

The Impact Of ESG Practices on Firm Value in Indonesia : Evidence from Financing and Investment Decisions as Mediators

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Abstract

This study aims to empirically examine the mediating roles of investment and financing decisions in the relationship between ESG implementation and firm value in Indonesia. The sample consists of 125 manufacturing firms observed over the period 2019–2023. Hypotheses are tested using path analysis with the WarpPLS application. The results indicate that ESG implementation does not have a direct significant impact on firm value. However, investment decisions are found to mediate the relationship between ESG implementation and firm value. In contrast, financing decisions do not play a significant mediating role. Furthermore, financing decisions are not directly associated with firm value. The novelty of this study lies in the proposed model, which has not been previously examined in prior research.

Contribution/Originality - The model analyzed in this study integrates several key variables into a comprehensive analytical framework, thereby providing numerous benefits for deepening understanding of their relationships.

Keywords – *ESG implementation, Corporate value, Funding decisions, Investment decisions, Indonesia*

1. Introduction

Corporate ESG implementation has attracted the attention of stakeholders worldwide (Agustin et al., 2025; Lestari & Soewarno, 2024; Liu & Lee, 2025; Zharfpeykan & Bai, 2025). The high level of global public attention and awareness regarding sustainability issues stems from the significant environmental damage caused by corporate activities (David & Wang, 2025; Oyinlola, 2025; Sari & Alfarizi, 2024). Companies operate in pursuit of economic profit while causing significant environmental damage, endangering human survival. Furthermore, they are also frequently involved in social conflicts with communities, labor exploitation, discrimination, and a disregard for employee welfare. An even greater impact of unsustainable corporate activities is global climate change. The high level of stakeholder awareness of corporate sustainability issues demands that companies act in accordance with sustainability principles (Al-Tahat et al., 2025; Sari & Alfarizi, 2024; Yang, 2025). The social contract between society and companies serves as an effective oversight mechanism that compels companies to seriously consider sustainability. This is because companies need public support in the form of legitimacy, which can only be achieved by meeting the expectations of society and investors.

Furthermore, companies that operate in accordance with sustainability principles will gain a positive reputation and image. They will rarely be involved in cases or conflicts that harm the company. Ultimately, the market will appreciate these companies because they are seen as a positive signal. Investors' appreciation for companies that implement ESG (sustainability) practices is evident in their high market value (Cahyono et al., 2025; Lu, 2021; Yulinda et al., 2020).

Several previous studies have examined ESG and company value. However, there have been no consistent findings between these studies. Some companies have high market value due to strong ESG implementation (Aydoğmuş et al., 2022; Miao et al., 2023; Tasnia et al., 2020). They believe that genuinely sustainable companies receive greater market recognition. However, they also found that company value is not linearly related to the widespread implementation of ESG (Castillo-Merino & Rodríguez-Pérez, 2021; Gutsche, 2016; Kevser et al., 2024; Kraus et al., 2020). They argue that there is a funding issue stemming from companies' massive sustainability investments that are not

accompanied by performance improvements. This creates a research gap that requires further and more in-depth investigation.

This study analyzes the relationship between ESG and firm value more comprehensively by accounting for mediating factors. This study hypothesizes that investment and financing decisions mediate the relationship between ESG implementation and firm value. Investment decisions are considered significantly better and more effective, and prioritizing long-term profitability will increase firm value. Furthermore, ESG implementation will enhance a company's image, creating a favorable perception among creditors and investors and significantly influencing its funding. Funding obtained through both debt and equity increases firm value when managed properly (Zhang et al., 2024; Bracht et al., 2024).

The purpose of this study is to empirically test the effect of ESG implementation on firm value, both directly and through its impact on financing and investment decisions. This research was conducted on mining (energy) companies in Indonesia over five years. Mining companies were selected due to the sector's significant role in the Indonesian economy. Furthermore, the energy sector is one whose operations directly impact the environment. Demands for their sustainability activities are also more clearly regulated by Indonesian law. The novelty of this research lies in the model proposed, which is the first of its kind and a pioneer for further research. Therefore, this study makes a significant contribution to the growing literature.

