

ESG AND THE MEDIATING ROLE OF INVESTMENT DECISIONS ON OWNERSHIP STRUCTURE AND FIRM VALUE

ESG E O PAPEL MEDIADOR DAS DECISÕES DE INVESTIMENTO NA ESTRUTURA ACIONÁRIA E NO VALOR DA EMPRESA

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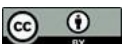
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Abstract

Investment decisions made by investors and company management are not only based on a company's financial performance but also on environmental sustainability, which is considered a responsibility for the impact of company activities. This study examines energy companies listed on the Indonesian Stock Exchange, an emerging market with major environmental and governance challenges. Integrating ESG into corporate strategy is crucial as a form of responsibility and response to global climate change. This study used a purposive sampling technique and identified 27 energy sector companies during the 2017–2021 period, resulting in a total of 135 observations. ESG disclosures were obtained from sustainability reports and annual financial reports, which serve as proxies for company transparency and commitment to sustainable practices. The research data was analyzed using the Structural Equation Model (SEM) method with Partial Least Squares (PLS) techniques. The findings indicate that ESG, ownership structure, and investment decisions significantly influence firm value. Ownership structure influences

Resumo

As decisões de investimento tomadas por investidores e pela gestão das empresas não se baseiam apenas no desempenho financeiro, mas também na sustentabilidade ambiental, considerada uma responsabilidade pelo impacto das atividades da empresa. Este estudo examina empresas do setor de energia listadas na Bolsa de Valores da Indonésia, um mercado emergente com grandes desafios ambientais e de governança. A integração de fatores ESG na estratégia corporativa é crucial como forma de responsabilidade e resposta às mudanças climáticas globais. Este estudo utilizou uma técnica de amostragem intencional e identificou 27 empresas do setor de energia durante o período de 2017 a 2021, resultando em um total de 135 observações. As informações sobre ESG foram obtidas a partir de relatórios de sustentabilidade e relatórios financeiros anuais, que servem como indicadores de transparência e compromisso da empresa com práticas sustentáveis. Os dados da pesquisa foram analisados utilizando o método de Modelagem de Equações Estruturais (MEE) com a técnica de Mínimos Quadrados Parciais (MQP). Os



investment decisions, but ESG has no significant impact on investment decisions. As a result, investment decisions only serve as a mediating variable in the relationship between ownership structure and firm value, while ESG demonstrates a direct relationship with firm value.

Keywords: ESG. Emerging Market. Investment Decision. Ownership Structure. Firm Value.

resultados indicam que ESG, estrutura de propriedade e decisões de investimento influenciam significativamente o valor da empresa. A estrutura de propriedade influencia as decisões de investimento, mas o ESG não apresenta impacto significativo sobre elas. Consequentemente, as decisões de investimento atuam apenas como uma variável mediadora na relação entre a estrutura de propriedade e o valor da empresa, enquanto os fatores ESG demonstram uma relação direta com o valor da empresa.

Palavras-chave: ESG. Mercado Emergente. Decisão de Investimento. Estrutura de Propriedade. Valor da Empresa.

1 INTRODUCTION

Corporate financial policy is a strategic decision designed to maximize value for fund providers, especially shareholders (Quiry *et al.*, 2018). Optimizing firm value is often interpreted as an effort to increase shareholder wealth, which is reflected through increasing share prices on the capital market. High stock prices indicate that the company is performing well and increasing the firm's value in the perception of investors (Fatemi *et al.*, 2018; Irmadariyani *et al.*, 2020; Handayani *et al.*, 2020).

Currently, the value of a firm is determined not only by its financial performance in enhancing shareholder wealth, but also by its responsibility toward broader stakeholder interests (Elkington, 1997; Khan, 2019; Gillan *et al.*, 2021; Luo, 2022). Therefore, companies are required to demonstrate concern for the environment and the surrounding social communities. A company's sustainability is largely determined by the quality of its relationships with these stakeholders. As a result, companies are increasingly prioritizing their social responsibilities (McWilliams & Siegel, 2001; Reverte, 2016). An effective stakeholder management strategy should lead to improved environmental, social, and governance (ESG) performance, which may also be associated with future financial performance (Velte, 2019; Li, 2022; Jung, 2024).

