The Influence of Sustainability, Governance, and Financial Performance on Investment

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ABSTRACT

Growing investor interest in sustainable practices has pushed Indonesian private firms in the industrial gas sector to integrate environmental, social, and governance factors, corporate governance, and financial performance to attract capital. This study aims to examine how these factors influence investment decisions, using a quantitative approach with multiple linear regression analysis. Data were collected from quarterly financial reports, sustainability documentation, and investment records of private firms from February to April 2025, totaling 45 observations. The findings show that financial performance, measured by profitability ratios, has the strongest impact on investment, followed by corporate governance through transparent reporting and board oversight, and environmental, social, and governance factors, all significantly affecting investment both individually and collectively. The model explains 91% of investment variation, highlighting its robustness. However, reliance on internal sustainability metrics limits comparability. Firms must balance strong financial results with governance and sustainability efforts to boost investor confidence, though standardizing metrics remains a challenge for private firms.

Keywords*: Corporate Governance, ESG, Financial Performance, Investment, Investor Perception, Sustainability Reporting.*

ABSTRAK

Meningkatnya minat investor terhadap praktik berkelanjutan telah mendorong perusahaan swasta Indonesia di sektor gas industri untuk mengintegrasikan faktor lingkungan, sosial, dan tata kelola, tata kelola perusahaan, dan kinerja keuangan untuk menarik modal. Studi ini bertujuan untuk mengkaji bagaimana faktor-faktor ini memengaruhi keputusan investasi, menggunakan pendekatan kuantitatif dengan analisis regresi linier berganda. Data dikumpulkan dari laporan keuangan triwulanan, dokumentasi keberlanjutan, dan catatan investasi perusahaan swasta dari Februari hingga April 2025, dengan total 45 observasi. Temuan menunjukkan bahwa kinerja keuangan, yang diukur dengan rasio profitabilitas, memiliki dampak paling kuat terhadap investasi, diikuti oleh tata kelola perusahaan melalui pelaporan yang transparan dan pengawasan dewan direksi, serta faktor lingkungan, sosial, dan tata kelola, yang semuanya secara signifikan memengaruhi investasi baik secara individual maupun kolektif. Model ini menjelaskan 91% variasi investasi, yang menyoroti ketahanannya. Namun, ketergantungan pada metrik keberlanjutan internal membatasi daya banding. Kesimpulannya, perusahaan harus menyeimbangkan hasil keuangan yang kuat dengan upaya tata kelola dan keberlanjutan untuk meningkatkan kepercayaan investor, meskipun standarisasi metrik tetap menjadi tantangan bagi perusahaan swasta.

Kata Kunci: *Tata Kelola Perusahaan, ESG, Kinerja Keuangan, Investasi, Persepsi Investor, Pelaporan Keberlanjutan.*

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INTRODUCTION

The business landscape in Indonesia is increasingly competitive, pushing companies to balance profitability with sustainable practices to attract investment. Environmental, Social, and Governance (ESG) factors have become critical in shaping investor decisions, as stakeholders demand transparency and accountability (Gillan et al., 2021; Hasan et al., 2022). In high-risk sectors like industrial gas, incidents such as workplace accidents highlight the need for robust ESG risk management to maintain investor confidence (Syafrullah & Muharam, 2017; Hendrayanti et al., 2022; Hariyanto & Ghozali, 2024). The Financial Services Authority Regulation (*Peraturan Otoritas Jasa Keuangan*/POJK) Number 51 of 2017 mandates sustainability reporting for public companies, signaling Indonesia's commitment to aligning with global sustainability trends (Rahmawati, 2023). This regulatory push, combined with growing investor focus on non-financial metrics, underscores the importance of ESG, corporate governance, and financial performance in driving investment in Indonesia's emerging market (Lipson et al., 2011; Kim & Li, 2021).

Previous studies by Alareeni and Hamdan (2020) found that ESG disclosures enhance firm performance and investor trust in U.S. markets, a trend increasingly relevant in Indonesia. Nugroho and Hersugondo (2022) demonstrated that ESG practices positively influence financial performance in Indonesian firms, boosting investment appeal. Manita et al. (2018) highlighted that strong corporate governance, such as board diversity, improves ESG reporting quality, attracting institutional investors. Similarly, Fairfield and Yohn (2001) and Chen et al. (2023) showed that firms with high financial performance, measured by Return on Assets (ROA), are more likely to attract capital due to perceived stability. These studies suggest that integrating ESG and governance with financial metrics creates a compelling investment case, particularly in regulated markets like Indonesia (Weston & Nnadi, 2023; Farhan, 2024).

