



FROM STRATEGY AND ESG TO SHAREHOLDER VALUE: THE MEDIATING ROLE OF SUSTAINABLE FINANCIAL PERFORMANCE AND THE MODERATING EFFECT OF SHARIAH VALUE ADDED IN INDONESIA

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Abstract

This study examines the effects of corporate strategy, ESG performance, investment efficiency, and risk management on shareholder value in Indonesian publicly listed companies. It also investigates the mediating role of sustainable financial performance and the moderating role of Shariah Value Added. Using panel regression on data from 72 firms between 2019 and 2022, the findings show that only corporate strategy significantly enhances sustainable financial performance. ESG performance, investment efficiency, and risk management do not show meaningful effects, indicating that many firms focus on meeting ESG compliance requirements rather than integrating ESG strategically. Sustainable financial performance also does not directly increase shareholder value. However, when moderated by Shariah Value Added, its effect becomes significant. This demonstrates that Islamic ethical principles can strengthen corporate legitimacy, enhance investor trust, and bridge financial outcomes with ethical values. These findings enrich legitimacy theory by incorporating cultural and religious dimensions into sustainability research. Practically, companies should integrate ESG more substantively, while regulators are encouraged to consider including Shariah-based indicators in sustainable finance frameworks. The study's limitations include a relatively small sample size and a short observation period. Future research should extend the timeframe and explore additional variables that may influence these relationships.

Keywords: *Corporate strategy; ESG performance; Shareholder value; Shariah value added; Sustainable financial performance.*

Abstrak

Studi ini menganalisis pengaruh strategi perusahaan, kinerja ESG, efisiensi investasi, dan manajemen risiko terhadap nilai pemegang saham pada perusahaan Indonesia yang terdaftar di bursa. Penelitian ini juga menguji peran kinerja keuangan berkelanjutan sebagai variabel mediasi serta *Shariah Value Added* sebagai variabel moderasi. Dengan menggunakan regresi panel pada 72 perusahaan selama periode 2019–2022, hasilnya menunjukkan bahwa hanya strategi perusahaan yang berpengaruh signifikan dalam meningkatkan kinerja keuangan berkelanjutan. Kinerja ESG, efisiensi investasi, dan manajemen risiko tidak memberikan pengaruh berarti, yang mengindikasikan bahwa banyak perusahaan masih berfokus pada pemenuhan kepatuhan ESG secara administratif tanpa integrasi strategis. Kinerja keuangan berkelanjutan juga tidak secara langsung meningkatkan nilai pemegang saham. Namun, ketika dimoderasi oleh *Shariah Value Added*, pengaruhnya menjadi signifikan. Hal ini menunjukkan bahwa prinsip-prinsip etika Islam mampu meningkatkan legitimasi perusahaan, memperkuat kepercayaan investor, serta menghubungkan dimensi finansial dengan nilai-nilai etis. Temuan ini memperkaya teori

legitimasi dengan memasukkan aspek budaya dan religius dalam studi keberlanjutan. Secara praktis, perusahaan perlu mengintegrasikan ESG secara lebih substantif, sementara regulator sebaiknya mempertimbangkan indikator syariah dalam kerangka keuangan berkelanjutan. Keterbatasan penelitian mencakup ukuran sampel dan periode waktu yang pendek; penelitian mendatang disarankan memperluas cakupan waktu dan variabel yang dianalisis.

Kata Kunci: Kinerja ESG; Kinerja keuangan berkelanjutan; Nilai pemegang saham; Nilai tambah syariah; Strategi perusahaan.

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INTRODUCTION

The Indonesian capital market is a crucial part of the country's economy, including industries like manufacturing, finance, energy, and services. Companies on the Indonesia Stock Exchange (IDX) significantly boost Indonesia's GDP and are key to job creation, infrastructure growth, and international trade. These companies are increasingly expected to focus on sustainability through Environmental, Social, and Governance (ESG) principles. ESG is now a global standard for sustainable business practices, influencing how companies handle environmental impacts, improve governance, and fulfill social responsibilities. Investors and consumers favor companies that include ESG in their operations, viewing it as a way to reduce risks and create long-term value (Landi, Iandolo, Renzi, & Rey, 2025; Zeng & Jiang, 2023). As a result, ESG has become essential for establishing legitimacy, competitiveness, and a strong corporate reputation, going beyond just voluntary reporting.

Empirical research shows that ESG factors can improve how companies perform. For example, Zeng and Jiang (2023) found that good ESG practices boost company results through social and governance improvements, though environmental efforts sometimes have varied effects. Ma, Gao, and Xing (2025) also found that companies with strong ESG practices invest more efficiently by cutting capital costs and improving their governance. Studies in China indicate that ESG supports environmentally friendly development by encouraging new ideas, efficient resource use, and better employee skills (Xue, Yang, & Wang, 2025). This aligns with broader evidence that ESG improves financial stability because strong ESG ratings lower investor-perceived risks and enhance company stability (Landi et al., 2025). However, some studies also point out that while ESG implementation can improve a company's reputation and long-term value, it may also create short-term costs that decrease profits (Zhao & Murrel, 2016; Correia, 2019). These mixed findings highlight the importance of studying ESG in different industries and situations.

In recent years, ESG considerations have become increasingly relevant among publicly listed companies on the Indonesia Stock Exchange (IDX). However, the empirical evidence on the relationship between ESG performance, financial performance, and firm value remains mixed. For instance, Suprpto et al. (2025) found that ESG performance initially shows a positive effect on firm value, but when profitability specifically Return on Equity (ROE) is introduced as a moderating variable, the relationship strengthens,

suggesting that ESG benefits are more pronounced in profitable firms (Suprpto et al., 2025). Meanwhile, a study in the basic materials sector confirms a consistent positive impact of ESG disclosure on firm performance, measured by Tobin's Q (Sabrina et al., 2025). In contrast, research in the banking sector shows that ESG factors do not yet significantly affect firm value, indicating that market valuation mechanisms may not fully incorporate ESG performance in this industry (Hutauruk et al., 2025). These findings reflect that ESG's role in firm value creation in Indonesia is still evolving and is likely sector specific.

Despite its relevance, much of the existing ESG research relies heavily on Western theoretical frameworks, particularly stakeholder theory (Freeman, 1984) and legitimacy theory (Gray, Kouhy, & Lavers, 1995). While these perspectives offer valuable insights—highlighting corporate accountability to multiple stakeholders and alignment with societal expectations they remain limited in contexts where cultural and religious values strongly shape corporate behavior. In Indonesia, the world's largest Muslim-majority nation, integrating Islamic principles into sustainability frameworks is particularly salient. The concept of Shariah Value Added provides a unique moderating perspective grounded in justice (*adl*), balance (*tawazun*), and social benefit (*maslahah*). Haniffa and Hudaib (2007) argue that embedding Shariah values into corporate governance deepens the ethical and social dimensions of sustainability beyond what conventional theories provide. Thus, combining ESG with Shariah perspectives offers both theoretical enrichment and practical relevance for Indonesian listed firms.

