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From Green Investment to Sustainable Value Creation: Empirical Evidence from SRI-KEHATI Companies in Indonesia

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Abstract: This study aims to examine the influence of green investment (GI) and good corporate governance (GCG) on sustainable value creation (SVC) among companies listed in Indonesia's SRI-KEHATI Index during the 2020–2024 period. Using a quantitative approach through panel data regression and the Fixed-Effect Model (FEM), this research explores how environmental investment and governance practices collectively contribute to the creation of long-term market value. The empirical results show that GI has a positive and statistically significant effect on SVC, indicating that green-oriented investment is perceived by the market as a credible signal of efficiency, innovation, and long-term resilience. Meanwhile, GCG demonstrates a positive but relatively less significant influence, implying that good governance enhances corporate credibility and investor trust, although its impact is relatively weaker than that of GI. When tested simultaneously, the combination of GI and GCG provides a positive and significant effect on SVC, which indicates that companies integrating environmental investment with superior governance are more capable of generating sustainable value in a sustainability-oriented market. These findings affirm that SVC is not merely a financial outcome but the result of strategic alignment between sustainability commitments and institutional accountability, consistent with ESG.

Keywords: *Green Investment; Good Corporate Governance; Sustainable Value Creation; Tobin's Q; SRI-KEHATI Index.*

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I. INTRODUCTION

In recent decades, the global corporate landscape has experienced a fundamental paradigm shift from an orientation toward short-term profit maximization to value creation driven by sustainability. Companies are no longer evaluated solely based on financial performance, but also on the extent to which they can integrate Environmental, Social, and Governance (ESG) principles into their strategic and operational decisions (Porter & Kramer, 2011). The integration of ESG considerations has become a crucial determinant of long-term competitiveness, legitimacy, and investor trust (Eccles, Ioannou, & Serafeim, 2014). In this framework, green investment (GI)—the strategic allocation of financial resources toward environmentally responsible initiatives—plays an important role in aligning economic growth with ecological preservation (Chang, 2005). GI reflects a firm's commitment to sustainability through projects that promote renewable energy, resource efficiency, and pollution reduction, while simultaneously acting as a strategic lever for innovation and market differentiation.

Complementing this, good corporate governance (GCG) provides the institutional architecture that ensures such investments are managed transparently, accountably, and in accordance with the interests of various stakeholders (Jensen & Meckling, 1976). The synergistic integration between GI and GCG forms the foundation of sustainable value creation (SVC)—the firm's ability to generate sustainable economic benefits through ethical, responsible, and environmentally friendly business practices (Hart & Milstein, 2003). Although sustainable corporate behavior has become a normative ideal, empirical evidence shows that the implementation of ESG practices remains uneven, particularly in developing countries. Many companies still view sustainability initiatives as regulatory obligations or additional costs rather than as strategic opportunities for long-term value enhancement (Khan, 2022). Weak governance mechanisms and poor regulatory enforcement often result in symbolic rather than substantive environmental actions, a phenomenon known as greenwashing—when companies exaggerate or misrepresent

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their sustainability achievements to attract investors and the public (Delmas & Burbano, 2011).

Empirical studies investigating the relationships between GI, GCG, and firm value show varied results. Ahmad (2021) reports that GI positively affects firm performance through improved reputation and operational efficiency, while Khan (2022) finds that environmental investment increases market valuation, particularly when combined with credible sustainability disclosures. Similarly, Al-Hadi (2020) and Nguyen (2023) demonstrate that strong governance structures increase investor trust and reduce agency conflicts, thereby driving higher firm value. However, cross-context findings are inconsistent. Several studies in Indonesia (Murwaningsari & Riyanti, 2023; Widarwati et al., 2024) found that the effects of GI and GCG on firm value become statistically insignificant when tested separately, suggesting that their interaction may be more complex than a simple linear relationship. Furthermore, most previous studies analyze GI and GCG separately, neglecting the possibility that their integration may produce synergistic effects on sustainable value creation.

This conceptual and empirical fragmentation forms the primary research gap addressed in this study: how GI and GCG jointly contribute to SVC in the institutional context of an emerging market, where regulatory environments, stakeholder awareness, and governance capacity vary significantly (Claessens & Yurtoglu, 2013). Addressing this question is essential to understand the mechanisms through which sustainability investments and governance practices co-evolve and ultimately enhance long-term firm value.

