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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) IMPACT ON INVESTMENT DECISIONS AND FINANCIAL PERFORMANCE

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Abstract

The development of modern capital markets shows that investment considerations no longer focus solely on financial aspects but also incorporate sustainability practices represented through Environmental, Social, and Governance (ESG). ESG is viewed as a key indicator reflecting corporate responsibility toward the environment, society, and good governance, serving as an essential basis for investors in making investment decisions. This study employs a Systematic Literature Review (SLR) approach by analyzing 10 scientific articles indexed in Sinta and Google Scholar from 2020 to 2025. The findings reveal that ESG practices, overall, have a positive impact on investment decisions and corporate financial performance. The main factors supporting ESG's influence include profitability, firm size and age, good corporate governance, and investment efficiency. However, leverage has a negative effect, while liquidity shows no significant impact on financial performance. Overall, these findings emphasize that ESG implementation acts as a positive signal to investors by increasing trust, market value, and corporate competitiveness.

Keywords: Environmental, Social, and Governance (ESG); Investment Decisions; Financial Performance; Company Value; Profitability; Leverage; Good Corporate Governance.

Introduction

In the modern business era, the implementation of Environmental, Social, and Governance (ESG) has become a key indicator in assessing a company's sustainability and strategic performance. ESG reflects a company's environmental, social, and governance responsibilities, and is a crucial strategy for enhancing its reputation and long-term value. (Minggu et al., 2023). The change in investor orientation, which no longer only assesses financial performance, but also the company's sustainability practices, indicates a paradigm shift in investment decision-making. (Fajri Yudha & Rahman, 2024). ESG is now seen as a signal of reliability and transparency, making it easier for companies with good ESG practices to attract investor trust and expand funding opportunities. (Putri & Mayangsari, 2024).

This increasing attention to sustainable investment is also evident in the Indonesian capital market, where various studies show that ESG practices can impact investment efficiency, company value, and financial performance. (Aziz

Susandi et al., 2024; Febriantoko et al., 2025). However, these findings still show varying results, so an analysis of ten scientific journals related to ESG, investment decisions, and financial performance is important to gain a comprehensive understanding of how ESG affects company performance and attractiveness in the eyes of investors.

Theoretical Framework

In this study, a theoretical framework is used as a conceptual basis to explain the relationship between Environmental, Social, and Governance (ESG), investment decisions, and corporate financial performance. This framework helps provide a comprehensive understanding of how ESG implementation can influence investor behavior and corporate performance through various relevant theoretical approaches. Some of the theories underlying this study include Stakeholder Theory, Signaling Theory, and Legitimacy Theory, which collectively describe the role of ESG as a business strategy that is not only oriented towards social responsibility but also towards increasing corporate value and long-term investment attractiveness..

1. **ESG as a form of responsibility towards stakeholders (Stakeholder Theory)**
   ESG reflects a company's responsibility to the environment, society, and good governance. Within the framework of Stakeholder Theory, a company's sustainability is greatly influenced by its ability to meet the expectations of stakeholders, not just shareholders. ESG practices are a strategic tool for building social legitimacy and maintaining long-term relationships between companies and society. By addressing social and environmental aspects, companies strengthen their image and increase their attractiveness to investors. (Minggu et al., 2023).
2. **ESG as a positive signal for investors (Signaling Theory)**
   Based on Signaling Theory, ESG disclosure is a positive signal reflecting transparency, credibility, and strong governance. Investors view ESG practices as an indicator of a company's sound risk management, financial stability, and long-term orientation. Companies with strong ESG practices tend to gain greater trust from capital markets and investors. (Putri & Mayangsari, 2024).
3. **ESG and investment efficiency**
   ESG not only serves as a form of sustainability reporting but also improves investment efficiency. Integrating ESG into corporate strategy enables more optimal resource management, reduces potential losses, and strengthens a company's competitiveness. Investors perceive companies that consistently implement ESG as entities with lower investment risk. (Fajri Yudha & Rahman, 2024).
4. **ESG in building social legitimacy (Legitimacy Theory)**
   ESG practices reinforce Legitimacy Theory, which states that companies gain public trust through responsible business behavior. Managing environmental, social, and governance aspects provides a foundation for companies to gain support from the public, government, and market. This legitimacy plays a

crucial role in expanding access to funding and increasing a company's value in the eyes of investors. (Aziz Susandi et al., 2024).