Previous research has some shortcomings in its methods. Although many studies connect ESG to corporate performance (Buallay, 2019) or risk management (Velte, 2022), few simultaneously explore the interplay among ESG, corporate strategy, investment efficiency, and risk management. Furthermore, the mediating role of sustainable financial performance and the moderating role of Shariah Value Added remain underexplored. Addressing these gaps is especially urgent for companies listed on the IDX, which face diverse challenges such as climate-related risks, global competition, regulatory shifts, and increasing investor demand for transparency. A comprehensive framework is therefore needed to explain how ESG and corporate strategies translate into shareholder value, while incorporating mediating and moderating mechanisms.

The urgency of this agenda aligns with Indonesia's national development priorities and the global pursuit of the United Nations Sustainable Development Goals (SDGs). ESG reporting is rapidly gaining traction in emerging markets, with regulators encouraging listed companies to internalize sustainability into their governance systems. Yet, ESG standards remain largely shaped by global conventions that may not fully capture cultural and ethical expectations in Muslim-majority contexts. By incorporating Shariah principles, this study seeks to localize sustainability practices, ensuring that they are not merely instrumental responses to investor demands but are embedded within societal values and ethical commitments (Istianah and Akbar, 2024).

Accordingly, this study empirically investigates the influence of ESG performance, corporate strategies, investment efficiency, and risk management on shareholder value across all listed companies in Indonesia. Sustainable financial performance is examined as a mediating variable, while Shariah Value Added serves as a moderating variable that strengthens or reshapes these relationships. The proposed integrative framework contributes in several ways. Theoretically, it advances sustainability scholarship by

combining ESG, corporate strategy, and Shariah based governance. Practically, it provides guidance for Indonesian firms in balancing ESG implementation with financial efficiency and risk management. From a policy standpoint, the findings may inform regulators in designing sustainability frameworks that are globally aligned yet locally relevant.

This research addresses a gap in understanding how ESG practices and corporate strategy interact within the Indonesian capital market, while also adhering to Shariah principles. It contributes to the global conversation on sustainability, but specifically examines the social, economic, and religious context of Indonesia. The study aims to improve comprehension of ESG and offer actionable recommendations for businesses and policymakers to encourage sustainable and ethical corporate development.

LITERATURE REVIEW

Stakeholder Theory

The theoretical foundation of this study draws from stakeholder theory, which was originally formulated to address how value is created and exchanged, how capitalism can be organized ethically, and how managers can effectively manage organizations to address these questions (Freeman, 1984; Freeman et al., 2020). From its inception, stakeholder theory has been positioned not merely as applied ethics but as a perspective of strategic management, portraying firms as cooperative networks of value creation rather than atomized entities. More recent developments highlight a “stakeholder turn,” which emphasizes that fair and balanced stakeholder management directly contributes to long-term firm performance (Freeman et al., 2020). This indicates that economic and moral dimensions of the firm are inseparable, and their integration strengthens legitimacy and long-term viability. In my observation of the agro-industrial context in Indonesia, this integration is particularly critical because firms must simultaneously sustain competitiveness while responding to growing environmental and social pressures.

Empirical studies have reinforced these theoretical insights. Companies with high ESG performance tend to gain social legitimacy, improve reputational capital, and attract positive media coverage, all of which enhance stakeholder trust and support (Velte, 2022; Zeng & Jiang, 2023). ESG performance has also been associated with reduced financing constraints and stronger institutional ownership, highlighting how capital markets increasingly value sustainability credentials (Buallay, 2019). Scholars further note a transition from philanthropic CSR to strategic ESG, where corporations are expected not only to disclose sustainability initiatives but to embed them as part of their strategic models (Klettner, Clarke, & Boersma, 2014; Landi et al., 2025). We find this shift highly relevant for Indonesian agro-industry, as local firms are increasingly evaluated by global investors and supply chain partners on their ability to demonstrate credible ESG commitments.

Within stakeholder theory, corporate strategies are understood as real options that reduce risks and unlock new opportunities, contributing to long-term value creation (Stout, 2012). Stakeholder expectations whether employee satisfaction, customer loyalty, or community support affect both capital structure and market valuation. Consequently, strategies aligned with ESG not only safeguard social legitimacy but also enhance shareholder wealth. Modern stakeholder theory emphasizes that economic and moral

goals cannot be separated. In this context, Shariah Value Added is particularly relevant because it highlights justice (*adl*), balance (*tawazun*), and social benefit (*maslahah*), reinforcing stakeholder theory's notion of fairness (Haniffa & Hudaib, 2007). By incorporating Shariah perspectives, ESG and investment strategies are judged not only by financial and regulatory compliance but also by their contributions to producing halal, fair, and socially beneficial outcomes.

Hypothesis Development

Corporate Strategy and Sustainable Financial Performance

Corporate strategy represents a long-term orientation that determines how resources are allocated to achieve competitive advantage. From a stakeholder theory perspective, corporate strategy is not only about positioning in the product market space, but also about structuring relationships with key stakeholders and shareholders, employees, suppliers, customers, local communities, and regulators, so that the firm secures legitimacy and stable access to critical resources. Empirical evidence shows that effective corporate strategies foster sustainability by encouraging innovation, operational efficiency, and resilience (Chen & Rojniruttikul, 2025; Danso et al., 2019; Saragih, Saifi, Nuzula & Worokinasih, 2024). Pantea et al. (2024) emphasized that strategy significantly influences managerial decision-making, particularly in contexts where firms face resource constraints. Similarly, Singh (2024) noted that sustainability reporting reflects how organizations manage limited resources efficiently while minimizing waste.

From our perspective, strategies in the Indonesian agro-industrial sector must simultaneously address competitiveness and sustainability, particularly because these firms operate in resource-intensive environments highly exposed to climate change and market volatility. Companies that fail to embed sustainability within their strategies risk losing legitimacy in both domestic and international markets. This reasoning supports the expectation that sound strategies positively influence sustainable financial outcomes.

H₁: Corporate strategy has a positive effect on sustainable financial performance.

ESG Performance and Sustainable Financial Performance

ESG represents an integrated framework capturing how firms incorporate environmental, social, and governance concerns into their operations. Shin, Moon, and Kang (2021) described ESG as a multidimensional concept that increasingly guides both corporate decision-making and investor strategies. From a stakeholder theory perspective, ESG can be understood as a structured response to the diverse expectations of shareholders, employees, customers, communities, regulators, and creditors, designed to protect legitimacy and secure continued access to critical resources. In this view, higher ESG performance reflects more effective stakeholder management, which lowers non-financial risks, stabilizes cash flows, and is therefore expected to translate into more sustainable financial performance over time. Empirical studies consistently demonstrate that ESG performance improves firm reputation, enhances stakeholder trust, and contributes to long-term financial stability (Aydoğmuş, Gülay, & Ergun, 2022; Fang, Nie, & Shen, 2023; Zeng & Jiang, 2023). For instance, Ma et al (2025) found that superior ESG performers in agribusiness achieved greater investment efficiency by lowering capital costs and strengthening governance structures.

