

CHAPTER 1

INTRODUCTION

A. Background of Research

Stock price fluctuations are increasingly significant in the context of global market volatility, influenced by various economic, social, and environmental factors. Investors are becoming more aware of sustainability and environmental impact, considering these factors in their investment decisions.¹ Companies are expected to be mindful of their environmental effects, as this can impact their reputation. Accurate and timely stock price information is essential for enhancing company efficiency, enabling stakeholders—such as investors and analysts—to make informed decisions. Thus, stock prices reflect company performance and market conditions, helping stakeholders allocate resources and develop effective long-term financial strategies.²

The stock price of a company is a reflection of the value of the company itself, the higher the stock price, the higher the value of the company and vice versa. In other words, the stock price is the standard of the company's value. Most investors prefer companies that provide the public with financial reports that are submitted in the annual report. This reflects a company that is transparent in the company, which convinces investors to invest in the company.³

Sharia stocks in Indonesia are increasingly attractive to investors, offering investments based on the sharia principles. The relevant growth of the Indonesian

¹ Nur Afni Nurul Nur Aeni and Etty Murwaningsari, “Pengaruh Pengungkapan Emisi Karbon Dan Investasi Hijau Terhadap Nilai Perusahaan,” *Jurnal Ekonomi Trisakti* 3, no. 2 (2023), p.40.

² Wenhui Huang and Zhihan Shen, “Corporate Sustainable innovation and Stock Price Non-Synchronicity: Evidence from China,” *International Review of Economics & Finance* 93 (2024),p.55.

³ Metalaras Saputri and Yuyun Isbanah, “Pengaruh Good Corporate Governance dan Corporate Sosial Responsibility terhadap Nilai Perusahaan dengan Kinerja Keuangan sebagai Variabel Mediasi pada Perusahaan Miscellaneous Industry di BEI Periode 2016-2019,” *Jurnal Ilmu Manajemen* 9, no. 2 (2021),p. 60.

Sharia Stock Index (ISSI) shows its attractiveness in the capital market. The following is a table of ISSI growth in the last five years.

Table 1. The Growth of ISSI

NO	YEAR	MARKET CAPITALIZATION (RP BILLION)
1	2019	3.744.816,32
2	2020	3.344.926,49
3	2021	3.983.652,80
4	2022	4.786.015,74
5	2023	4.680.534,04

Source: Indonesia Stock Exchange (IDX)

The table shows that the market capitalization of the Indonesian Sharia Stock Index (ISSI) has fluctuated significantly over the past five years. After a notable decline in 2020, a recovery occurred in 2021, with 2022 reaching the peak value. Although there was a slight decrease in 2023, the market capitalization remained high. Overall, despite downturns in 2020 and 2023, the long-term trend indicates growth. Many ISSI-listed companies have embraced sustainable strategies, focusing on eco-friendly investments that promote energy efficiency, renewable resources, and environmental initiatives, including the development of sustainable products and services.⁴

As businesses increasingly prioritize environmental issues, they are adopting eco-friendly investments and innovations to convey positive messages to investors. Signaling Theory suggests that a commitment to a green strategy signals to the market that a company values both profitability and sustainability. This dedication helps mitigate environmental risks, improve operational efficiency, and create value for both the organization and the environment. Such initiatives can enhance a company's

⁴ Radwan Alkebesee, Ahsan Habib, and Junyan Li, "Sustainable innovation and the Cost of Equity: Evidence from China," *China Accounting and Finance Review* 25, no. 3 (2023), p. 100.

reputation, attract investors, and boost stock performance. From a resource-based perspective, capital resources are crucial for driving innovation, with significant investments in green technologies spurred by informal regulations like media scrutiny. Thus, the level of environmental capital invested correlates directly with a company's innovation performance.⁵

Eco-friendly investments and innovation have become essential for shaping market perceptions of businesses. Eco-friendly investments focuses on funding sustainable projects, appealing to investors by mitigating environmental and social risks.⁶ Meanwhile, sustainable innovation encourages companies to improve production methods and operational strategies, enhancing efficiency and reducing environmental impact. Together, these elements strengthen a company's competitive edge and positively affect stock valuations. Their interplay not only reinforces a commitment to sustainability but also boosts financial performance and corporate reputation. Eco-friendly investments creates opportunities for operational efficiency while addressing environmental regulations and market demand for sustainability, while sustainable innovation helps companies differentiate themselves and meet consumer expectations for eco-friendly products.⁷

The impact of eco-friendly investments and sustainable innovation on stock prices is intricately linked to the influence of financial performance as a mediating variable. Financial performance serves as a crucial metric for investors when evaluating a company's overall health and potential for growth. Firms that demonstrate enhanced financial performance as a result of their eco-friendly investments and innovation initiatives are generally assigned higher market valuations. Consequently,

⁵ Xiaole Wan et al., "Executive Eco-friendly investment Vision, Stakeholders' Sustainable innovation Concerns and Enterprise Sustainable innovation Performance," *Frontiers in Environmental Science* 10, (2022), p. 5.