5. **ESG as a driver of corporate value and financial performance**
   Consistent ESG implementation has been proven to improve financial performance and company value. Companies with strong ESG disclosures are more likely to attract capital, enhance their reputation, and strengthen their long-term competitive advantage. This demonstrates that ESG is not just a moral obligation but also a business strategy that directly impacts investment decisions. (Febriantoko et al., 2025).

Method

The research approach used in this study is a Systematic Literature Review (SLR), a systematic, transparent, and replicable literature review method that summarizes previous research findings. The SLR was chosen to obtain a comprehensive overview of the development and influence of Environmental, Social, and Governance (ESG) on investment decisions and corporate financial performance in Indonesia. The SLR allows researchers to collect and analyze scientific evidence in a structured manner, resulting in a more in-depth and credible understanding (David Tranfield, 2003).

The SLR in this study refers to a methodological framework that includes three main stages: planning, conducting the review, and reporting the results (David Tranfield et al., 2009). The literature search process was conducted using the Publish or Perish tool using the Google Scholar database to obtain scientific articles indexed by Sinta. Next, the literature selection process was carried out by strictly applying inclusion and exclusion criteria.

The literature search process was conducted using the Publish or Perish tool using the Google Scholar database to obtain scientific articles indexed by Sinta. The literature selection procedure in this study was carried out by applying inclusion and exclusion criteria. Inclusion criteria are elements or criteria used to include articles for study, while exclusion criteria are variables or criteria used to determine whether an article should be excluded from the evaluation. These two standards will be used to assess the usefulness of the data collected as a research sample. The following are the inclusion criteria: (1) Articles that discuss the impact of ESG variables on investment decisions and financial performance, (2) Using the Google Scholar database to search for literature, (3) Articles published between 2020 and 2025, (4) Items with the most citations indexed by Sinta, (5) Using the most widely available and well-researched factors. The literature selection procedure was carried out in stages. (Sánchez et al., 2021).

Results

The literature selection method consists of four steps: identification, screening, eligibility, and selecting the number of articles to review. A total of 5,460 articles were identified from a Google Scholar database search using the phrase "ESG Impact on Investment Decisions and Financial Performance." After going through a selection and

filtering process based on publication year, only 995 articles remained with the help of the Publish and Perish tool (Figure 1). Articles with the term "ESG Impact on Investment Decisions and Financial Performance" were then eliminated once again based on articles indexed by Sinta. Finally, the most widely researched and accessible factors were used to exclude 10 articles.