Nonetheless, ESG implementation is not without challenges. Yilmaz, Aksoy, Tatoglu & Bayraktar (2025) and Zhao & Murrel (2016) documented that ESG initiatives may involve significant upfront costs that reduce profitability in the short term. However, Bagh, Fuwei & Khan (2024) and Naseer, Khan, Bagh, Guo & Zhu (2024) concluded that the medium- and long-term effects of ESG are consistently positive, as they enhance financial outcomes and reduce risk exposure. We have observed similar dynamics in Indonesian firms: while initial ESG investments such as adopting cleaner technologies or improving supply chain transparency may appear costly, they often lead to improved market access and investor confidence in subsequent years.

H₂: ESG performance has a positive effect on sustainable financial performance.

Investment Efficiency and Sustainable Financial Performance

Investment efficiency refers to the optimal allocation of financial resources to projects that maximize returns while minimizing waste. Inefficient investment may manifest as either over-investment in unprofitable projects or under-investment due to financing constraints. From a stakeholder theory perspective, ESG represents a structured response to diverse stakeholder expectations that protects legitimacy and access to capital. Stronger ESG performance should therefore enhance investment efficiency by lowering risk and capital costs and, in turn, support more sustainable financial performance.

Prior research suggests that ESG can improve investment efficiency by reducing information asymmetry and signaling long-term commitment (Msomi, 2025; Subhani, Zunhuan & Khan, 2025; Xue, Yang, & Wang, 2025; Ma, Gao, & Xing (2025).

Hu, V., & Scholtens, B. (2014) further argued that responsible investments strengthen market confidence and reduce volatility. For agro-industries, which are capital- and resource-intensive, investment efficiency is essential for achieving both profitability and sustainability. In Indonesia, we have noted that firms adopting sustainable agricultural practices not only optimize input costs but also improve resilience against market fluctuations, thereby enhancing their sustainable financial performance.

H₃: Investment efficiency has a positive effect on sustainable financial performance.

Risk Management and Sustainable Financial Performance

Risk management is crucial for ensuring long-term viability, especially in sectors exposed to systemic shocks. According to stakeholder theory, ESG represents a structured response to diverse stakeholder expectations that protects legitimacy and access to critical resources. Stronger ESG performance implies more systematic identification and mitigation of environmental, social, and governance risks, which reduces downside exposure and cash flow volatility and, in turn, supports more sustainable financial performance over time.

Companies that proactively identify and mitigate risks achieve more stable financial outcomes and greater resilience (Fitriana & Wardhani, 2020). Ikpe & Shamsuddoha (2024) found that robust risk management frameworks protect firms from both internal inefficiencies and external disruptions. Clark, Feiner & Viehs (2014); Eccles, Ioannou, and Serafeim (2014) further demonstrated that integrating sustainability into risk management enhances investor trust and reduces capital costs.

For Indonesian firms, We view risk management as not merely technical compliance but as a strategic necessity, given their exposure to commodity price fluctuations, climate variability, and regulatory changes. Effective risk management thus becomes a prerequisite for achieving sustainable financial performance.

H₄: Risk management has a positive effect on sustainable financial performance.

Sustainable Financial Performance and Shareholder Value

Sustainable financial performance encompasses economic, social, and environmental stability. Within a stakeholder theory framework, ESG practices strengthen stakeholder trust and reduce non financial risks, firms are more likely to achieve sustainable financial performance, reflected in stable cash flows and lower earnings volatility. Over time, this resilient financial profile tends to be capitalized into higher shareholder value, as investors reward firms that credibly manage stakeholder relationships and long term sustainability risks. Firms achieving such balanced outcomes are rewarded by markets with higher valuations and stronger investor support (Correia, 2019). According to legitimacy theory, firms that align their behavior with societal norms maintain their license to operate and are better positioned to generate long-term shareholder value (Gray, Kouhy, and Lavers (1995).

Based on my reflections, Indonesian capital markets are gradually showing greater sensitivity to sustainability disclosures, rewarding firms that demonstrate both financial robustness and social legitimacy. This provides a strong argument for linking sustainable financial performance with shareholder value.

H₅: Sustainable financial performance has a positive effect on shareholder value.

Mediation Role of Sustainable Financial Performance

Several studies emphasize the mediating role of sustainable financial performance. Fatemi, Glaum, and Kaiser (2018) showed that financial performance mediates the link between ESG and firm value, while Hu and Scholtens (2014) highlighted that sustainable finance translates responsible practices into higher valuations. Bruno, Pistolesi, and Teti (2025) further demonstrated that innovative, risk aware strategies combined with sustainability enhance profitability and stakeholder trust. Building on this evidence, we conceptualize sustainable financial performance as the main transmission channel through which corporate strategy, ESG performance, investment efficiency, and risk management affect shareholder value. In public firms, long term oriented strategies and strong ESG performance are expected to improve investment efficiency and reduce risk, which in turn generate more stable cash flows, resilient profitability, and a healthier risk return profile. Investors respond primarily to these financial signals; without demonstrable financial stability, sustainability practices may fail to convince the market. Therefore, the mediating role of sustainable financial performance is central to explaining how strategic and ESG choices, together with investment and risk decisions, are ultimately capitalized into shareholder value.

We believe that in public firms, sustainable financial performance is the crucial mechanism through which ESG, strategy, investment, and risk management influence shareholder value. Without demonstrable financial stability, sustainability practices may fail to convince investors. Therefore, the mediating role of sustainable financial performance is key to explaining how sustainability translates into tangible market value.

H₆: Sustainable financial performance mediates the relationship between corporate strategy and shareholder value.

H₇: Sustainable financial performance mediates the relationship between ESG performance and shareholder value.

H₈: Sustainable financial performance mediates the relationship between investment efficiency and shareholder value.

H₉: Sustainable financial performance mediates the relationship between risk management and shareholder value.

Moderating Role of Shariah Value Added

In Muslim-majority contexts, Shariah principles introduce additional dimensions of fairness and accountability. Shariah Value Added ensures that profitability is balanced with ethical, social, and environmental responsibilities. Haniffa & Hudaib (2007) demonstrated that Islamic governance enhances the credibility and legitimacy of financial institutions. More recently, evidence indicates that integrating Shariah-based values strengthens investor trust and consumer loyalty, especially in emerging markets (Karomah & Latifah, 2023). In Indonesia, ethical disclosure and Islamic governance directly enhanced firm valuation in *Shariah* compliant firms (Abbas, 2025), while profitability was found to strengthen the ESG value link in listed firms (Dewi & Muhyarsyah, 2025).