2. Literature Review and Hypothesis Development

Companies operate to maximize shareholder wealth by increasing their value (Lee, 2021; Waheed & Malik, 2019). Company value is reflected in the intrinsic value of shares, which is the amount investors are willing to pay for their investment. It is the impact of funding, investment, and dividend management. Company value reflects market perceptions of the company's prospects and risks, which are generally reflected in the stock market price (Gutsche, 2016; Lestari & Soewarno, 2023; Li et al., 2018). In financial decision-making, increasing company value is largely determined by the effectiveness of three key decisions: funding, dividends, and investment. These three decisions are interrelated and aimed at generating optimal returns with controlled risk.

Investment management plays a crucial role in ensuring the efficient and effective allocation of company funds to projects that generate consistent future cash flows (Aharoni et al., 2013; Benamraoui et al., 2019; Ho, 2026). Correct investment decisions will undoubtedly increase the company's value, but there is a trade-off between investment decisions and providing cash in the form of dividends to shareholders. If the investment is more profitable, shareholders will choose it; if it is less profitable than expected, they will choose a cash return (dividends). However, the benefits of investment cannot be separated from the funding decisions used to finance the investment. Capital structure theory holds that the optimal combination of debt and equity financing can minimize the cost of capital and increase company value (Aharoni et al., 2013; Liang et al., 2014; Zarefar & Armadani, 2024). However, a suboptimal funding structure can actually increase financial risk and decrease company value.

Various studies have examined the impact of financing and investment decisions on company value (Camisón-Haba et al., 2022; Güner et al., 2008; Zheng et al., 2021). Companies that rely more on equity than debt tend to overinvest in projects with low net present value (NPV) to benefit managers. Meanwhile, companies that tend to use more debt funding than equity do the opposite: retain cash to prevent default, ultimately leading to underinvestment and, ultimately, lower company performance (Zarefar & Armadani, 2024). Liang et al. (2014) found that using debt is not always a bad choice for companies to fund their investment activities. They found that investment decisions can increase

company value. The market responds positively to ESG implementation disclosures, leading companies with environmentally conscious investments to have higher company value.

Furthermore, ESG implementation has also been shown to influence company value through investor reaction mechanisms. Several studies have shown that the stock market responds significantly to information related to a company's social and environmental performance, indicating that ESG implementation has direct implications for shareholder wealth (Al-Shaer et al., 2025; Jeffrey et al., 2019; Truong, 2024). Thus, ESG implementation can directly influence company value and indirectly influence investment and financing decisions.

H.1.a ESG Implementation Increases Company Value

H.1.b ESG Implementation Increases Company Value Through Financing Decisions

H.1.c ESG Implementation Increases Company Value Through Investment Decisions

Corporate financing decisions are policies related to debt and other sources of financing. Funding decisions can take the form of loans or investments from investors. Each funding source carries its own consequences. We often see debt financing as a negative aspect for companies. This is because debt is closely related to corporate risk. If a company correctly assesses its risks, debt will not be a problem for corporate financing (Liang et al., 2014; Zarefar & Armadani, 2024).

According to the trade-off theory, using optimal debt increases company value when the benefits outweigh the risk of bankruptcy (Wagisuwari & Sitorus, 2024). Furthermore, companies are required to analyze appropriate financing decisions to generate optimal profits (Voutsinas & Werner, 2025; Gohdes, 2025). Investors will view debt financing favorably when the company demonstrates strong performance. Investor appreciation for a company is reflected in its high market value.

H.2. Funding decisions have a direct impact on company value.