An increase in firm value is a long-term objective pursued by companies, which is reflected in the market price of their shares, as investors' assessments of the firm can be observed through movements in its stock price. In practice, the process of maximizing

the value of the firm often arises a conflict of interest between managers and shareholders (company owners) which is often called the agency problem. Agency problems are influenced by the ownership structure between managers (managerial ownership) and shareholders (institutional ownership). The ownership structure by some researchers is believed to be able to influence the running of the firm which ultimately affects the firm's performance in achieving the firm's goals, namely maximizing firm value. Agency problem in the concept of theory of the firm (Jensen and Meckling, 1976), will cause the company's financial goals to not be achieved in increasing firm value by maximizing shareholder wealth. Therefore, external control is necessary, as effective monitoring and supervision play a crucial role in ensuring that organizational objectives are properly directed (Kurniawan and Rokhim, 2023). Although financial performance remains a fundamental indicator of a company's overall condition, increasing attention is being given by investors to corporate contributions toward environmental sustainability and the welfare of surrounding communities, as these aspects reflect the company's commitment to long-term sustainability (Buallay, 2019; Shaikh, 2021; Pulino *et al.*, 2022; Coqueret, 2022).

According to De Lucia *et al.* (2020) maintaining the long-term sustainability of a company by addressing environmental, social, and governance (ESG) issues can attract investors interested in making socially responsible investment decisions. This is because investors recognize that neglecting ESG performance may potentially affect a company's overall performance. A company is considered successful when it fulfills three essential dimensions: People, Planet, and Profit (Elkington, 1997). In recent years, there has been a growing interest among investors to allocate their capital to environmentally responsible firms. This trend reflects a shift in investment evaluation, where environmental, social, and governance (ESG) factors increasingly influence investors' assessments of corporate performance (Bosi *et al.*, 2022; Elena, 2023; Alexandra & Irina, 2023).

Empirical evidence mostly proves that good companies have high ESG values, meaning that ESG is directly proportional to the level of return on investment (Naeem, Ullah and Jan, 2021) and the company's profitability ratio (Alareeni & Hamdan, 2020; Grijalvo & García-Wang, 2023). The market will assess and have higher expectations for investing because of good corporate governance performance, so that the company's stock price will also increase (Zhou *et al.*, 2022; Redawati *et al.*, 2023). According to Lepore and

Pisano, 2022), ESG disclosure serves as a form of communication between a company and its stakeholders. Ellili (2022) suggest that companies are inclined to present details of their operational activities in order to shape stakeholders' perceptions and manage their expectations. ESG disclosures are strategically employed to establish organizational legitimacy from the perspective of both the public and stakeholders. Consequently, such disclosure is expected to contribute to a positive corporate image (Buallay, 2019; Zhang *et al.*, 2020; Zhou *et al.*, 2022). Buallay (2019) in his research states that a positive ESG disclosure score is believed to bring greater asset returns. The same thing was also expressed by Velte (2019) that ESG performance has a positive correlation to ROA. Likewise with stakeholder theory and legitimacy theory which have been described previously that companies are required to provide benefits to all company stakeholders so that they are not only oriented towards profitability alone, but in their implementation must be in accordance with social norms and values that develop in the community where the company is located.

Investors believe that there is a reciprocal relationship between the investment portfolio and the environment and society ((Zuhri *et al.*, 2026). First, investors view that investment portfolios have an impact, especially a negative impact, on the environment and social. For example, an invested company's operations can cause environmental damage. Second, investors view that environmental and social issues can have both good and bad impacts on their investment portfolio, for example when a company does not consider the impact of pollution and employee welfare, it can have a financial impact on the company, both from the surrounding community, government and consumers (Irmadariyani *et al.*, 2020; Zhou *et al.*, 2022; Puspitasari *et al.*, 2023; Slepneva *et al.*, 2025; Sari *et al.*, 2025;). Community trust, support, and legitimacy gained through a company's social and environmental initiatives can positively influence its long-term sustainability (Hübel & Scholz, 2020; Gatzert & Reichel, 2024; Jiahui L and Suwandej, 2026). Furthermore, the evaluation of a firm's environmental performance has been shown to exert a significant positive impact on its overall value (Eccles *et al.*, 2012; Friede *et al.*, 2015; Duque *et al.*, 2019; Ionescu *et al.*, 2019; Gillan *et al.*, 2021).