From my standpoint, this moderating role is critical in Indonesia, where investors and stakeholders are increasingly attentive not only to financial performance but also to ethical and religious legitimacy. By embedding Shariah Value Added, firms can amplify the positive relationship between sustainable financial performance and shareholder value.

H₁₀: Shariah Value Added moderates the relationship between sustainable financial performance and shareholder value.

The following is a conceptual diagram of this study.

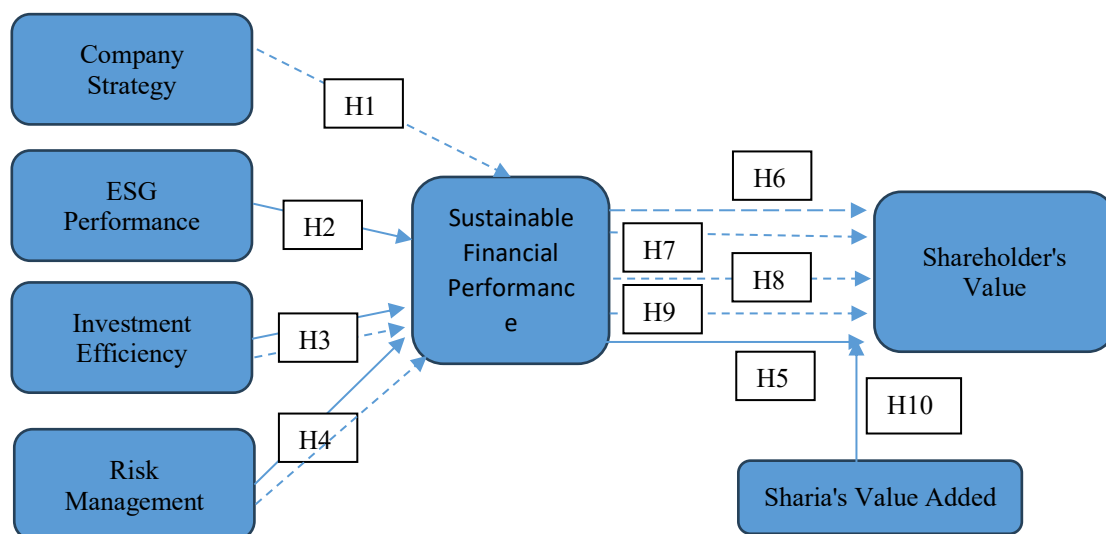


Diagram 1. The Model of Study.
Source: Developed by the Authors (2025).

RESEARCH METHOD

Research Design

This study adopts a quantitative, explanatory design using panel data regression to test causal relationships between corporate strategy, ESG performance, investment efficiency, and risk management on shareholder value. Sustainable financial performance is introduced as a mediating variable, while Shariah Value Added functions as a moderator. This design is appropriate to capture both temporal dynamics and firm-level heterogeneity across firms.

Population and Sample

The population consists of companies listed on the IDX between 2019 and 2022. After excluding incomplete data, the final sample comprised 72 firm-year observations. The purposive sampling ensures comparability across firms and enhances internal validity.

Data Sources

Secondary data were obtained from: (1) annual reports and financial statements, (2) ESG disclosures based on GRI and third-party ratings, and (3) Shariah-related information (zakat/net worth). These data sources are widely used in sustainability research for accuracy and comparability (Buallay, 2019; Zeng & Jiang, 2023).

Variable Measurement

Table 1. Variable Operationalization

Variable	Variable Definition	Measurement
Dependent Variable		
Shareholder Value (Y)	Standardization of the value shareholders receive from their investments in the company	Total Shareholder Return (TSR) = (Dividend + Stock Price Increase) / Initial Share Price × 100%
Independent Variables		
Corporate Strategy (X1)	The company's long-term plan to achieve competitive advantage through growth and innovation	Revenue Growth = (This Year's Revenue – Last Year's Revenue) / Last Year's Revenue × 100%. (Porter, 1996; Barney, 1991)
ESG Performance (X2)	Assessment of the company's efforts in the environmental, social, and governance fields	ESG Index from the Rating Agencies (MSCI/Sustainalytics). Khan et al. (2016), Friede et al. (2015)
Investment Efficiency (X3)	Standardize the company's ability to efficiently manage the allocation of investment resources	Return on Investment (ROI) = Net Profit / Total Investment × 100%. (Biddle et al., 2009; Huang et al., 2022)
Risk Management (x4)	Standardization of the company's financial risk mitigation process	Debt to Equity Ratio (DER) = Total Debt / Equity. (Andersen et al., 2021)
Mediator Variable		
Sustainable Financial Performance (M)	The company's ability to maintain financial performance stability to support sustainability	Sustainable Growth Rate (SGR) = ROE × (1 – Dividend Payment Ratio). (Higgins, 1977; Margolis et al., 2017)
Moderator Variable		

Shariah Added Value (Z)	Standardization of the company's economic added value according to sharia principles	Zakat = 2.5% of Net Worth. (Antonio et al., 2014; Ascarya et al., 2018)
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Source: Adapted and Developed by the Authors (2025).

Data Treatment

Outliers were winsorized at the 1%–99% level to reduce bias. Missing data were eliminated, yielding a balanced panel.

Econometric Model

Panel regression was estimated:
 $Y_{it} = \alpha + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \beta_5 M_{it} + \beta_6 (M_{it} \times Z_{it}) + \epsilon_{it}$
Chow and Hausman tests confirmed the Fixed Effects Model (FEM) as most appropriate. Robust standard errors were applied to address heteroskedasticity.

Assumption Testing

Diagnostic tests showed: (1) non-normal residuals (not critical for panel regression), (2) no multicollinearity ($VIF < 10$), (3) no autocorrelation, and (4) heteroskedasticity present, corrected with robust SE.

Mediation and Moderation Tests

Mediation was tested using the Sobel test, while moderation was assessed by including an interaction term between SFP and Shariah Value Added. Findings indicate partial mediation and significant moderation, highlighting the unique role of Shariah legitimacy in strengthening sustainability outcomes (Karomah & Latifah, 2023).

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Table 2 illustrates the process of selecting research samples from companies listed on the IDX between 2019 and 2022, with an initial total of 296 samples and 74 samples each. However, after eliminating missing data for sustainable financial performance (M), Corporate Strategy (X1), ESG Performance (X2), and other independent variables, the sample count decreased. In 2019, after the data reduction disappeared, 7 companies remained, while in 2020 and 2021 the numbers were 11 and 15, respectively. In 2021, the number of samples increased to 39. Overall, after considering the missing data, the number of valid research samples amounted to 72 observations.