Investment is the act of investing capital to generate future profits. This investment can take the form of cash, physical assets, or ownership of securities. Investment decisions relate to investment decisions, whether in real assets or direct investment in real assets, such as building a factory or increasing existing production capacity, or in financial assets, namely ownership of securities of companies or other institutions, such as shares and bonds. Investment decisions can be distinguished into short-term (working capital) and long-term (Capital Expenditure) decisions (Suteja et al., 2023). Modigliani & Miller (1958) conducted extensive research on investment decisions and firm value, showing that, in a perfect capital market, a firm's financial structure does not affect its market value. However, signaling theory explains that investment decisions, which are one of the pieces of information considered by investors, will influence their perceptions of the company (Karaman et al., 2020; Karaman et al., 2020).

Investment decisions are crucial to a company's value because the right investments increase returns and, consequently, increase stock price valuations (Suteja et al., 2023). Correct investment decisions optimize profit generation from the assets used. Companies that make the right investment decisions will increase their value.

H.3 Investment decisions have a direct impact on company value

The company's goal is to maximize the present value of outstanding shares and shareholder wealth (Wang et al., 2022; Yulinda et al., 2020). Three financial decisions are the responsibility of financial managers: investment, financing, and dividend policy. Investment decisions are related to financing decisions: investment decisions involve the purchase of real assets, while financing decisions involve the sale of financial assets, such as company shares and bonds. Appropriate investment decisions

aligned with targets will increase company value. Investment decisions include capital expenditures, or capital budgeting, in which managers must utilize all company resources efficiently and effectively to achieve the company's goal of maximizing shareholder wealth, as reflected in the increase in the value of outstanding shares (Suteja et al., 2023).

The relationship between investment decisions and financing decisions subsequently impacts company value. Efficient investments supported by an optimal financing structure can increase future cash flows and lower the cost of capital, thus positively impacting company value. Conversely, excessive investment (overinvestment) or investment that is not aligned with a company's financing capacity can increase the risk of bankruptcy and reduce company value (Bracht et al., 2024; Wahyudin & Solikhah, 2017). Thus, financing decisions act as a transmission mechanism between investment decisions and company value.

Furthermore, capital markets respond to investment decisions not only on the basis of potential returns but also on their implications for the company's financing structure and risk. Information about increased investment is often interpreted as a signal of growth, but market reaction depends heavily on how the investment is financed. Optimal debt financing can improve managerial discipline and company value, but excessive debt use actually reduces company value due to increased financial risk (Suteja et al., 2023).

ESG implementation is a special topic in financial management. ESG implementation directly impacts company value by signaling management quality and commitment to long-term sustainability. It can also indirectly impact company value through financing and investment decisions. ESG implementation encourages companies to choose funding sources that prioritize long-term sustainability, which, in turn, leads to sustainable investments and thereby increases future company value.

H.4: ESG implementation indirectly impacts company value through financing and investment decisions.

3. Research Methodology

3.1 Research Design

This study uses a quantitative research design to examine the direct and indirect effects of ESG implementation on firm value through financing and investment decisions. This explanatory study aims to test hypotheses and establish causal relationships between variables. Path analysis using Partial Least Squares (PLS) and structural equation modeling (SEM) is used to assess the direct and indirect effects of exogenous variables on investment decisions, financing decisions, and firm value.

3.2 Population and Sample

The population of this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The mining sector, in the energy subsector, was selected due to its contribution to Indonesia's GDP and various cases involving companies operating in the mining subsector that damage the environment. The total population consists of 25 companies, with 25 companies meeting the sample inclusion criteria. These criteria include:

1. Availability of complete financial reports for the 2019-2023 period.
2. Disclosure of corporate social responsibility activities based on the Global Reporting Initiative (GRI) standards.

3. The final sample consisted of 25 companies, providing 125 company-year observations (25 companies x 5 years). The sampling technique used was purposive sampling, where companies were selected based on their relevance to the research objectives and data availability.

3.3 Data Collection

The data used in this study are secondary data obtained from the financial statements, annual reports, and CSR disclosures of the sample companies. Data were collected from the official website of the Indonesia Stock Exchange (IDX) and each company's website. The variables measured in this study include:

1. ESG implementation is measured using the Global Reporting Initiative (GRI) G4 guidelines, which comprise economic, environmental, and social components (Bae et al., 2018).