In relation to the internal company, the value of the company is determined by financial performance through the right investment decisions. The choice of investment decisions (fund allocation) is influenced by the ownership of the company, so the

ownership structure has an important role in the company's business process decisions. Internally, the firm's ownership structure can affect firm value because of the transmission effect of Jensen & Meckling (1976) investment decisions. Internally, if further observed, the relationship between ownership structure and firm value through investment decisions is influenced by agency theory. Agency theory is formed because of the contractual relationship between the principal and his agent which can trigger agency conflicts. Agency conflicts can be triggered because of the company's large excess cash flow, so the principal wants to make high-risk investments expecting a high rate of return, but the management chooses low-risk investments to protect their position (Kao *et al.*, 2018; Kurniawan & Rokhim, 2023; Jung, 2024).

An investment decision is a decision in the form of a long-term investment with the expectation of the company's future profits. Generally, investment activities carried out by companies are to obtain high profits with a certain level of risk. According to Chang *et al.* (2022), and Lhutfi *et al.* (2024), investment decisions are decisions regarding the allocation of company funds, both internal funding sources (internal financing) and external funding sources (external financing).

The investment opportunities that exist will affect the value of the company which is basically formed through the market value of the stock (Myint, Lupi and Tsomocos, 2017). Investments made by companies often bring opportunities for companies to increase their competitive advantage. Investment opportunities made with the right considerations will further improve the company's performance and company value. Vice versa, investment opportunities that are not used inappropriately will cause losses or decrease the company's performance (Frederica, 2019; Han, Jalal and Simonyan, 2022). The increase in firm value cannot be separated from the influence of investment decisions that have been determined by the management and other majority principals, as revealed by (Kao *et al.*, 2018; Kurniawan & Rokhim, 2023) that the ownership structure has an influence on investment decisions and firm value.

This study aims to examine the role of ESG and ownership structure in influencing firm value, as well as whether investment decisions mediate the relationship between ESG, ownership structure, and firm value. Environmental concerns have become a prominent issue in corporate operations; therefore, this research focuses on energy sector companies listed on the Indonesian capital market. Information related to environmental

compliance and sustainable corporate management is obtained from ESG disclosures in sustainability reports and annual financial reports.

2 THEORETICAL FRAMEWORK

Environmental, social, and governance (ESG) initiatives are increasingly becoming an integral part of corporate strategic planning, particularly in shaping investment decisions. These practices contribute significantly to enhancing corporate value through increased transparency and accountability to stakeholders (Fuadah *et al.*, 2022; Sululing, Pagalung and Amiruddin, 2025; Anh *et al.*, 2026), a concept supported by legitimacy theory, agency theory, and stakeholder theory. According to legitimacy theory, companies disclose ESG-related information to maintain alignment with societal norms and expectations (Tsang *et al.*, 2023; Anifowose, 2025). In contrast, agency theory views ESG disclosure as a tool to reduce information asymmetry between corporate management and shareholders (Huang, 2022; Angir & Weli, 2024). Meanwhile, stakeholder theory underlines the need for companies to address the interests of multiple stakeholder groups, including investors, consumers, regulators, and the wider community (Angir and Weli, 2024)

In energy sector companies operating in developing countries, ownership structure—especially institutional and managerial ownership—plays an important role in driving ESG practices and the quality of information disclosure, which is consistent with agency and stakeholder theories (Angir & Weli, 2024; Anifowose, 2025; Slepneva *et al.*, 2025). The involvement of institutional owners in corporate governance is a determinant of the effectiveness of ESG in investment decision-making. Ownership structure can strengthen or weaken the influence of ESG on investment decisions (Jung, 2024). In companies with strong influence from institutional investors, ESG disclosure is often used as a benchmark to assess capital efficiency and investment project risk. A study by Lian & Weng (2024) and Zhang *et al.* (2025) found that companies controlled by institutional investors are more likely to allocate capital to sustainable projects that provide long-term value creation.