Table 2. Sample Selection Criteria

Description	2019	2020	2021	2022	Sum
Companies listed on the IDX 2019-2022	74	74	74	74	296
Reduced by:					
Missing data (mediator variables)	(30)	(27)	(22)	(15)	(94)
Missing data (independent variables)	(37)	(36)	(37)	(20)	(130)
Total research sample	7	11	15	39	72 Observations

Source: Data Processed by the Authors (2025).

This study uses panel data with a relatively limited number of observations, namely 72 data. In conditions like this, the existence of outliers has the potential to have a major impact on the results of the analysis. Outliers are defined as data that deviate far from the normal distribution, are usually at the extreme tails of the distribution, and can interfere with basic statistical assumptions. The presence of outliers can cause the estimated coefficient to become biased, the standard of error increases, and reduce the validity of hypothesis testing (Kettaneh et al., 2005).

To overcome this, this study applies the winsorizing technique, which is a simple approach that adjusts extreme values to fit within the distribution limit without removing observations. Grades that exceed the upper limit are lowered to the 99th percentile, while grades below the lower limit are lowered to the 1st percentile. Thus, the distribution of data becomes closer to normal, the influence of outliers can be minimized, and the number of observations is maintained. This technique helps ensure that the results of the analysis are more robust and reflect the actual patterns of relationships in the data.

Descriptive statistics are used to summarize and describe the main characteristics of research data through measures such as mean, median, standard deviation, and frequency distribution. This method makes it easier for researchers to understand patterns, trends, and anomalies in the data and provide initial interpretation before further analysis (Siregar, 2021).

Table 3. Descriptive Statistics

Variable	<i>n</i>	Mean	STD	Minimum	Median	Maximum
Shareholder value (Y)	64	0.356	1.393	-0.384	-0.305	5.693
Corporate strategy (X1)	72	0.282	0.651	-0.669	0.180	5.039
ESG performance (X2)	72	0.492	0.151	0.220	0.460	0.910
Investment efficiency (X3)	72	-0.083	1.980	-15.232	0.023	6.607
Risk management (X4)	72	0.051	0.587	-1.113	-0.007	4.229
Financial performance (M)	72	0.056	0.099	-0.049	0.009	0.554
Sharia added value (Z)	72	-0.012	1.993	-10.951	0.033	10.788

Source: Data Processed by the Authors (2025).

Table 3 presents descriptive statistics of all variables used in this study. The average shareholder value (Y) of 0.356 indicates that in general shareholders obtain a positive rate of return even though it is relatively small. However, the existence of a minimum value of -0.384 and a maximum of 5.693 indicates a fairly high variation in value creation for shareholders, where some companies experience a decline in the value of shares, while others manage to provide very large returns. The average company strategy (X1) of 0.282 shows that in general the companies in the sample experienced positive revenue growth of around 28.2% compared to the previous year.

Meanwhile, the ESG performance score (X2) had an average of 0.492 with a standard deviation of 0.151, reflecting that the company's sustainability practices in the sample were at a moderate level with relatively diverse variations between companies. Other independent variables such as investment efficiency (X3) had an average of -0.083 and a median of 0.023, indicating that in general the companies in the sample tend to have a relatively low rate of return on investment, even some companies experience negative efficiency, although a positive median value indicates that more than half of the companies are still earning a profitable ROI. Risk management (X4) has an average of 0.051 with a maximum value of 4.229, indicating that most companies have relatively conservative capital structures with low leverage, but there are some companies with very

high debt-to-equity ratios that cause disparities in risk management practices between companies.

The mediated variable of sustainable financial performance (M) has an average of 0.056 and a median of 0.009, indicating the company's generally low sustainable growth. The average Sharia Added Value (Z) moderation variable is -0.012 with a minimum of -10,951, indicating that the zakat contribution of most companies is still low. However, the existence of an outlier with a maximum value of 10,788 indicates that several companies are able to contribute significant zakat.

Correlation Test

Table 4 presents the results of Spearman correlation analysis to assess the relationship between variables in the study. Sustainable financial performance has a significant positive correlation with shareholder value at the 1% rate, which indicates that the better the performance of financial sustainability, the greater the value that investors feel. Similarly, sharia added value, corporate strategy, and investment efficiency are also significantly positively correlated with shareholder value, emphasizing the importance of applying sharia principles, strategic planning, and efficient investment management in creating value for shareholders. In contrast, ESG performance and risk management do not show a significant correlation, which may reflect that these two factors are not yet a major consideration for investors or that their benefits are only visible in the long term.

Table 4. Correlation Matrix

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Shareholder value	1						
(2) Financial performance	0.775 (0.000)	1					
(3) Company strategy	0.218* (0.083)	0.295** (0.018)	1				
(4) ESG performance	-0.089 (0.483)	-0.259** (0.039)	-0.228* (0.071)	1			
(5) Investment efficiency	0.487 (0.000)	0.390 (0.001)	0.268** (0.032)	0.143 (0.261)	1		
(6) Risk management	-0.068 (0.596)	0.043 (0.738)	0.235* (0.062)	0.081 (0.525)	0.018 (0.887)	1	
(7) Sharia added value	0.761 (0.000)	0.734 (0.000)	0.345 (0.005)	-0.128 (0.314)	0.658 (0.000)	0.004 (0.973)	1

Description: The value in parentheses indicates the *p-value*. Values with an asterisk *, **, and indicate significance at the levels of 10%, 5%, and 1%, respectively.

Source: data processed by the authors (2025).

Regression Test

Panel Regression Model Selection

To obtain the most appropriate and efficient estimation model, this study tested three basic approaches in panel data regression as described by Windasari & Khasanah (2021), namely Pooled Least Squares (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). To determine which approach is most appropriately used, the Chow test is used to compare PLS with FEM, as well as the Hausman test to compare FEM with REM. The results of the model tests are presented in Table 5 as follows:

Table 5. Panel Model Selection Results

Statistical test	p-value	Decision
Chow Test	0.054*	Model FEM
Hausman Test	0.078*	Model FEM

Remarks: Values with an asterisk *, **, and indicate significance at 10%, 5%, and 1%, respectively.

Source: Data processed by the authors (2025).

Based on Table 5, the best model selected is the Fixed Effect Model (FEM) which means that the individual characteristics of the company are correlated with independent variables.

Classic Assumption Test

Residual Normality Test

Based on the results of the Jarque-Bera normality test, a p-value of 0.000 was obtained, which means that H_0 is rejected. Thus, the residues of the Fixed Effect Model (FEM) model are not normally distributed. However, in the context of panel data regression, the assumption of residual normality is not the main requirement for obtaining unbiased and consistent estimates. To minimize the influence of extreme or outdated data (*Outlier*), the researcher has carried out a process *winsorizing* in the main variables, namely by replacing the extreme values below the 1st percentile and above the 99th percentile with the values of the lower and upper limits (Kettaneh et al., 2005).