2. Financing Decisions: Referring to previous research, financing decisions are measured using the Long-Term Debt to Assets Ratio (LDAR), Debt to Equity Ratio (DER), and Debt to Assets Ratio (DAR) (Zarefar & Armadani, 2024).

3. Investment Decisions: Measured using the Capital Expenditure to Book Value of Asset (CAPBVA) ratio proxy, Firm value to book value of property, plant and equipment (VPPE) ratio (Suteja et al., 2023). (CAPBVA) ratio that describes the amount of capital expenditures relative to investment compared to the book value of the company's assets while the R&D Expenses to sales ratio to see the investment spent by the company in research and development against total sales in the company, while the Book Value of PPE to Firm Value ratio looks at the total investment in fixed assets that have been spent and the return returned from that investment in the form of company value. 4. Company Value: Measured using two main indicators—Price-to-Earnings Ratio (PER), Price to Book Value (PBV) and Tobin's Q. Price-to-Earnings Ratio measures market expectations of a company's earnings, Price to Book Value (PBV) measures market expectations of the book value of a company's equity, and Tobin's Q compares the market value of a company's assets to their replacement cost, providing insight into how well a company is valued in the market (Nasir et al., 2024; Zarefar et al., 2022; Zarefar & Narsa, 2023).

3.4 Data Analysis

The primary data analysis method used in this study is Partial Least Squares (PLS) regression, a variance-based structural equation modeling (SEM) technique. PLS-SEM was chosen because it allows the estimation of complex models with many variables, even with smaller sample sizes. PLS is particularly suitable for this study because it does not require normal data distribution and can handle formative constructs, making it ideal for modeling corporate governance as a moderator.

The analysis was conducted in two stages:

1. Measurement Model (Outer Model): The reliability and validity of the measurement instrument were assessed using Cronbach's alpha, composite reliability, and average variance extracted (AVE). This testing ensured that the constructs were measured consistently and accurately.

2. Structural Model (Inner Model): Path coefficients were calculated to test the hypotheses, with the significance of the relationships between variables determined using t-statistics and p-values. Bootstrapping with 500 subsamples was used to estimate the significance level. The following relationships were tested:

1. The direct effect of ESG Implementation on firm value.

2. The mediating role of investment decisions and financing decisions on the relationship between ESG implementation and company value.

4. Research Results

4.1 Descriptive Statistics

This study used four variables: ESG Implementation, Investment Decisions, Financing Decisions, and Firm Value. Each variable has a proxy/indicator for measurement. Table 1 shows the minimum, maximum, mean, and standard deviation for each variable.

Table 1. Descriptive Statistics

Variable/Indicator	Maximum	Minimum	Mean	Standar Deviasi
PER	87,00	-41,55	7,33	15,33
PBV	19,77	0,27	1,78	2,76
Tobin Q	15,36	0,65	1,56	1,91
DAR	0,92	0,03	0,48	0,22
DER	12,20	0,04	1,57	1,93
LDAR	0,85	0,01	0,24	0,21
CAPVB	0,76	-3,35	0,03	0,36
VPPE	15,36	-0,10	1,51	1,88
R&D Expenses to Sales	2,56	0,04	1,16	0,39
ESG Implementation	0,98	0,00	0,29	0,25

Judging from the data above, it can be concluded that there is a PER with a mean value less than its standard deviation. This occurs because the research data contain extreme values. Judging from other indicators in the Company's value, the average value is smaller than the standard deviation. The data is not very widely distributed and may contain many 0s. Based on the DAR and LDAR, a mean value greater than the standard deviation indicates that the data are evenly distributed or normally distributed. Judging from the DER, the mean is smaller than the standard deviation, indicating that the data are extreme and contain many zeros. According to the CAPVB and VPPE, the mean is smaller than the standard deviation. This may be caused by extreme negative values and many zeros in the research data. Judging from R&D Expenses to Sales and ESG Implementation, a mean greater than the standard deviation indicates the data are normally distributed. For each variable and year, the data are shown in Table 2.