Investment decisions influenced by environmental, social, and governance (ESG) considerations reflect a firm's strategic response to growing external pressures, including

climate change, social demands, and evolving regulatory frameworks. ESG performance serves as a critical signal for investors in assessing a company's future prospects and the resilience of its business model. Naseer *et al.* (2024) argue that firms with strong ESG performance tend to exhibit greater stability and resilience amid market volatility, thereby facilitating more deliberate and strategically aligned investment decisions. Therefore, ESG performance serves as a key indicator in evaluating a company's sustainability, especially under intense scrutiny from regulators and stakeholders. The extent to which ESG enhances firm value is closely tied to how effectively ESG considerations are integrated into investment decisions. A recent study by Abu Afifa *et al.* (2025) found that within ASEAN markets, ESG significantly influences firm value only when investments are executed transparently and efficiently, highlighting the critical role of aligning ESG strategies with capital allocation processes. Similarly, Jung, (2024) and Zhang *et al.* (2025) emphasize that investment decisions serve as a strategic conduit through which ESG performance and ownership structure exert their influence on firm value creation. Firms with robust ESG scores are generally better positioned to manage non-financial risks, which in turn enhances investment efficiency.

ESG-driven investment decisions can improve resource allocation efficiency, mitigate agency conflicts between shareholders and managers, and bolster investor confidence. As a result, strong ESG performance may positively shape market perceptions and stakeholder trust, ultimately contributing to enhanced firm value (Zhang *et al.*, 2025). Liu *et al.* (2021) observed that firms with superior ESG ratings are more likely to engage in productive, long-term investments that generate sustainable value. Similarly, Pinheiro *et al.* (2024) and Chen & Fan (2024) assert that strategically integrated ESG can strengthen a company's reputation and improve access to finance, and stakeholder engagement, and can help organizations realize the full potential of sustainability and create long-term value for shareholders and society. These findings are in line with Tang *et al.* (2024), who demonstrated that high ESG performance reinforces investor trust, thereby promoting productive investments and enhancing firm valuation. Additionally, research by Villalonga *et al.* (2025) revealed that the nature of ownership—whether family-owned, institutional, or state-controlled—affects ESG outcomes. Institutional ownership, in particular, is associated with higher-quality ESG implementation and more efficient investment decisions, leading to superior market

valuation. Supporting this, Abu Afifa *et al.* (2025) found that institutional ownership in ASEAN markets amplifies the positive effect of ESG performance on both financial outcomes and firm value, primarily through improved ESG disclosure and investment efficiency. Collectively, these findings underscore that firm value is not merely influenced by ESG practices and ownership structure in isolation, but is significantly mediated by transparent and efficient investment decisions.

3 METHODOLOGY

Research on the relationship between variables is called causal effect research, which is a study conducted on facts to prove empirically the effect of one variable on other variables. The empirical facts that we want to know for analysis are the influence of ESG, ownership structure, investment decisions on company value. The sample in this study was selected using certain criteria or purposive sampling, namely: (1) energy sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period; (2) The company publishes complete financial report, annual reports, sustainability reports for the 2017-2021 period; (3) companies disclose ESG performance in annual reports or sustainability reports. The sample in this study was selected using certain criteria or purposive sampling, namely: (1) energy sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period; (2) The company publishes complete financial report, annual reports, sustainability reports for the period 2017-2021; (3) companies disclose ESG performance in annual reports or sustainability reports. Referring to the criteria, obtained 27 companies with 135 observations.

The endogenous variable of ESG performance is measured by content analysis with GRI-G4 as an indicator (34 environmental indicators, 48 social indicators, and 22 governance indicators) (Aris *et al.*, 2018). Content analysis was used by assigning scores (1 = yes, 0 = no) to company disclosures. The index for each dimension is calculated by dividing the number of items expressed to total items (Yawika and Handayani, 2019). Ownership structure is proxied by managerial ownership and institutional ownership, investment decisions are proxied by IOS, namely: (1) Market to book value of equity ratio (MVE/BVE); (2) Ratio of market value to book value of assets (MVA/BVA); (3) Ratio of market value to book value of assets (MVA/BVA); and (4) Ratio of additional capital to

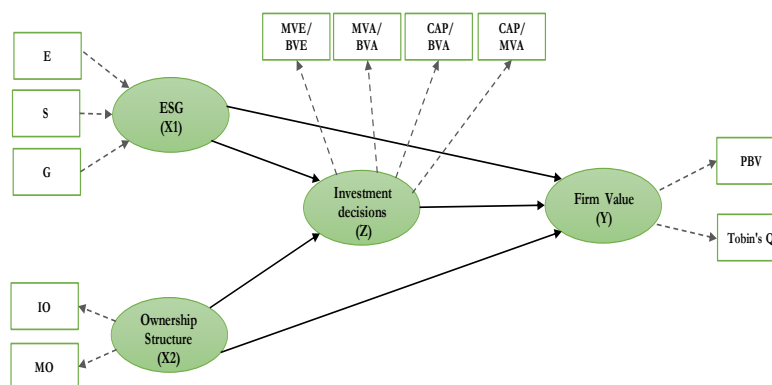
market value of assets (CAP/MVA). The dependent variables used are Price Book Value (PBV) and Tobin's Q, both of these ratios are used to measure the value given by the financial market to the management and organization of a company as a growing company.