Multicollinearity Test

The multicollinearity test is performed to ensure that there is no high linear relationship between independent variables. A VIF value below 10 indicates that there are no serious multicollinearity problems in the model. The results in Table 6 show that all independent and control variables have a VIF value below 10, with an average of 1.08. This means that the model used is free from the problem of multicollinearity.

Table 6. Multicollinearity Test Results

Variable	VIVID
ESGPerformance (X2)	1.15
Corporate Strategy (X1)	1.14
Risk Management (X4)	1.02
Investment Efficiency (X3)	1.01
BRIGHT RED	1.08

Source: Data processed by the Authors (2025).

Autocorrelation and Heteroscedasticity Test

The results of the autocorrelation and heteroscedasticity tests showed p-values of 0.457 and 0.000 in each test. The p-value in the autocorrelation test results is greater than the significance level of 10%, so the null hypothesis stating the absence of autocorrelation cannot be rejected. Thus, the panel regression model used in this study can be said to be free of autocorrelation. However, the results of the heteroscedasticity test indicate the existence of heteroscedasticity problems in the panel regression model. This condition can cause standard estimates of errors to be biased and inefficient, which ultimately impacts the accuracy of coefficient significance testing. Therefore, to obtain more reliable estimation results, the panel regression analysis in this study was carried out using Robust Standard Error that is able to correct the unfulfillment of such classical assumptions.

The Relationship of Corporate Strategy, ESG Performance, Investment Efficiency, and Risk Management to Sustainable Financial Performance

Table 7 in model specifications (1) to (4) reports the results of a simple regression between the company's strategy, ESG disclosure, investment efficiency, and risk management on sustainable financial performance. In specification (5) which involves all independent variables, it shows a positive and significant influence between the company's strategy on sustainable financial performance (coefficient. = 0.109, p = 0.098). This supports the H1 hypothesis that the company's strategy (X₁) has a positive effect on sustainable financial performance (M). These findings emphasize that unique and hard-to-replicate strategies can be a valuable resource that results in sustainable competitive advantage. The company's strategy oriented towards innovation, efficiency, and integration of environmental and social aspects will strengthen the company's position in the face of external pressures while increasing sustainable economic value.

Meanwhile, ESG performance and investment efficiency show negative coefficients for sustainable financial performance with a p-value of ≥ 0.1 . This indicates that the influence of the two is not statistically significant, so there is not enough empirical evidence to support the H2 and H3 hypotheses that ESG Performance (X₂) and investment efficiency (X₃) have a positive effect on sustainable financial performance (M). These findings highlight that in the research sample, the implementation of ESG and investment efficiency efforts has not been able to make a positive contribution to sustainability-oriented financial performance. One possibility is that ESG initiatives in some companies are still symbolic or compliance-driven, so the economic benefits have not been internalized in real terms (Dwijayanti, et.al., 2025). In addition, a high level of investment efficiency can reflect underinvestment, where companies hold back capital allocation, potentially reducing long-term growth opportunities. Thus, these results indicate that not all ESG strategies and investment efficiency automatically strengthen sustainable financial performance, but rather rely heavily on the context of implementation and the quality of their implementation in each company.

The positive influence of risk management on sustainable financial performance showed statistically insignificant results (coefficient. = 0.109; p ≥ 0.10). Thus, these findings have not been able to prove the H4 hypothesis which states that risk management (X₄) has a positive effect on the sustainable financial performance of companies in Indonesia. One possible reason is that risk management practices in most companies still focus on regulatory compliance and minimum compliance, so they have not been strategically integrated into business decision-making (Satriyo & Taufiqurahman, 2021). In addition, the effectiveness of risk management is often only seen in the long term, whereas the data of this study represent a relatively limited period of time .

Table 7. Main Regression Results

Variable	(1) M	(2) M	(3) M	(4) M	(5) M	Decision
Corporate Strategy (X1)	0.145* (0.084)				0.109* (0.098)	H1 accepted
ESGPerformance (X2)		-0.339** (0.037)			-0.191 (0.116)	H2 rejected
Investment Efficiency (X3)			0.000 (0.656)		-0.001 (0.460)	H3 rejected

Risk Management (X4)				0.055 (0.489)	0.034 (0.482)	H4 rejected
Constant	0.015 (0.526)	0.222 (0.006)	0.056 (0.000)	0.053 (0.000)	0.117* (0.068)	
Firm FE	Yes	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	Yes	
R-square	0.296	0.233	0.000	0.027	0.370	
Observation	72	72	72	72	72	

Description: The value in parentheses indicates *the p-value*. Values with an asterisk *, **, and indicate significance at the levels of 10%, 5%, and 1%, respectively.

Source: Data Processed by the Authors (2025).

Regression Moderation

Table 8 in model specifications (1) and (2) reports the regression results between sustainable financial performance to shareholder value and the role of sharia added value as a moderator variable. In model specification (1), the effect of sustainable financial performance on shareholder value was not statistically significant ($p \geq 0.10$), so the H5 hypothesis was not supported. However, when the sustainable financial performance variable (M) interacted with the sharia added value (Z) in the model specification (2) involving the control variable, the results showed a positive and significant moderation effect (coefficient. = 21.891; $p = 0.039$). Thus, the H10 hypothesis is verified. These findings indicate that the positive influence of sustainable financial performance on shareholder value becomes stronger when companies also generate sharia added value. This means that the application of sharia principles not only serves as a compliance mechanism, but also strengthens the company's legitimacy, increases investor trust, and creates synergies between aspects of financial sustainability and ethical compliance, which ultimately contributes to increasing the company's value in the eyes of shareholders.

Table 8. Results of Moderation Regression

Variable	(1) Y	(2) Y	Decision
PerformanceFinance (M)	0.657 (0.672)	-5.885 (0.106)	H5 rejected
Valueadded sharia (Z)	0.047 (0.428)	0.025 (0.406)	
Financial Performance x Value-Added Value (M*Z)		21,891** (0.039)	H10 accepted
Constant	0.317 (0.001)	0.246* (0.065)	
Control	Yes	Yes	
Firm FE	Yes	Yes	
Year FE	Yes	Yes	
R-square	0.008	0.226	
Observation	64	64	

Description: The value in parentheses indicates *the p-value*. Values with an asterisk *, **, and indicate significance at the levels of 10%, 5%, and 1%, respectively.

Source: data processed by the authors (2025).