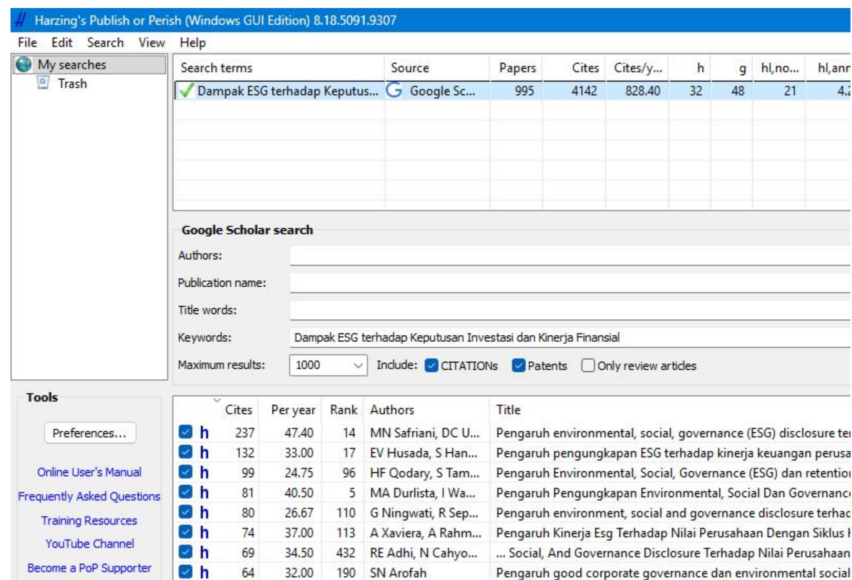

Figure 1. The Harzing's Publish or Perish

This section discusses the results of an analysis of ten scientific journals indexed in Sinta between 2020 and 2025 that investigate the relationship between Environmental, Social, and Governance (ESG) factors, investment decisions, and corporate financial performance. The analysis reviews the research topics, variables, methodologies, and main findings of each study to identify emerging patterns and draw general conclusions. In addition, this section presents the factors that influence the relationship between ESG, investment decisions, and financial performance, which are summarized in a table to ensure a more systematic and easily comprehensible discussion, as follows:

Table 1. Article Topics

No	Year	Topics	Journal	Sinta	Citation
1.	2023	Environmental, Social and Governance (ESG) and Financial Performance of Public Companies in Indonesia	Owner: Research and Accounting journal	Sinta 3	48
2.	2024	The Influence of Environmental, Social, and Governance (ESG) Disclosure on Investment Efficiency	KRISNA: Accounting Research Collection	Sinta 3	9

No	Year	Topics	Journal	Sinta	Citation
3.	2024	Analysis of the Impact of ESG Integration on the Risk-Return Profile of Investment Portfolios	Dynamics: Journal of Socio-Economic Management	Sinta 5	1
4.	2025	The Role of ESG Disclosure in Enhancing Firm Value and Financial Performance in the Indonesian Hospitality Sector: Moderation of Firm Size and Age	Owner: Research and Accounting journal	Sinta 3	1
5.	2023	The influence of good corporate governance and environmental social governance on company value with financial performance as a moderating factor	Journal of Business Economics Informatics	Sinta 4	64
6.	2022	The Influence of Good Corporate Governance and Company Size on Sustainability Report Disclosure and Its Impact on Stock Returns	Owner: Research and Accounting journal	Sinta 3	23
7.	2024	The Effect of ESG Disclosure on Risk of Financial Distress: Role of Industry Sensitivity	Atma Jaya Accounting Research (AJAR)	Sinta 5	6
8.	2025	Driving Corporate Value through ESG: The Role of Financial Performance as a Moderating Variable in SRI-KEHATI Index Issuers	Paradox: Journal of Economics	Sinta 4	2
9.	2024	Good Corporate Governance and Environmental, Social, and Governance Disclosures in Indonesia	Journal of Accounting and Finance Review	Sinta 2	12
10.	2023	The Influence of Environmental, Social and Governance (ESG) Responsibility, Liquidity, and Leverage on the Financial Performance of Public Companies	Ekonomi Digital	Sinta 4	5

The article on the variables influencing Environmental, Social, and Governance (ESG) factors toward investment decisions and financial performance was compiled based on a review of ten papers published between 2020 and 2025. Based on the data presented in Table 2, the following analysis is provided:

Table 2 Impact of ESG on Investment Decisions and Financial Performance

No	Researcher(s)	Sample	Factor(s)
1.	A. Merici Minggu, Jusuf A., Godlief F. Neonufa	Public companies on the IDX (2010–2019) – 346 observations	Financial Performance
2.	Fajri Yudha, Annisaa Rahman	IDX companies that published sustainability reports (2016–2020)	Investment Efficiency
3.	Ferix A. Susandi, Danu P., Bagus E. Prasetya, Sayekti S. Dwiningwarni	PT Unilever Indonesia Tbk (2017–2021)	Return Portofolio, Investment Risk
4.	Jovan Febriantoko., Kartika Rachma Sari. Rosy Armaini.	32 hospitality sector companies on the IDX (2021–2022)	Company Size and Age
5.	Siti Nur Arofah, Khomsiyah	25 LQ45 companies on the IDX (2018–2021)	Profitability (ROA)
6.	Anggun Mita Tri Kusumawardani	14 LQ45 companies on the IDX (2018–2020)	Social Factors, Governance Factors
7.	Kezia Hertasneng Liwa, Fransiskus Eduardus Daromes, Marselinus Asri.	38 non-financial companies on the IDX (2017–2021)	ESG Disclosure, Company Values
8.	Rais Shiddiq Perkasa, Frido S. Simatupang	10 SRI-KEHATI index companies (2019–2023)	Good Corporate Governance (GCG)
9.	Lailah Fujianti, Nelyumna Nelyumna, Widyaningsih Azizah, Sinta Budi Astuti, Nurul Hilmiyah, Anninsa Lailatul Qodriyah	161 Manufacturing Companies on the IDX (2021)	Market Signals
10.	Sandra Refdiani Putri, Sekar Mayangsari	58 Public Companies on the IDX (2022)	Leverage, Liquidity

Discussion

Based on the review results in Table 2, which used samples from various companies listed on the Indonesia Stock Exchange, it can be concluded that several key factors influence the implementation and impact of ESG on investment decisions and corporate financial performance. The most dominant factor is profitability, which acts as a strengthening factor in the relationship between ESG practices and corporate value. Companies with high profitability have greater financial flexibility

to consistently implement ESG programs, thereby increasing investor confidence and interest. Furthermore, corporate governance and social factors have been shown to have a significant positive impact on short-term financial performance, as they can enhance reputation, public trust, and investor loyalty.

1. **Financial Performance**
   ESG is a strategic foundation for sustainable business practices, combining three key dimensions: environmental, social, and governance. The social and governance dimensions have been shown to have a significant positive impact on a company's financial performance by enhancing its reputation and investor trust through transparency and accountability. Social programs strengthen relationships with the community, while good governance reduces operational and financial risks. Meanwhile, the environmental dimension demonstrates a significant long-term impact because investments in this area require significant costs and results are not immediately visible. Comprehensively integrated ESG practices strengthen company value and stakeholder trust. (Minggu et al., 2023; Putri & Mayangsari, 2024).
2. **Profitability (ROA)**
   Profitability, or Return on Assets (ROA), is a key driving factor in relation to ESG, financial performance, and investment decisions. Companies with high profitability are better able to fund sustainability initiatives. ROA also provides a positive signal to the market that management is managing resources efficiently, thereby strengthening investor appeal and increasing company value. This aligns with findings that companies with high profitability are more responsive to sustainability programs and tend to have better market performance. ((Minggu et al., 2023; Febriantoko et al., 2025).
3. **Company Size and Age**
   Company size and age play a significant role in the effectiveness of ESG implementation. Larger companies with extensive experience have better resources and infrastructure to consistently implement sustainability programs. Furthermore, more mature companies have operational stability and a strong reputation, thus gaining more trust from investors. This is confirmed by studies showing that larger companies are more active in ESG disclosure and attract more institutional investors. (Febriantoko et al., 2025; Minggu et al., 2023).
4. **Good Corporate Governance (GCG)**
   Good Corporate Governance (GCG) is a crucial foundation for strengthening ESG. Strong GCG ensures that ESG policies are implemented accountably and transparently, minimizes opportunistic practices, and enhances investor confidence. Research shows that good governance can expand the scope of ESG disclosure, improve information quality, and positively impact financial performance. (Fujianti et al., 2024; Shiddiq Perkasa & Simatupang, 2025).
5. **Leverage and Liquidity**
   High leverage negatively impacts financial performance in an ESG context because it limits a company's flexibility to fund sustainability programs. Companies with high debt burdens focus more on paying off obligations than on

expanding sustainability. Meanwhile, liquidity does not significantly impact ESG because available funds are often allocated to short-term activities rather than strategic sustainable programs. (Putri & Mayangsari, 2024; (Minggu et al., 2023).