Testing the effect of exogenous and endogenous variables according to the hypothesis was carried out using the Bootstrap resampling method on SEM-PLS (Hair *et al.*, 2022). The statistical test used is t-statistics or t-test. Testing the Bootstrap SEM-PLS resampling method on SmartPLS does not require the assumption of a normal distribution or the assumption that the data is distribution free, and does not require a large sample. Testing with the t-test of the SEM-PLS Bootstrap resampling method on SmartPLS, if the p value is obtained <0.05 ($\alpha = 5\%$) then it is decided to reject H_0 or accept H_a or is often called significant, and if the result is the opposite, namely the p value > 0.05 ($\alpha = 5\%$) then H_0 is not rejected or is often called insignificant. If the results of hypothesis testing on the outer model are significant, this indicates that the indicator can be used as an instrument to measure latent variables. Meanwhile, if the test results on the inner model are significant, it can be interpreted that there is a significant influence of the latent (exogenous) variable on the latent (endogenous) variable (Hair *et al.*, 2022).

Hypothesis testing of the relationship between variables is carried out through SEM-PLS path analysis testing with the following research conceptual framework.

Figure 1

Research conceptual Framework



Source: Researcher review from various sources

4 RESULTS AND DISCUSSIONS

Descriptive statistics were conducted to understand the characteristics of the research variables, as presented in Table 1. The results indicate that the average firm value, measured by Tobin's Q, is at a level of 1.526. This suggests that the market perceives the firm's value positively, as a Tobin's Q greater than 1 implies favorable market valuation. On the other hand, the market generally assigns a relatively high valuation—an average of 2.906—to the firm's book value. This condition reflects strong investor interest in equity from the energy sector. Among the ESG dimensions, environmental performance recorded the lowest average score of 33.19, while governance performance achieved the highest average score of 52.61. The highest maximum value was observed in governance performance, with a score of 82, while the lowest minimum value was found in social performance, with a score of 8. Regarding ownership structure, the average proportion of institutional ownership was 0.408, and managerial ownership averaged 0.065. Investment decisions were reflected in the following ratios: 3.838 for the market-to-book equity ratio (MVE/BVE), 4.699 for the market-to-book asset ratio (MVA/BVA), 0.762 for the capital expenditure to book asset ratio (CAP/BVA), and 0.691 for the capital expenditure to market asset ratio (CAP/MVA), respectively.

Table 1

Statistical description of research variables

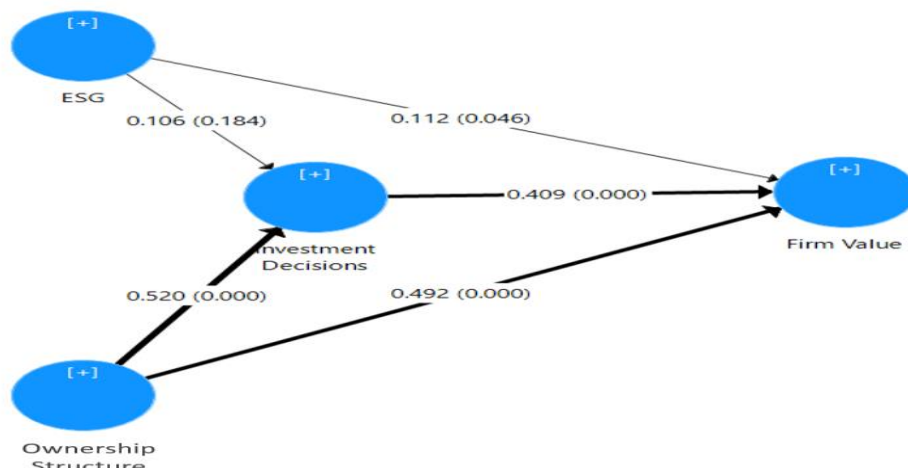
Variables	Number of Observation	Mean	Median	Range	Min	Max	Standard Deviation
ENV	135	33.193	32.000	70.000	9.000	79.000	17.011
SOC	135	42.304	33.000	71.000	8.000	79.000	26.335
GOV	135	52.607	55.000	59.000	23.000	82.000	16.297
ESG	135	42.659	42.624	60.606	17.316	77.922	12.899
IO	135	0.408	0.380	0.290	0.310	0.600	0.083
MO	135	0.065	0.050	0.130	0.010	0.140	0.045
MVE/BVE	135	3.838	3.838	14.200	0.070	14.270	3.590
MVA/BVA	135	4.699	4.699	14.860	0.360	15.220	4.656
CAP/BVA	135	0.763	0.763	0.740	0.240	0.980	0.212
CAP/MVA	135	0.691	0.691	0.700	0.240	0.940	0.159
PVB	135	2.906	2.906	11.750	0.350	12.100	2.568
TBQ	135	1.526	1.526	6.300	0.320	6.620	1.110