Mediation Regression

Mediation regression analysis is used to test whether a mediator variable explains the relationship between independent variables and dependent variables. In this approach, the total influence of independent variables is broken down into direct influences and indirect influences through mediators. Indirect effects are calculated from the result of multiplying the path between the independent variable to the mediator and the mediator path to the dependent variable. To test the significance of such mediating effects, the Sobel test is often used because it can show whether the indirect effect differs significantly from zero. **H₆:** Sustainable Financial Performance (M) mediates the relationship between the Company's Strategy (X₁) and *Shareholder's Value* (Y)

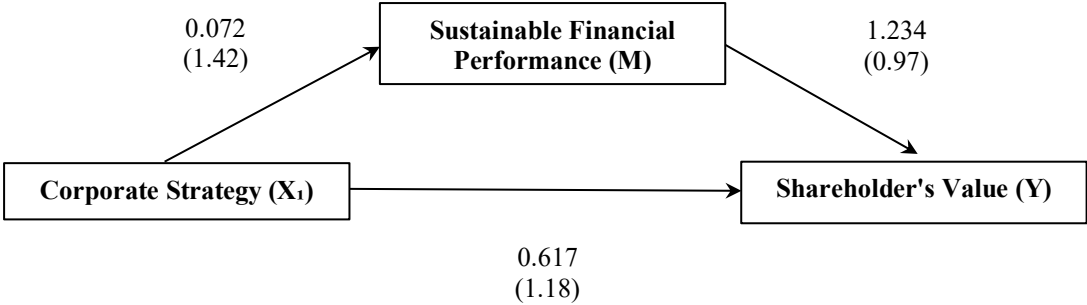


Table 9. Sobel Test for Mediation on H6

Sobel test:	
Z (p-value)	0.800 (0.424)
N	64
Mediated total effect	No mediation

Source: Data Processed by the Authors (2025).

H₇: Sustainable Finance Performance (M) mediates the relationship between ESG Performance (X₂) and *Shareholder's Value* (Y)

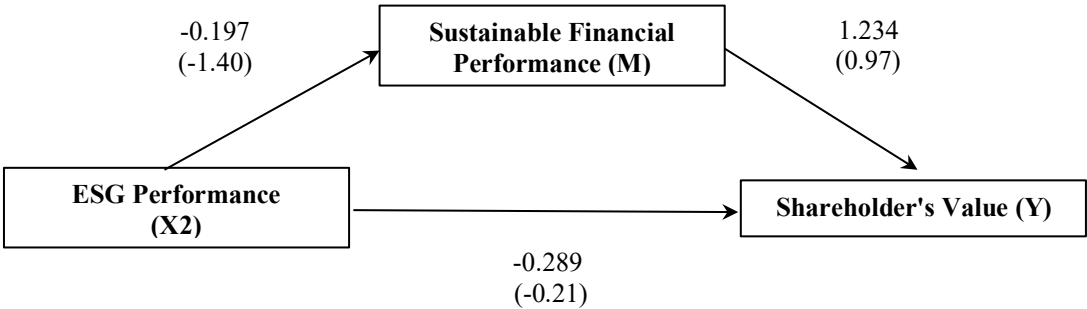


Table 10. Sobel Test for Mediation on H7

Sobel test:	
Z (p-value)	-0.796 (0.426)
N	64
Mediated total effect	No mediation

Source: Data Processed by the Authors (2025).

H₈: Sustainable Financial Performance (M) mediates the relationship between Investment Efficiency (X₃) and Shareholder's Value (Y)

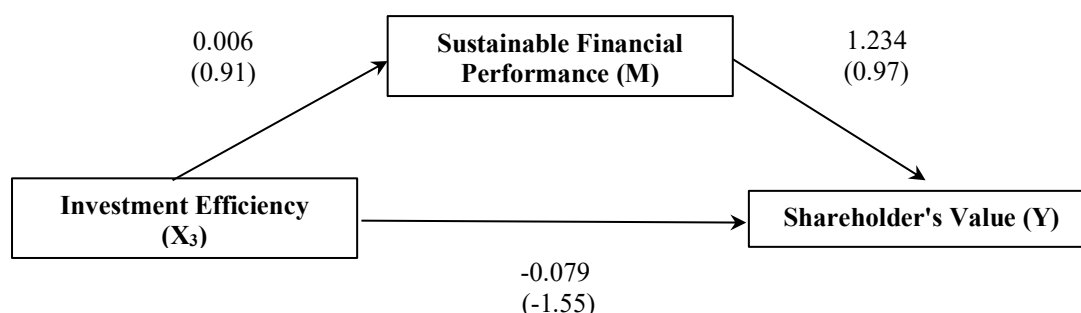


Table 11. Sobel Test for Mediation on H8

Sobel test:	
Z (p-value)	0.696 (0.487)
N	64
Mediated total effect	No mediation

Source: Data Processed by the Authors (2025).

H₉: Sustainable Financial Performance (M) mediates the relationship between Risk Management (X₄) and Shareholder's Value (Y)

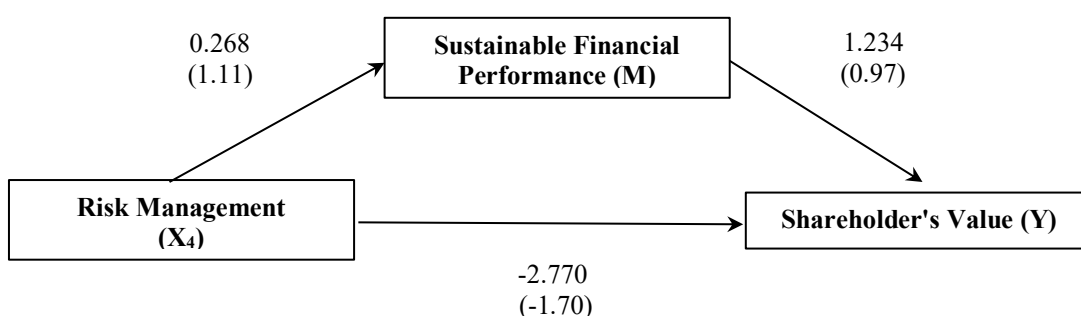


Table 12. Sobel Test for Mediation on H9

Sobel test:	
Z (p-value)	0.731 (0.465)
N	64
Mediated total effect	No mediation

Source: Data Processed by the Authors (2025).

Based on the output of mediation regression, results of the mediation effect test showed a p-value of 0.424, which indicated that it was not statistically significant. Thus, the H₆ hypothesis that sustainable financial performance (M) mediates the relationship between the company's strategy (X₁) and shareholder value (Y) is not supported. The mediation effect test showed a p-value of 0.426, which indicated that it was not statistically significant. Thus, the H₇ hypothesis that sustainable financial performance (M) mediates the relationship between ESG performance (X₂) and *shareholder's value* (Y) is not supported. The results of the mediation effect test showed a p-value of 0.487, which indicates that it is not statistically significant. Thus, the H₈ hypothesis that sustainable

financial performance (M) mediates the relationship between investment efficiency (X_3) and shareholder's value (Y) is not supported. The results of the mediation effect test showed a p-value of 0.465, which indicates that it is not statistically significant. Thus, the H9 hypothesis that sustainable financial performance (M) mediates the relationship between risk management (X_4) and shareholder's value (Y) is not supported.