6. **ESG as a Market Signal**

   ESG practices serve as a positive signal for investors. ESG disclosure demonstrates a company's strong governance, social awareness, and environmental commitment. Investors tend to place greater trust in companies that consistently implement ESG because they are perceived as having lower risk and stable long-term prospects. This also leads to increased investment interest and market value. (Aziz Susandi et al., 2024; Fajri Yudha & Rahman, 2024).

7. **Investment Efficiency**

   Investment efficiency reflects a company's ability to allocate resources to high-value projects while avoiding overinvestment or underinvestment. ESG disclosure has been shown to enhance investment efficiency by signaling transparency, accountability, and better risk management to both investors and company management. When ESG principles are fully integrated, companies tend to make more strategic and careful investment decisions, minimizing resource waste and increasing capital allocation effectiveness. This finding is consistent with the study by (Fajri Yudha & Rahman, 2024), which shows a positive relationship between ESG disclosure and investment efficiency.

8. **Portfolio Return and Investment Risk**

   The integration of ESG practices also positively affects portfolio returns while reducing investment risks. Strong ESG performance helps companies build operational stability, strengthen reputation, and enhance investor trust, ultimately leading to lower market risk. In the case of PT Unilever Indonesia Tbk, increased ESG scores were found to significantly improve portfolio returns. ESG acts as a non-financial risk mitigation mechanism, particularly in consumer sector investments. These findings are supported by (Aziz Susandi et al., 2024), who found a positive relationship between ESG scores and long-term investment performance.

9. **Social Factors and Governance Factors**

   Social and governance dimensions are the two ESG components that have the most immediate impact on financial performance. Social factors improve a company's image and relationships with stakeholders, while strong governance enhances transparency and accountability. Together, these factors strengthen investor confidence and increase stakeholder loyalty. According to (Kusumawardani, 2022), social and governance factors significantly enhance financial performance and attract institutional investors, highlighting their strategic role in sustainable business.

10. **ESG Disclosure and Company Values**

    Comprehensive ESG disclosure serves as a strong signal of reliability and long-term sustainability to investors. The broader the ESG disclosure, the higher the company's perceived value in the capital market. It enhances corporate

reputation, attracts sustainability-oriented investors, and ultimately increases firm valuation. (Liwa et al., 2024) found that ESG disclosure positively influences firm value, especially among non-financial companies listed on the Indonesian Stock Exchange.

Conclusion

Based on the synthesis of ten nationally indexed journal articles examining the relationship between Environmental, Social, and Governance (ESG), investment decisions, and financial performance, this study concludes that ESG serves as a strategic and multidimensional element in shaping corporate performance and investor perception. The implementation of ESG practices has a positive and significant influence on firm value, investment attractiveness, and long-term financial stability. Profitability emerges as the most influential factor, enabling firms to allocate sufficient financial resources to support sustainability initiatives. Moreover, social and governance dimensions are found to generate the most immediate positive effects by fostering transparency, trust, and accountability, while environmental factors provide long-term benefits that require greater investment and longer realization periods.

Furthermore, firm size and age enhance the effectiveness of ESG implementation through stronger operational capacity and reputation, while good corporate governance ensures consistent and credible execution of sustainability practices. High leverage weakens firms' capacity to invest in ESG activities, and liquidity shows no significant effect on long-term sustainability performance. ESG disclosure functions as a strong market signal, building investor confidence and shaping investment behavior. Integrating ESG also improves investment efficiency and mitigates portfolio risk, contributing to stable and sustainable growth. Therefore, ESG should be positioned not merely as a corporate social responsibility initiative but as a strategic business pillar that strengthens competitiveness, enhances financial performance, attracts investors, and drives sustainable long-term value creation in an increasingly dynamic global economy.

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