The novelty of this study lies in its comprehensive approach to analyzing the joint influence of GI and GCG on SVC within the Indonesian capital market context. First, unlike previous studies that treat GI and GCG as separate variables or examine moderating effects independently, this research adopts a holistic perspective capturing their combined and synergistic impact on firm value. Second, using the SRI-KEHATI Index sample provides a distinctive empirical context, as these firms are recognized as pioneers in sustainability practices and therefore serve as an ideal context for examining ESG integration. Third, this study expands the sustainability and governance literature in emerging markets by demonstrating that the integration of environmental investment and good governance not only enhances social legitimacy but also creates measurable economic value.

The findings are expected to provide strategic insights for managers, investors, and regulators—specifically the Financial Services Authority (OJK) and the Indonesia Stock Exchange (BEI)—to strengthen sustainability reporting standards, promote green financing mechanisms, and institutionalize governance frameworks that support sustainable corporate behavior. By bridging theoretical, empirical, and practical dimensions, this study aims to enrich academic understanding of how sustainability and governance interact to drive sustainable value creation in an evolving global economy.

II. THEORY REVIEW AND HYPOTHESIS

- *Green Investment and Sustainable Value Creation*

Rooted in Stakeholder Theory (Freeman, 1984), companies that allocate resources to environmentally responsible initiatives tend to maintain legitimacy and trust among key stakeholders, including investors, regulators, consumers, and local communities. Through investments in environmentally friendly technologies, renewable energy, and sustainable production systems, firms signal their commitment to addressing environmental issues, which in turn enhances reputational capital and investor confidence (Porter & Kramer, 2011; Eccles, Ioannou, & Serafeim, 2014).

From an economic perspective, the Porter Hypothesis states that proactive environmental investment can simultaneously lower production costs and foster innovation, resulting in higher productivity and profitability (Porter & Van der Linde, 1995). Various empirical studies show that companies with strong GI portfolios tend to experience increased operational efficiency, reduced risk exposure, and higher market valuation (Ahmad, 2021; Khan, 2022). In global capital markets increasingly influenced by ESG integration, companies engaging in GI attract long-term sustainability-oriented investors who value transparency and future resilience (Clark, Feiner, & Viehs, 2015).

The RBV (Barney, 1991) further positions GI as a unique organizational resource capable of creating sustainable competitive advantage. Such investments often produce intangible assets—such as environmental innovation capabilities, improved stakeholder relationships, and brand differentiation—that are difficult for competitors to replicate. When strategically managed, these assets contribute directly to SVC, defined as a firm’s ability to generate sustainable economic and social returns from sustainability-oriented strategies (Hart & Milstein, 2003).Thus, this study formulates the following hypothesis:

H1: Green investment has a positive effect on sustainable value creation.

- *Good Corporate Governance and Sustainable Value Creation*

According to Agency Theory (Jensen & Meckling, 1976), information asymmetry and misalignment of interests between managers and shareholders often lead to inefficiencies and opportunistic behavior. Governance mechanisms—such as board independence, transparency in financial reporting, and strong oversight—serve to reduce agency costs, thereby increasing managerial accountability and investor trust.

From the perspective of Stakeholder Theory, GCG not only protects shareholder interests but also includes broader accountability toward all stakeholders (Freeman, 1984). Effective governance ensures that companies manage environmental, social, and ethical dimensions along with financial performance. By promoting transparency and ethical behavior, GCG helps align organizational decisions with stakeholder expectations, thereby strengthening social legitimacy and sustainable competitive advantage (Aguilera et al., 2021). Al-Hadi (2020) and Nguyen (2023) demonstrate that companies with strong governance structures tend to have higher Tobin's Q ratios, reflecting greater market confidence in long-term prospects. OECD (2023) also emphasizes that in emerging markets, governance plays a crucial role in maintaining investor protection and ensuring that sustainability strategies are effectively implemented. Based on the theoretical foundation and empirical findings, the hypothesis is formulated as follows:

H2: Good corporate governance has a positive effect on sustainable value creation.

➢ *Integration of Green Investment and Good Corporate Governance on Sustainable Value Creation*

Although GI and GCG have been widely studied as determinants of firm value separately, their combined effects remain relatively underexplored, particularly in the context of SVC. The integration of these two mechanisms has the potential to produce synergistic effects that reinforce one another. Specifically, GI represents a company's strategic commitment to environmental responsibility, while GCG ensures that such commitments are executed with integrity, transparency, and accountability.