Source: Author's data analysis results, 2026

This study employs both reflective and formative measurement models. The ESG performance variable is assessed using a formative measurement approach, while the other variables are measured reflectively. Validity and reliability tests for the reflective indicators, as well as significance testing for the formative variable, indicate that all indicators meet the required statistical criteria. Accordingly, the analysis proceeds to hypothesis testing. The results of the hypothesis testing are presented and discussed below.

Figure 2

Path analysis of ESG, ownership structure, investment decisions, and firm value



Source: Author's data analysis results, 2026

Table 2

The Path Coefficient and Hypothesis Testing

Relationship between variables	Path coefficient	T-Stat	P -Values	Conclusion
<i>Direct Effect</i>				
ESG -----> Investment Decisions	0.106	1.330	0.184	N. Sig.
ESG -----> Firm Value	0.112	1.998	0.046	Sig.**
Ownerships Sctructure -----> Investment Decisions	0.520	8.590	0.000	Sig.***
Ownerships Sctructure -----> Firm Value	0.492	9.240	0.000	Sig.***
Investment Decisions -----> Firm Value	0.409	7.174	0.000	Sig.***
<i>Total Indirect Effects</i>				
ESG -----> Investment Decisions -----> Firm Value	0.043	1.256	0.210	N. Sig.
Ownerships Sctructure -----> Investment Decisions-----> Firm Value	0.212	5.500	0.000	Sig.***
<i>R-square</i>				
Firm Value	R-Square	Square adjusted		
	0.704	0.697		
Investment Decisions	0.316	0.306		

* significant of $\alpha = 10\%$ **; significant of $\alpha = 5\%$; ***significant of $\alpha = 1\%$; N.Sig = Not Significant

Source: Author's data analysis results, 2026

Figure 2 and Table 2 present the results of the structural equation modeling using Partial Least Squares (SEM-PLS), indicating that ESG performance, ownership structure, and investment decisions have a significant influence on firm value. Furthermore, there is a significant indirect effect of ownership structure on firm value through investment decisions, suggesting that investment decisions serve as a mediating variable in the relationship between ownership structure and firm value. In contrast, the indirect effect of ESG on firm value through investment decisions is not statistically significant, indicating that investment decisions do not mediate the relationship between ESG and firm value. Accordingly, the relationship between ESG and firm value in this study is identified as a direct effect.

In this study, the adjusted R-square values were 0.967 for firm value and 0.306 for investment decisions. These results indicate that 69.70% of the variance in firm value is explained by variations in ESG performance, ownership structure, and investment decisions, while the remaining 30.30% is influenced by other factors not included in this model. Similarly, 30.60% of the variance in investment decisions is explained by changes in ESG performance and ownership structure, with the remaining 69.40% attributable to external factors beyond the scope of this study.

The path analysis presented in the second row of Table 2 examines the relationship between ESG, investment decisions, and firm value. The path coefficient for the relationship between ESG and investment decisions is 0.102 with a p-value of 0.184, which exceeds the significance level of $\alpha = 5\%$. This result indicates that ESG disclosure does not significantly influence investment decisions. It suggests that, in emerging markets, investors and corporate management have not yet adopted ESG as a primary consideration in investment decision-making. This finding is consistent with the 2019 National ESG Survey conducted by CRMS Indonesia, which revealed that only 15.8% of the 171 participating companies had specific guidelines for integrating ESG considerations into business decision-making, while more than 80% lacked such formal integration frameworks.