Discussion

The study's findings show that only corporate strategy (X_1) has a statistically significant and positive impact on sustainable financial performance (M), supporting H1. ESG performance (X_2), investment efficiency (X_3), and risk management (X_4) do not have significant effects, leading to the rejection of H2–H4. The descriptive statistics reflect this: sustainable financial performance has a low average (0.056) and a median near zero (0.009). Shariah Value Added also has a low average (−0.012) with a large range. This suggests that sustainability-focused strategies and Shariah-based value creation are still in early stages and not fully integrated into the financial decisions of the sampled Indonesian agro-industrial firms.

Stakeholder theory suggests that firms with unique, innovation-focused strategies can better balance the demands of various stakeholders, leading to more stable cash flows and lasting financial performance (Freeman, 1984; Donaldson & Preston, 1995). Recent Indonesian studies also indicate that sustainability strategies and risk management improve long-term financial results when integrated into company policies, rather than used superficially (Tarjo et al., 2024; Dharmayanti et al., 2023). The positive impact of corporate strategy on sustainable financial performance aligns with theory and previous research. However, the insignificant effects of ESG performance, investment efficiency, and risk management suggest that many ESG and risk initiatives in public companies are still driven by compliance and have not yet translated into significant financial benefits.

Recent studies suggest that ESG performance should improve a company's financial sustainability and, consequently, increase shareholder value. However, this research indicates that ESG performance does not significantly impact sustainable financial performance, and this expected boost to shareholder value is not happening. This finding partially contradicts those recent ESG value studies. Studies of Indonesian Stock Exchange (IDX) companies suggest that stronger environmental, social, and governance (ESG) disclosure or scores often correlate with higher company value. This is especially true when the market sees ESG as a reliable indicator of good risk management and dedication to stakeholders (Angela et al., 2023; Maysari & Endri, 2025). However, other Indonesian research shows that ESG disclosure has little or unclear impact on Tobin's Q, particularly when ESG efforts are mainly driven by regulations rather than a genuine business strategy (Zulianto & Azizah, 2025; Negara et al, 2024). The insignificant results in our study for ESG performance and the link between sustainable financial performance and shareholder value (H5) align with these mixed findings. This suggests that, in the stock market may not consistently factor sustainability improvements into how companies are valued.

The mediation tests for hypotheses H6–H9 were not significant, which supports the interpretation that sustainable financial performance does not mediate the relationships in question. Although there is a strong positive correlation between sustainable financial performance and shareholder value (Spearman $\rho = 0.775$, $p < 0.01$), Sobel tests indicate that sustainable financial performance does not statistically mediate the impact of corporate strategy, ESG performance, investment efficiency, or risk management on shareholder value (p-values between 0.424 and 0.487; indicating no mediation). This contradicts recent research suggesting that financial performance can act as a mechanism through which ESG and other strategic factors increase firm value in Indonesian listed companies (Perkasa, 2025; Maysari & Endri, 2025). A possible reason for this difference is that, within agro-industrial companies, sustainability projects are still small relative to the company's total assets. Therefore, improvements in sustainable financial performance are not yet substantial or consistent enough to affect market-based valuation.

Stakeholders may notice and value sustainability efforts, but this hasn't fully affected the financial metrics investors prioritize. The most notable finding is in H10: Sustainable financial performance alone doesn't significantly increase shareholder value. However, when combined with Shariah Value Added (Z), it does have a positive and significant impact, greatly improving the model's accuracy (R^2 increases from 0.008 to 0.226). This implies that sustainable financial performance boosts shareholder value only when paired with genuine Shariah-based value creation, like fair profit-sharing, ethical product selection, and socially responsible practices that follow Islamic principles. The market seems to reward financial sustainability that is part of a wider Shariah-based ethical approach, especially for Muslim stakeholders. This aligns with recent studies showing that Shariah governance and Islamic ethical reporting strengthen the positive effects of ESG and financial performance on company value, particularly in Islamic contexts. Our findings expand on this by showing that Shariah Value Added acts as a crucial moderator, even for traditional agricultural companies. It aligns the interests of shareholders, regulators, and society, thus helping convert sustainable financial performance into higher shareholder value, as predicted by stakeholder theory.

In Indonesian companies, the connection between ESG practices and shareholder value is still developing. While corporate strategy helps improve sustainable financial performance, ESG performance, efficient investment, and risk management haven't yet significantly impacted finances or company value. They also don't seem to boost financial performance in the way expected. However, the market reacts more positively when sustainable financial performance is combined with strong Shariah compliance. This highlights the need to consider the specific context and engage stakeholders in Muslim-majority markets, where investors care about the amount of value created, how it's created, and who benefits.

CONCLUSION

This research examines how corporate strategy, ESG performance, investment efficiency, and risk management affect shareholder value in the Indonesian stock market. It also looks at how sustainable financial performance acts as a link and how Shariah Value Added changes this relationship. The study found that only corporate strategy significantly improves sustainable financial performance. This supports the idea that unique, innovative strategies are key for long-term success. ESG performance,

investment efficiency, and risk management didn't show significant effects, suggesting that in Indonesia, these practices are often just for show rather than being truly integrated into company decisions.

Interestingly, sustainable financial performance alone doesn't boost shareholder value. However, when combined with Shariah Value Added, it does have a significant impact. This indicates that ethical and religious factors, like zakat (charity) and Islamic governance, build trust and legitimacy, strengthening the connection between financial and ethical performance. The results expand on the idea of legitimacy theory, showing that cultural and religious values greatly influence how the market views sustainability practices in Muslim-majority countries.

In practice, companies should focus on genuinely incorporating sustainability into their operations, not just paying lip service. Regulators should improve oversight by focusing on the quality of implementation. Including Shariah-based measures in ESG and sustainability reports would acknowledge local ethical expectations and improve both legitimacy and financial stability.

Despite some limitations, such as the sample size and the use of external ESG ratings, this study adds to the understanding of sustainability by placing ESG, strategy, and financial performance within a culturally specific governance system. Future research could broaden the sample, use more detailed ESG assessments, and test other factors like governance quality or digitalization. Qualitative research could also explore how zakat and Shariah principles strengthen the link between financial sustainability and shareholder value.

In conclusion, corporate strategy is still the main driver of sustainable financial performance in emerging markets. ESG and investment efficiency don't provide financial benefits without strong implementation. The influence of Shariah Value Added supports the idea that religious and ethical factors can significantly shape how sustainability translates into shareholder value.

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