Based on Stakeholder Theory, the integration of GI and GCG can enhance a company's legitimacy by demonstrating not only environmental responsibility but also ethical governance. Stakeholders perceive companies investing in sustainability while practicing strong governance as more trustworthy and credible, thereby strengthening brand reputation and investor loyalty (Eccles et al., 2014). On the other hand, companies that invest heavily in green initiatives without adequate governance risk reducing the credibility of their environmental claims.

From an Agency Theory perspective, GCG acts as a moderating mechanism that enhances the efficiency of GI implementation. When governance systems are strong, managers are more likely to allocate green investments efficiently, monitor project performance, and disclose results transparently. GI contributes to the development of environmental assets, both tangible and intangible, while GCG provides dynamic capabilities ensuring that these assets are effectively utilized. The synergistic integration of these two dimensions enables firms to achieve superior economic and non-economic performance that is difficult to imitate (RBV).

Empirical evidence supports this argument. Murwaningsari and Riyanti (2023) found that GCG strengthens the relationship between environmental performance and disclosure credibility, which in turn enhances investor perception. Similarly, Widarwati et al. (2024) reported that companies combining ESG initiatives with effective governance frameworks experience stronger valuation effects in capital markets. These findings imply that governance quality amplifies the positive outcomes of green investment.

Based on theoretical arguments and empirical evidence, the following hypothesis is proposed:

H3: The integration of green investment and good corporate governance has a positive effect on sustainable value creation.

III. MATERIALS AND METHOD

This study uses an explanatory quantitative design aimed at empirically testing the causal relationship between green investment (GI), good corporate governance (GCG), and sustainable value creation (SVC), proxied by Tobin's Q. Panel data regression is used as the main analytical framework, combining cross-sectional and time-series data to enhance model robustness and statistical power (Baltagi, 2021). Compared with pure cross-sectional or time-series analyses, panel data offer advantages such as controlling for unobserved heterogeneity, reducing multicollinearity, and improving parameter estimation efficiency. The study involves 25 companies consistently listed in the SRI-KEHATI Index for five years (2020–2024), yielding a total of 125 firm-year observations. SVC is proxied using Tobin's Q, a market-based indicator commonly used to measure firm value and performance (Chung & Pruitt, 1994). GI is measured using the PROPER score issued annually by the Ministry of Environment, with a scale ranging from Gold (5) to Black (1). GCG is measured using a composite governance index consisting of four indicators: board independence (ratio of independent commissioners), audit committee quality (frequency of meetings and proportion of financial experts), ownership concentration (share proportion of the largest shareholder), and disclosure transparency (completeness and quality of GCG and sustainability reports). Estimation is performed using EViews 12.

IV. RESULTS AND DISCUSSION

Before presenting the regression results, descriptive statistical analysis and diagnostic tests were conducted to ensure dataset robustness and model validity. The PROPER rating used as a GI proxy ranges from 3.00 (Blue) to 5.00 (Gold), with an average score of 4.12. This indicates that the sample companies generally demonstrate strong commitment to environmental compliance and performance. Meanwhile, the composite GCG index averages 0.72, suggesting that most companies maintain relatively good governance mechanisms, especially in transparency, audit independence, and ownership structure. Multicollinearity tests show that all variance inflation factor (VIF) values are below 5, indicating no significant multicollinearity issues. Heteroskedasticity and autocorrelation tests (Breusch–Pagan and Durbin–Watson) also indicate that the residuals are homoscedastic and free from autocorrelation, ensuring that the basic assumptions of regression analysis are met.

➢ *Regression Analysis*

This study uses the Fixed-Effect Model (FEM) based on the Hausman test, which indicates that firm-specific effects correlate with explanatory variables ($p < 0.05$). Thus, FEM is deemed appropriate for controlling unobserved heterogeneity across firms over time.

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Table 1. Regression Results

Variable	Coefficient	t-Statistic	Probability
Green Investment (GI)	0.316	4.211	0.000
Good Corporate Governance (GCG)	0.284	3.967	0.001
GI × GCG Integration	0.197	2.888	0.005
Firm Size (SIZE)	0.121	1.742	0.086
Leverage (LEV)	-0.104	-1.553	0.125
Profitability (ROA)	0.167	2.351	0.021
Firm Age (AGE)	0.053	1.331	0.185
Adjusted R²	0.7288		

Source: E-Views 12 data, processed, 2025

The adjusted R^2 value of 0.7288 indicates that approximately 72.88% of the variation in sustainable value creation (SVC) is explained by variations in GI, GCG, and their integration. This reflects strong explanatory power and indicates that the combined model effectively captures the dynamics of sustainability integration and governance in SRI-KEHATI companies. All main variables are significant at the 5% level. GI and GCG each show positive effects on Tobin's Q, while the GI × GCG interaction term also yields a positive and significant coefficient, confirming a synergistic effect. Control variables such as profitability and firm size also show positive coefficients consistent with expectations and prior studies emphasizing the importance of scale and financial health in firm value (Nguyen, 2023; Khan, 2022).