Table 2. Descriptive data per year

Variable/Indicators	2019	2020	2021	2022	2023
Firm Value					
PER					
Max	48,00	87,00	43,00	25,42	28,50
Min	-38,00	-41,00	-28,00	-8,72	-41,55
Mean	8,27	9,70	9,33	5,24	4,10
Standard Deviation	14,19	24,18	13,58	7,31	12,88
PBV					
Max	6,22	5,78	9,76	18,73	19,77

Minimal	0,33	0,27	0,28	0,31	0,27
Rata-rata	1,18	1,39	1,84	2,57	1,91
Standard Deviation	1,23	1,39	2,03	4,01	3,82
Tobin Q	3,89	4,01	5,08	14,35	15,36
Max	0,67	0,65	0,66	0,69	0,72
Min	1,14	1,27	1,53	1,91	1,98
Mean	0,65	0,76	1,07	2,69	2,97
Standard Deviation					
Funding Decisions					
DAR					
Max	0,89	0,91	0,92	0,84	0,83
Min	0,19	0,09	0,13	0,13	0,03
Mean	0,52	0,50	0,49	0,47	0,44
Standard Deviation	0,22	0,23	0,20	0,21	0,22
DER	8,28	10,50	12,20	5,28	4,98
Max	0,14	0,10	0,15	0,15	0,04
Min	1,86	1,85	1,65	1,35	1,13
Mean	2,12	2,36	2,36	2,45	1,10
Standard Deviation	0,85	0,60	0,58	0,69	0,72
LDAR	0,02	0,02	0,02	0,02	0,00
Max	0,31	0,29	0,20	0,19	0,22
Min	0,24	0,19	0,16	0,18	0,23
Mean					
Standard Deviation					
Investment Decisions					
CAPVBA					
Max	0,26	0,30	0,30	0,46	0,76
Min	-0,25	-0,51	-0,45	-0,24	-3,34
Mean	0,00	0,01	0,02	0,17	-0,08
Investment Decisions	0,12	0,15	0,19	0,18	0,72
VPPE	3,88	4,01	5,08	14,35	15,36
Max	0,67	0,65	0,66	0,69	-0,09
Min	1,14	1,26	1,53	1,91	1,70

Mean	0,65	0,76	1,06	2,69	2,90
Investment Decisions					
R&D Expenses to Sales	2,11	2,56	1,51	2,18	2,43
	0,05	0,55	0,04	0,55	0,74
Max	1,14	1,22	1,06	1,12	1,27
Min	0,45	0,36	0,37	0,38	0,39
Mean					
Investment Decisions					
Implementasi ESG					
Max	0,68	0,65	0,84	0,88	0,98
Min	0,00	0,00	0,04	0,05	0,00
Mean	0,16	0,15	0,31	0,38	0,44
Investment Decisions	0,24	0,20	0,18	0,23	0,25

Tables 3.1 and 3.2 present the results of the correlation analysis between Sustainable Performance Indicators (X1), Investment Decisions (X2), Funding Decisions (X3), and Firm Value (Y). Table 3.1 reports the correlation coefficients for each pair of variables, providing an initial indication of the strength and direction of their linear relationships. Positive coefficients indicate that higher levels of sustainable performance, investment decisions, or funding decisions tend to be associated with higher firm value, whereas negative coefficients indicate an inverse relationship. Table 3.2 reports the corresponding p-values for each correlation coefficient, which are used to assess the statistical significance of these relationships at the chosen significance levels. Correlations with p-values below the specified threshold are interpreted as statistically significant, suggesting that the observed relationship between the variables is unlikely to have occurred by chance

Table 3.1: Correlation between Sustainable Performance Indicators (X1), Investment Decisions (X2), Funding Decisions (X3), and Firm Value (Y)

