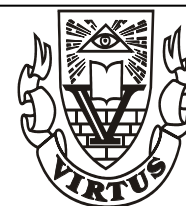


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DOES INNOVATION STRENGTHEN THE IMPACT OF SUSTAINABILITY ON FIRM VALUE?

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Abstract

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This study explores the effect of sustainability on firm value, with innovation as a moderating variable. Despite various sustainability initiatives, the inconsistent impact of sustainability practices on firm value raises questions about what factors truly enhance the effectiveness of these practices in delivering business value. Prior studies suggest a mixed relationship between sustainability and firm value (Agustia et al., 2019; Ammer et al., 2020). Using data from companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022, sustainability is measured by the Global Reporting Initiative (GRI) index, firm value by return on assets (ROA), and innovation by research and development (R&D) expenditures. Panel data regression analysis was conducted using the STATA application. The results show that sustainability alone does not significantly influence firm value. When interacting with innovation, the relationship becomes significantly positive, indicating that innovation strengthens the impact of sustainability on firm value. These findings emphasize the importance of embedding innovation within sustainability strategies. Practically, it highlights the need for companies and policymakers to invest in R&D as part of broader sustainability initiatives. The originality of this research lies in its focus on a developing country context, offering practical and academic insights into the integration of innovation and sustainability.

Keywords: Corporate Innovation, R&D, Sustainability, GRI Index, Firm Value, Indonesia Stock Exchange

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1. INTRODUCTION

Sustainability has become a significant concern in Indonesia, aligning with the increasing global recognition of the value of sustainable development (Jati et al., 2023). However, compared to other countries worldwide, Indonesia's sustainability performance remains relatively low. The country's performance in sustainability lags behind that of nations such as Malaysia and several European countries (Papilo et al., 2018). One of the main contributing factors to this underperformance is the limited implementation of effective policies and the lack of incentives for companies to invest in

sustainable practices (Firmialy & Nainggolan, 2019). The Indonesian government has implemented various regulations to enhance sustainability performance, such as PROPER (Company Performance Rating Programme), issued by the Ministry of Environment and Forestry; however, numerous companies continue to fall short of the defined standards (Susilawati & Kanowski, 2020). PROPER is a program initiated by the Ministry of Environment and Forestry in Indonesia to motivate companies to exhibit environmental accountability and regulatory adherence. Despite the government's commitment to enhancing sustainability performance, numerous firms continue to overlook these aspects, as they are