- *Effect of Green Investment on Sustainable Value Creation*

The positive and significant GI coefficient ($\beta = 0.316$; $p < 0.01$) indicates that green investment substantially enhances sustainable value creation. This finding aligns with Stakeholder Theory (Freeman, 1984), which posits that companies proactively addressing environmental and social issues gain legitimacy, improve reputation, and build stakeholder trust. This result also reinforces the RBV (Barney, 1991), which argues that environmental investments create valuable and rare organizational capabilities—such as eco-innovation and resource efficiency—that contribute to competitive advantage. International empirical evidence supports this finding. Ahmad (2021) shows that GI improves financial performance through cost reduction and brand enhancement in emerging markets. Khan (2022) finds that environmental investment positively affects market valuation through environmental risk mitigation and attraction of sustainability-oriented investors. In Indonesia, companies with high PROPER scores typically enjoy better public image and greater investor confidence, making GI a credible signal of long-term sustainability commitment.

- *Effect of Good Corporate Governance on Sustainable Value Creation*

The GCG coefficient ($\beta = 0.284$; $p < 0.01$) confirms that good corporate governance positively and significantly influences firm value. This result is consistent with Agency Theory (Jensen & Meckling, 1976), which asserts that effective governance mechanisms lower agency conflicts, enhance transparency, and improve decision-making quality. From the investor's perspective, GCG provides assurance of managerial accountability and credibility in sustainability disclosures.

This finding aligns with Al-Hadi (2020) and Nguyen (2023), who report that firms with independent boards, strong audit committees, and transparent disclosures tend to have higher Tobin's Q ratios. The GCG index used in this study—which includes board independence, ownership concentration, audit committee quality, and disclosure—effectively explains variations in market performance. From a Stakeholder Theory perspective, GCG enhances legitimacy by aligning corporate objectives with broader social expectations (Aguilera et al., 2021). Firms with strong governance frameworks are more likely to integrate ESG aspects substantively into business strategy, ensuring that environmental and social initiatives are not merely cosmetic or box-ticking exercises (Delmas & Burbano, 2011).

- *Integration of Green Investment and Good Corporate Governance*

The positive and significant coefficient for the GI × GCG interaction ($\beta = 0.197$; $p < 0.01$) indicates that the synergy between GI and GCG significantly enhances the firm's ability to create sustainable value. This finding implies that governance not only complements but also strengthens the impact of GI on SVC. This supports the complementarity hypothesis, which states that governance quality amplifies the positive effects of sustainability practices (Murwaningsari & Riyanti, 2023; Widarwati et al., 2024). When firms allocate financial resources to green projects under a transparent and accountable governance framework, the likelihood of achieving economic returns increases. Governance mechanisms ensure that GI is directed toward productive activities rather than symbolic initiatives, minimizing the risks of greenwashing and inefficiency.

Theoretically, this integration effect affirms both Stakeholder Theory and RBV. Stakeholder Theory explains how governance enhances stakeholder trust in environmental initiatives, while RBV conceptualizes governance as a complementary capability maximizing the utility of green resources. International evidence is consistent with these findings. Eccles et al. (2014) show that firms with integrated ESG and governance systems exhibit superior financial performance and greater resilience to market shocks. In Asia, Nguyen (2023) finds that the impact of ESG on firm value peaks when governance quality is high, demonstrating that

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investors value alignment between sustainability strategies and governance integrity.

V. CONCLUSION

Overall, this study demonstrates that sustainability commitment and governance integrity are key factors in shaping the long-term value of companies in emerging markets such as Indonesia. SVC emerges as the result of the combination between authentic sustainability practices and high-quality institutional governance. Based on the findings, several recommendations can be provided: For corporate management, GI and GCG should be integrated into long-term strategic planning.

For regulators, it is necessary to strengthen ESG reporting standards, integrate them more comprehensively with PROPER assessments, and tighten supervision to prevent greenwashing risks in order to maintain the integrity of sustainability-based capital markets. For investors, investment portfolios should consider companies with strong environmental reputations and high governance quality. For academics and future researchers, further exploration is required regarding the role of external factors such as institutional pressure, regulations, and industry dynamics as moderating variables in the GI–GCG–SVC relationship.

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