	X1	Y1.1	Y1.2	Y1.3	X2.1	X2.2	X2.3	X3.1	X3.2	X3.3
X1	1.000									
Y1.1	0.217	1.000								
Y1.2	0.253	0.942	1.000							
Y1.3	0.019	0.202	0.165	1.000						
X2.1	-0.043	0.085	0.010	0.021	1.000					
X2.2	0.256	0.963	0.973	0.219	0.125	1.000				
X2.3	-0.054	-0.157	-0.199	0.066	0.030	-0.203	1.000			
X3.1	0.045	-0.194	-0.271	-0.181	-0.030	-0.231	0.196	1.000		
X3.2	0.005	-0.131	-0.168	-0.207	-0.031	-0.150	0.281	0.787	1.000	
X3.3	-0.017	-0.017	-0.118	-0.216	-0.035	-0.091	-0.002	0.607	0.510	1.000

Source: Processed Data (2024)

Table 3.2: P Value of Correlation between Sustainable Performance Variable Indicators (X1), Investment Decisions (X2), Funding Decisions (X3) and Company Value Variable (Y)

	X1	Y1.1	Y1.2	Y1.3	X2.1	X2.2	X2.3	X3.1	X3.2	X3.3
X1	1.000									
Y1.1	0.015	1.000								
Y1.2	0.004	<0,001	1.000							
Y1.3	0.578	0.024	0.067	1.000						
X2.1	0.442	0.240	0.635	0.565	1.000					
X2.2	0.004	<0,001	<0,001	0.014	0.114	1.000				
X2.3	0.383	0.081	0.026	0.322	0.514	0.024	1.000			
X3.1	0.430	0.030	0.002	0.043	0.515	0.010	0.029	1.000	<0.001	<0.001

Table 3.1 and table 3.2 correlation and significance show that the correlation between indicators in Variable Y1.1 and Y1.2 has a strong correlation of 0.942 with a sig of <0.001 while for indicator Y1.3 it has a moderate correlation of 0.202 and 0.165 to Y1.1 and Y1.2 with p-values of 0.024 and 0.067. For variable X1 is a variable with one indicator so it has a strong correlation. For variable X2 the correlation between indicators is inconsistent. The correlation of indicator X2.1 to X2.2 is 0.125 with a p-value of 0.114 while X2.1 to X2.3 is 0.30 or a p-value of 0.514 while the correlation between X2.2 to X2.3 is - 0.203 or a p-value of 0.024. The relationship between X.2.2 and Y.1.1 and Y1.2 has a strong correlation of 0.963 and 0.973, with p-values <0.001 and <0.001, respectively. Judging from the correlation between the indicator variables, variable X2 has inconsistent indicators. Although the correlation between the indicator variables is high, the research model is free from multicollinearity, as seen by the VIF values for each variable of 1.062 for variable X1, 2.280 for variable Y, 2.241 for variable X2, and 1.071 for variable X3. Based on the cross-loading values of the variables/indicators, the model is found to be reflective with a p-value <0.001.

Based on the Goodness of Fit test using predictive-relevance (Rm2), the R2 values for each endogenous variable in this study are as follows: 1) for the Investment Decision variable, the R2 is 0.40; and 2) for the Funding Decision variable, the R2 value is 0.05 and the Company Value obtained R2 is 0.79. The predictive-relevance value is obtained using the formula:

$$R^2_m = 1 - (1 - R_1^2)(1 - R_2^2)(1 - R_3^2)(1 - R_4^2) \quad R_m^2 = 1 - (1 - 0.40)(1 - 0.05)(1 - 0.79) = 1 - 0,1197 = 0.8803 = 88,03\%$$

The model explains 89.51% of the data diversity from exogenous variables, or 88.03% of the information contained in the data. The remaining 11.97% is explained by other variables (not yet included in the model) and error.

4.2 Hypothesis Testing

The complete analysis results, contained in the WarpPLS analysis results, can be seen in Appendix 2. Table 4 below presents the results of the direct effect hypothesis testing.