In contrast, the path coefficient for the relationship between ESG and firm value is 0.112 with a p-value of 0.046, which is below the 5% significance level. This indicates that ESG disclosure has a significant and positive effect on firm value. The findings align with both Stakeholder Theory and Legitimacy Theory. Stakeholder Theory, as proposed

by Freeman (1984), emphasizes that firms should consider the interests of all stakeholders—including employees, customers, suppliers, communities, and shareholders—in business decision-making. Effective ESG implementation can enhance firm value by reducing operational risks, improving efficiency, and opening access to new markets. Responsible environmental, social, and governance practices reflect a company's commitment to stakeholder welfare, allowing firms to build stronger relationships, enhance their reputation, and create long-term value (Ellili, 2022). ESG practices also function as a mechanism to manage stakeholder relationships and mitigate conflicts of interest, which is essential for achieving sustainable competitive advantage (Lepore and Pisano, 2022). According to (Freeman, 1984), companies that successfully integrate stakeholder interests into their business strategies tend to achieve superior performance and higher firm value.

Furthermore, Legitimacy Theory asserts that a firm's survival depends on the perception that its actions align with prevailing societal norms, values, and expectations. ESG reporting serves as a strategic communication tool, demonstrating a company's commitment to environmental, social, and governance issues. Through transparency and accountability in ESG disclosures, firms can foster stakeholder trust and enhance their legitimacy (Buallay, 2019; Zhang *et al.*, 2020; Zhou *et al.*, 2022; Zhang *et al.*, 2025). Suchman (1995) emphasized that legitimacy is a strategic resource that can contribute to organizational stability and improved performance. The findings of this study support those of (Velte, 2019; Buallay, 2019; De Lucia *et al.*, 2020; Alareeni & Hamdan, 2020; Naeem *et al.*, 2021; Wu *et al.*, 2022; Grijalvo & García-Wang, 2023; Jung, 2024) who reported a positive and significant relationship between ESG performance and corporate performance, which in turn contributes to enhanced firm value.

The path analysis in the third row of Table 2 illustrates the relationships between ownership structure and both investment decisions and firm value, as well as the relationship between investment decisions and firm value. The path coefficient for the relationship between ownership structure and investment decisions is 0.520 and statistically significant at the 1% level, indicating that ownership structure has a significant and positive effect on investment decisions. The proportion of share ownership plays a crucial role in the firm's internal control system. Significant investment by institutional shareholders provides strong incentives for them to monitor and safeguard

their investments against managerial opportunism. The larger the institutional ownership, the greater the shareholders' ability to exercise effective oversight and monitoring of management. These findings are consistent with agency theory, which posits that higher institutional ownership helps mitigate agency conflicts by enhancing managerial accountability. Institutional ownership can reduce the likelihood of earnings management, thereby improving the quality of reported earnings. Nussbaum & Davis (2020), Jung (2024), Zhang *et al.* (2025) suggest that firm value may increase when institutional investors serve as effective monitoring agents.

The path analysis also shows that the coefficient for the relationship between ownership structure and firm value is 0.492, which is statistically significant at the 1% level. This confirms that ownership structure has a significant and positive impact on firm value. Institutional ownership is an important governance mechanism that can reduce obstacles to value enhancement, particularly agency problems. Given the substantial size of their investments, institutional shareholders are more likely to monitor managerial performance closely, thus discouraging decisions that conflict with shareholder interests. These results are in line with prior studies conducted by (Fitrahmasari *et al.*, 2019; Handayani *et al.*, 2020; Fuadah *et al.*, 2022; Jung, 2024; Villalonga *et al.*, 2025; Anifowose, 2025) all of which found a positive relationship between institutional ownership and firm value.

The path analysis examining the relationship between investment decisions and firm value reveals a path coefficient of 0.409, which is statistically significant at the 1% level ($\alpha = 0.01$). This indicates that investment decisions exert a positive and significant influence on firm value, where an increase in investment is associated with an increase in the value of the firm. Enhanced investment within a company tends to bolster investor confidence, as investment growth is often perceived as a positive signal regarding the firm's future performance. Somantri and Sukardi (2019) assert that, in line with signaling theory, capital expenditure serves as a favorable signal to the market, reflecting the firm's expected future growth, thereby potentially increasing share prices as a proxy for firm value. This finding aligns with (Irmadariyani *et al.*, 2020; Fuadah *et al.*, 2022; Stiadi, 2023; Alexandra & Irina, 2023; Elena, 2023; Lian & Weng, 2024), who also reported that investment decisions significantly influence firm value—suggesting that improved investment decisions are positively associated with higher firm valuation.