⁶ Wen Jun et al., "Examining the Determinants of Sustainable innovation Adoption in SMEs: A PLS-SEM Approach," *European Journal of Innovation Management* 24, no. 1 (2019) p. 67.

⁷ Intan Puspitasari, "Peran Eco-friendly investment Dalam Meningkatkan Kinerja Keuangan", *SEGMENT Jurnal Manajemen dan Bisnis* 13, (2017), p. 3.

investigating the interplay between eco-friendly investment, sustainable innovation, and stock prices, with financial performance acting as a mediating factor, is particularly pertinent in light of the stock market's growing sensitivity to sustainability concerns.

Research conducted by Tanasya and Handayani (2020) shows that corporate governance and eco-friendly investments affect financial performance, and financial performance which is profitability also affects the value of the company. In addition, profitability can mediate the relationship between eco-friendly investments and company value. (Tanasya & Handayani, 2020) Meanwhile, research conducted by Prasetyaningsih et al. (2024) found that return on assets (ROA) can moderate the relationship between sustainable innovation and company value.⁸ However, these two studies have not specifically investigated the relationship between eco-friendly investments and sustainable innovation on stock prices. In addition, the object of this study focuses on companies with Sharia principles, which has not been studied much in previous research. The role of financial performance as moderation is also a concern in research. Therefore, this study aims to fill the gap by looking at how the influence of eco-friendly investment, and sustainable innovation affects stock prices and whether financial performance can moderate the relationship between independent and dependent variables.

B. Research Question

Based on the research background above, the author summarizes the problem formulation as follows.

1. How does eco-friendly investments affect financial performance in consumer goods industry companies registered with ISSI in 2021-2023?

⁸ Prasetyaningsih, (*Peran Moderasi Kinerja Keuangan Dalam Hubungan Sustainable innovation Dengan Nilai Perusahaan (Studi Empiris Pada Perusahaan Properti Dan Real Estate Tahun 2020-2022)* | Prasetyaningsih | e_Jurnal Ilmiah Riset Akuntansi, n.d.)

2. How does sustainable innovation affect financial performance in companies registered with ISSI in 2021-2023?
3. How does financial performance affect stock prices in consumer goods industry companies registered with ISSI in 2021-2023?
4. How does Financial Performance Mediates the Relationship Between Eco-friendly investments and Stock Prices in consumer goods industry companies registered with ISSI in 2021-2023?
5. How does Financial Performance Mediates the Relationship Between Sustainable innovation and Stock Prices in consumer goods industry companies registered with ISSI in 2021-2023?

C. Research Purposes

In general, research is carried out with the following objectives:

1. To determine the effect of eco-friendly investments on financial performance in consumer goods industry companies registered with ISSI in 2021-2023.
2. To determine the influence of sustainable innovation on financial performance in companies registered with ISSI in 2021-2023.
3. To find out the financial performance of stock prices in consumer goods industry companies registered with ISSI in 2021-2023.
4. To determine the effect of Financial Performance Mediates the Relationship Between Eco-friendly investments and Stock Prices in consumer goods industry companies registered with ISSI in 2021-2023?
5. To determine the effect of Financial Performance Mediates the Relationship Between Sustainable innovation and Stock Prices in consumer goods industry companies registered with ISSI in 2021-2023?

D. Benefits of Research

1. Theoretical Benefits

The results of this study are expected to provide references, data and information for the application of management science, especially in the financial sector and for researchers who will conduct research in similar fields and further with the topic of Environmentally Friendly Investment, Sustainable Innovation, Stock Prices and Financial Performance in the consumer goods industry registered with ISSI in the period 2021-2023.

2. Practical Benefits

This research is expected to be one of the foundations for companies with the aim of becoming companies that care about the environment. With a focus on companies listed in the Indonesian sharia stock index (ISSI). So that, it can support the sustainable economy globally.