Table 4. Results of Hypothesis Testing in the Inner Model: Direct Effect

Connection	Path Coefficient	p-value	Information
Investment Decision → Company Value	0.79	< 0.01	Significant

ESG Implementation → Company Value	0.10	0.14	Non Significant
Funding Decisions → Company Value	-0.12	0.09	Non Significant
ESG Implementation → Investment Decision	0.59	<0.01	Significant
ESG Implementation → Funding Decisions	0.22	<0.01	Significant
Funding Decisions → Investment Decision	-0.18	0.02	Significant

Sumber: Data Sekunder Diolah (2024)

Based on the research results presented in Table 4, ESG Implementation and Funding Decisions do not directly affect Company Value ($p\text{-value} > 0.05$). Meanwhile, Investment Decisions on Company Value, ESG Implementation on Investment Decisions, ESG Implementation on Funding Decisions, and Funding Decisions on Investment Decisions have a significant influence ($p\text{-values} < 0.05$).

Based on Table 4, an indirect relationship was found between ESG Implementation and Company Value through Investment Decisions, with an indirect effect coefficient of 0.4661 (0.47). Because the direct effect of ESG Implementation on Investment Decisions (0.59) and Investment Decisions on Company Value (0.78) are both significant, it can be concluded that there is a significant indirect effect between ESG Implementation and Company Value through Investment Decisions. The coefficient is positive. It indicates that better ESG implementation leads to better fulfillment of investment needs, thus increasing Company Value.

Furthermore, the indirect effect of ESG Implementation on Company Value through Funding Decisions yields an indirect coefficient of 0.0264. Since the direct effect of ESG Implementation on Funding Decisions is 0.22 with a significance level of 0.02, and the coefficient of Funding Decisions on Company Value is -0.12, with a significance level (P-Value) of 0.09, one of the variables is insignificant. Therefore, there is no significant indirect effect of ESG Implementation on Company Value through Funding Decisions. It indicates that good ESG implementation cannot increase Company Value through Funding Decisions because Funding Decisions cannot mediate the effect of ESG Implementation on Company Value.

The indirect effect of ESG Implementation on Company Value through Funding Decisions and Investment Decisions yields an indirect coefficient of 0.0313. Because the influence of ESG Implementation on Funding Decisions is significant with a coefficient of 0.22 and $p\text{-value} < 0.01$ and the Funding Decisions coefficient on Investment Decision is -0.18 significant while Investment Decision on Company Value is 0.79 with $p\text{-value} < 0.01$ significant, it can be said that the significant indirect influence between Sustainable Performance on Company Value through Funding Decisions Investment Decision The company indirectly has a significant effect because the influence of all variables has a significant effect. It shows that good ESG Implementation will make it easier for companies to access cheap funding, thereby increasing investment opportunities and Company Value.

Table 5. Results of Hypothesis Testing in the Inner Model: Indirect Effect

Indirect Influence	Direct Influence Coefficient		Indirect influence coefficient
ESG Implementation → Investment Decision	ESG Implementation → Investment Decision (0.59) s	Investment Decision	0,4661(s)

→ Company Value		→ Company Value (0.79) s	
ESG Implementation → Funding Decisions → Company Value	ESG Implementation → Funding Decisions (0.22) s	Funding Decisions → Company Value (-0.12) ts	0.0264 (ts)
ESG Implementation → Funding Decisions → Investment Decision → Company Value	ESG Implementation → Funding Decisions → Investment Decision 0.22 (s) .-0.18 (s)	→ Investment Decision → Company Value 0.79 (s)	-0.0313 (s)

Source: Processed data (2024)