The path analysis in the fourth row of Table 2 reveals an indirect relationship between ESG and firm value through investment decisions, as well as an indirect relationship between ownership structure and firm value through the same mediating variable. In other words, this analysis investigates the mediating role of investment decisions in the relationships between ESG and ownership structure with firm value. The total indirect effect of ESG on firm value via investment decisions yields a path coefficient of 0.043 with a p-value of 0.210, which exceeds the 5% significance level. This indicates that investment decisions do not mediate the relationship between ESG and firm value. This phenomenon indicates that the integration of ESG into core business strategies remains weak, particularly within the energy sector in emerging markets, where short-term financial gains often take precedence over long-term sustainability commitments. In such markets, ESG has not yet been fully recognized as a primary determinant in investment decision-making, either by internal management or external investors.

Conversely, the total indirect effect of ownership structure on firm value through investment decisions produces a path coefficient of 0.212, which is statistically significant at the 1% level, suggesting that investment decisions serve as a mediating variable in the relationship between ownership structure and firm (Hair *et al.*, 2022). These results are consistent with Agency theory, which states that institutional ownership can reduce agency conflicts between managers and shareholders (Jensen and Meckling, 1976), thereby increasing the efficiency of investment decision making. Strong institutional ownership enables more effective monitoring and control over managerial actions, including capital allocation decisions. When investment decisions are made prudently and aligned with shareholder interests, they can generate added value for the firm. In this case, the ownership structure acts as a governance mechanism that directs managers to decisions that support the growth of the firm's value. In the energy sector, investment decisions often involve large-scale, long-term, and high-risk projects. Thus, the presence of institutional or controlling shareholders with the incentive to oversee capital use becomes critical. Effective shareholder oversight helps firms avoid opportunistic or unproductive investments. Accordingly, a sound ownership structure can guide companies to prioritize value-generating projects that contribute to sustainable growth—particularly important in the energy industry, where resource allocation demands

precision and strategic foresight. These results indicate that for energy firms operating in emerging markets, internal governance factors such as ownership structure play a more pivotal role in enhancing firm value than ESG. Although ESG is conceptually important, its practical implementation continues to face structural limitations and market perception challenges (Slepneva *et al.*, 2025). Therefore, in order to improve firm value—especially in the energy industry—greater emphasis on designing robust ownership structures and strengthening strategic investment mechanisms is essential for fostering long-term sustainable growth in emerging market contexts.

5 CONCLUSIONS

The sustainability dimension encompasses environmental, social, and governance performance which are important components to protect the company from short-term opportunistic interests that can threaten the firm's value. Stakeholders recognize that a company's ESG responsibility is integral to its long-term performance and sustainability. Although ESG information does not directly impact investment decisions in this study, ESG does have a direct influence on company value. ESG has no impact on investment decisions because investors have not made environmental, social and governance (ESG) issues a primary consideration in their investment decisions in emerging markets.

The influence of ESG on corporate value supports the notion that this study aligns with both Stakeholder Theory and Legitimacy Theory. These theories emphasize that companies are encouraged to build strong relationships with stakeholders as a key to creating long-term value, while also serving as a means to gain social support and maintain operational sustainability in a dynamic social environment. In emerging markets, which often face institutional challenges and external pressures, ESG practices not only reflect environmental and social responsibility but also demonstrate that companies are managed with transparency and accountability to achieve sustainable corporate competitiveness.

Another finding indicates that ownership structure significantly impacts investment decisions and firm value. Investment decisions serve as an intermediary variable in the relationship between ownership structure and firm value. The proportion of share ownership within a company plays a crucial role in its control system. In this

study, share ownership can be categorized into managerial ownership and institutional ownership. Each form of ownership has distinct interests and impacts on the firm's value. Furthermore, investment decisions positively influence the firm's value. The investment opportunity set (IOS) represents the investments made by the company to generate future value. The higher the IOS, the greater the potential value of the company in the future, leading to a higher valuation by investors.

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