagan Godfrey	2.922		62.959		36.035	
Prob > Chi2	0.571		0.244		0.120	
Wooldridge Test	113.55		61.726		73.221	
Prob > Chi2	0.223		0.337		0.356	
Observations	250		250		250	

Notes: the standard error are in parentheses,while ***, **, and * indicate a significance level of 1%, 5%, and 10% respectively.

moderating effect of SRI-KEHATI Index on the relationship between ESG and DY on corporate value. The dependent variable of interest, corporate value, is quantified using Tobin's Q value. The regression results for Equations (1) through (3) are presented in Table 3.

Equation (1) in the table 3, the findings indicate that ESG (Environmental, Social, and Governance) factors have a negative impact on corporate value; therefore, H1 (Hypothesis 1) is rejected. According Wahl et al. (2020) ESG initiatives could involve upfront costs for a company, such as investments in sustainability projects or social programs, while the long-term benefits for corporate valuation remain uncertain or may not materialize within the expected timeframe. This viewpoint suggests that the market might not fully assess or appreciate the long-term benefits of ESG practices, especially if they do not directly result in financial profits (Desmita & Sihombing, 2024; Negara et al., 2024).

In equation (3), indicate that The SRI KEHATI Index can positively moderate the relationship between ESG and Corporate Value; therefore, H2 accepted. In the previous hypothesis 1, the influence of ESG on corporate value was found to have a negative effect. However, with the presence of the SRI

KEHATI Index, it can strengthen the influence of ESG on corporate value. This is because companies included in the SRI KEHATI Index undergo strict selection criteria, making it a guide for investors in selecting stocks. This is in line with what Dewi and Oriana (2014) stated, that companies listed on the SRI-KEHATI Index tend to attract investor interest for investment, thereby potentially increasing the company's value.

Equation (1) in the table 3, the findings indicate that Dividend Yield variable have a positive and significant impact on corporate value; therefore, H3 (Hypothesis 3) is accepted. This inverse correlation is notably observed at the significance levels of 1% and 5%, respectively. This is consistent with research conducted by (Chakkravarthy et al., 2023; Crane et al., 2016; Laili et al., 2019; Zia et al., 2021). Some investors, such as retirees or income-focused investors, may prioritize high dividend yields, while others, such as growth-oriented investors, may prefer companies that reinvest earnings for future growth rather than paying out dividends. This indicates that companies listed in the SRI-KEHATI index have high dividend policies, which can attract various types of investors, ultimately influencing stock prices and corporate value.

In equation (2), indicate that The SRI KEHATI Index can positively moderate the relationship between ESG and DY on Corporate Value. Indicate that presence of the SRI KEHATI Index, it can strengthen the influence of ESG and DY on corporate value. This is because companies included in the SRI KEHATI Index undergo strict selection criteria, making it a guide for investors in selecting stocks.

In equation (3), indicate that The SRI KEHATI Index negatively weakens the relationship between Dividend Yield and Corporate Value; therefore, H4 rejected. Although the SRI KEHATI Index is populated by companies with large valuations, it also impacts significantly on the purchase price. For investors seeking to accelerate profit growth, speculation in companies with relatively low market capitalization is necessary. This is supported by Negara (2019) and Wibowo (2020), which indicates that companies in the SRI-KEHATI Index are typically committed to sustainability and social responsibility practices that require substantial long-term investments. This commitment can reduce the allocation of funds for dividend payments in the short term, as these funds are more directed toward supporting sustainability strategies such as energy efficiency, emission reduction, and waste management.

Lastly, SRI KEHATI Index can positively moderate the relationship between ESG and Dividend Yield on Corporate Value. Which means that hypothesis 5 in our research has been accepted. This is in line with Agarwal et al. (2023), which states that the influence of ESG on corporate value can be moderated by competition. The SRI KEHATI Index in Indonesia always competes with other indices such as LQ45, IHSG, JII in guiding investors in selecting stocks.

The Indeks SRI KEHATI can serve as a powerful tool for promoting sustainable and responsible investment practices in Indonesia, while also potentially strengthening the impact of ESG considerations and dividend yield on firm value. By integrating sustainability criteria into investment decisions, the index can help drive positive change in corporate behavior and contribute to the long-term sustainability and resilience of the Indonesian economy.

We also include robust standard error regression test using white cross-section to establishes whether the variance of the errors in a regression model is constant. Table 4

Table 4.
The robustness test of the relationship between ESG, dividend yield, and corporate value

Variables	CV					
	(1)		(2)		(3)	
Constant	2.173	***	1.845	***	5.010	***
	(0.442)		(0.188)		(1.194)	
ESG	-0.052				-0.519	***
	(0.030)				(0.155)	
DY	0.252	**			0.525	***
	(0.106)				(0.162)	
SRI			0.760	***	-3.080	**
			(0.097)		(1.519)	
ESG*SRI					0.537	***
					(0.175)	
DY*SRI					-0.291	
					(0.179)	
DAR	-2.012		-2.089	**	-2.345	
	(0.505)		(0.788)		(0.462)	
ROA	0.019	*	0.027	**	0.016	*
	(0.009)		(0.009)		(0.008)	
Adjusted R^2	0.284		0.181		0.318	
F Statistic	25.811	***	19.371	***	17.583	***
Observations	250		250		250	

Note: Table 4 presents the robust standard errors using white cross section of the random effect panel regression from Equation (1) to Equation(3). SRI is dummy variable assumes a value of 1 for and 0 otherwise. The regression model incorporates several control variables, specifically DAR and ROA. The standard error are denoted within parentheses. The symbols ***, **, and * signify the levels of significance at 1%, 5%, and 10%, respectively.

presents the robustness test of the relationship between ESG, sharia, and firm performance. The result shows that our regression model remaining constant.

CONCLUSION

This study is an attempt to investigate the influence of ESG and dividend yield on company value moderated by companies indexed in the SRI KEHATI. The study covers a ten-year period from 2010 to 2019. We utilize pre-COVID-19 pandemic data to mitigate distortions due to massive economic changes.

The results from the random-effects model with panel data (based on the Hausman test) reveal that overall, ESG scores have a statistically non-significant negative effect on firm value. This statement is supported by other research by (Desmita & Sihombing, 2024; Negara et al., 2024; Wahl et al., 2020),

indicating that ESG initiatives could involve upfront costs for a company, such as investments in sustainability projects or social programs, while the long-term benefits for corporate valuation remain uncertain or may not materialize within the expected timeframe. Our next finding states that dividend yield has a positive and significant impact on firm value. This is consistent with previous research (Chakkravarthy et al., 2023; Mahirun et al., 2023).

Regarding the moderation hypothesis, the SRI KEHATI Index moderates the relationship between ESG and firm value. However, the SRI KEHATI Index cannot moderate the relationship between dividend yield and firm value. Simultaneously, our study found that the SRI KEHATI Index can moderate the relationship between ESG and dividend yield on Corporate Value. In this study, we encountered difficulties in finding supporting journals investigating the moderation variable of the SRI KEHATI Index. We suggest future researchers to collaborate the SRI KEHATI Index as a moderation variable with variables such as green accounting, green process, green innovation, environmental cost, etc.

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