4.3 Discussion

The research found that ESG implementation does not have a significant direct effect on company value, and there is no positive relationship. This positive relationship implies that effective ESG implementation can increase a company's value. Therefore, companies that pay attention to ESG implementation send a positive signal, which can improve investor perceptions by signaling the company as environmentally responsible. Stakeholder theory states that companies must consider all stakeholders, including investors, employees, customers, the community, and the environment. These research findings support the findings of El Ghouli et al. (2011), Eccles et al. (2014), and Krüger (2015), which state that ESG implementation positively contributes to company value. However, its indirect impact on company value depends on industry characteristics and investment time horizon. Furthermore, ESG implementation has been shown to influence funding decisions, with companies with better sustainability practices gaining access to cheaper, more stable funding (Goss & Roberts, 2011; Cheng et al., 2014). Furthermore, ESG implementation influences investment decisions, both as a signal of company quality and as a long-term risk-mitigation mechanism (Bénabou & Tirole, 2010; Krüger, 2015; Friede et al., 2015).

Based on the Table 5, the research found that investment decisions have a significant positive effect on company value. This means that increased investment will increase company value because greater investment will increase future cash inflows. Furthermore, increased investment signals to investors that the company has strong prospects. This, in turn, increases the company's stock price, thereby boosting its value, as investors in the capital market pay closer attention to investment decisions and the company's operational performance. The results of this study, consistent with signaling theory, indicate that increased investment signals to investors that the company has the prospect of future cash inflows, leading to higher stock prices and company value. Increased investment boosts long-term company growth, thereby increasing investor confidence and increasing the company's price or company value. Research by Murniati, Siti et al. (2019) found that investment decisions influence company value, whereas Trani Nur and Deden Tarmidi (2019) stated that they do not.

The study found that funding decisions have an insignificant negative effect on company value. This relationship suggests that heavy debt use reduces company value, as companies with large debt pay higher interest rates, thereby increasing operating costs and reducing profits. This aligns with the trade-

off theory, which states that debt can increase company value to a certain extent, but beyond a certain point, the income from tax savings is less than the costs incurred from debt. However, this study found that the effect of funding decisions was insignificant in the energy sector, consistent with Hatfield et al.'s (1994) study, which found that debt (funding decisions) does not affect company value.

Based on the research results, ESG Implementation has an indirect effect on Company Value through Funding Decisions and Investment Value. This means that companies that pay attention to ESG Implementation are seen as caring about their operating environment, thereby improving their long-term reputation. This increase in the company's reputation makes it easier to obtain cheap funding for investments, thereby boosting its stock price.

5. Conclusions and Recommendations

This study aims to examine the impact of ESG implementation on company value in developing countries. This study examines the direct influence of ESG implementation on company value in mining companies, specifically through financial decisions, including investment decisions and funding decisions. The study found that ESG implementation does not directly affect company value. This result suggests that ESG implementation cannot directly influence company value, as other variables can mediate the relationship.

Other studies have found that ESG implementation can indirectly influence company value through investment decisions. These results indicate that good companies tend to have a lower cost of capital, both the cost of equity and the cost of debt, due to perceived lower risk and better governance. Furthermore, investors will respond to ESG implementation disclosure as a signal of a company's low risk, leading to an increase in its stock price.

This study found that ESG implementation does not, in turn, influence company value through funding decisions. Sustainable performance in energy sector companies does not directly influence funding decisions; rather, it affects investor perceptions of project risk, not the funding structure. Outside energy/mining companies, sustainable performance is not a primary factor in funding decisions; it is only related to company reputation.

This study found that ESG implementation can indirectly mediate the impact of funding decisions on investment decisions and company value. The results of this study indicate that ESG implementation will influence company policies in determining funding sources for company investments, which, in turn, will lower the cost of capital, leading investors to perceive these investments as profitable and increasing stock prices and company value. This study has several weaknesses, namely: 1. The relatively short research period of 5 years. 2. This study cannot be generalized to all companies in Indonesia because it focuses on mining companies in the energy subsector.

Use of AI Tools Declaration

The authors declare they have not used Artificial Intelligence (AI) tools in the creation of this article.

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Data Availability Statement

The data supporting the findings of this study are accessible from the corresponding author.

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Ethical Approval

This article does not contain any studies with human participants performed by any of the authors.

Informed Consent

Not applicable.

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