Despite these insights, a research gap exists in understanding how ESG, governance, and financial performance collectively drive investment in Indonesia's private sector, particularly in high-risk industries. According to Ahmadin et al. (2023), most ESG studies focus on public companies or developed markets, leaving private firms in emerging economies underexplored. Nurhayati et al. (2025) noted that the interplay of governance and ESG in influencing investment decisions in Indonesia's industrial sectors is rarely examined, limiting insights into sector-specific dynamics. This study's novelty lies in its focus on Indonesia's private firms, where regulatory pressures and stakeholder expectations are evolving rapidly (Ding et al., 2024). By addressing this gap, the research offers a fresh perspective on how these factors shape investment in a developing market context (Aich et al., 2021).

This study aims to analyze the influence of ESG factors, corporate governance, and financial performance on investment interest and realization at PT. Rizki Maharani Java Indonesia. Specifically, it seeks to measure the individual and combined effects of these factors on investment, assess their role in enhancing investor confidence through transparent reporting, and evaluate their impact on long-term financial stability. The findings will provide practical insights for firms to strengthen ESG and governance practices, enhancing their attractiveness to investors. Additionally, the study contributes to Indonesia's sustainable investment ecosystem, supporting the Sustainable Development Goals (SDGs) through actionable strategies for transparent and accountable business practices. Theoretically, this study extends ESG–ESG-investment literature by focusing on private firms in emerging markets, while practically it provides guidance for managers and policymakers in strengthening sustainable investment strategies.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Theoretical Foundations

The study of investment decisions in Indonesia is grounded in several key theories that connect ESG factors, corporate governance, and financial performance to investor behavior. According to Syafrullah and Muharam (2017), stakeholder theory emphasizes that companies must address the interests of all stakeholders, including investors, employees, and communities, to enhance trust and attract investment. This theory suggests that firms integrating ESG practices signal their commitment to sustainable value creation, which is increasingly valued in Indonesia's emerging market (Mardini, 2022; Nugroho & Hersugondo, 2022). Similarly, signaling theory, as discussed by Risqi and Harto (2013), highlights how companies use transparent reporting to provide positive signals about their financial health and governance quality, influencing investor confidence. In the Indonesian context, where regulatory frameworks like POJK 51/2017 mandate sustainability disclosures, these signals are critical for firms seeking capital (Rahmawati, 2023; Azkiya et al., 2024). Financial management theory, as outlined by Hasan et al. (2022), further supports this by focusing on efficient capital allocation, which directly impacts a company's ability to generate returns and attract investment.

These theories are highly relevant to Indonesia's investment landscape, where investors increasingly prioritize non-financial metrics. For instance, stakeholder theory aligns with the growing demand for ESG disclosures, as investors seek firms that mitigate environmental and social risks (Gillan et al., 2021; Saha & Khan, 2024). Signaling theory explains how Indonesian firms use financial and ESG reports to differentiate themselves in a competitive market (Puspita & Aji, 2018; Cherkasova & Nenuzhenko, 2022). The integration of these theories underscores the importance of aligning corporate strategies with stakeholder expectations to boost investment, particularly in Indonesia's rapidly evolving regulatory and economic environment (Ahmadin et al., 2023; Hamad & Cek, 2023; Farhan, 2024). By applying these frameworks, this study examines how ESG, governance, and financial performance drive investment decisions in Indonesian firms.

Hypothesis Development

The variables of ESG, corporate governance, and financial performance are pivotal in shaping investment decisions in Indonesia. ESG factors encompass environmental practices, social initiatives, and governance standards, which collectively enhance a firm's appeal to investors (Chen et al., 2023; Morri et al., 2024; Wahyuni et al., 2024; Syahwallistiana & Yusuf, 2025). According to Alareeni and Hamdan (2020), ESG disclosures improve corporate transparency, positively influencing investor perceptions in emerging markets like Indonesia. Corporate governance, including board independence and financial transparency, ensures accountability and reduces investment risks, as noted by Manita et al. (2018) and Adam et al. (2025). Financial performance, measured through ratios like ROA and Return on Equity (ROE), reflects a firm's profitability and operational efficiency, directly impacting investment attractiveness (Kurniasari, 2017; Weston & Nnadi, 2023). In Indonesia, where investor confidence is often tied to financial stability, these variables interact to create a holistic view of a company's investment potential (Nurhayati et al., 2025).

The interrelationships among these variables are critical. Strong financial performance enables firms to invest in ESG initiatives, while robust governance ensures effective implementation, as highlighted by Al-Hiyari et al. (2023) and Suherwan et al. (2025). Conversely, poor ESG performance, such as environmental violations, can deter investors despite strong financials (Aich et al., 2021; Firmansyah et al., 2023). In Indonesia, regulatory pressures and stakeholder expectations amplify these dynamics, making integrated reporting essential (Minggu et al., 2023). Based on these insights, the study proposes the following hypotheses:

H1: ESG factors have a positive and significant effect on investment.
H2: Corporate governance has a positive and significant effect on investment.
H3: Financial performance has a positive and significant effect on investment.
H4: ESG factors, corporate governance, and financial performance simultaneously have a positive effect on investment.

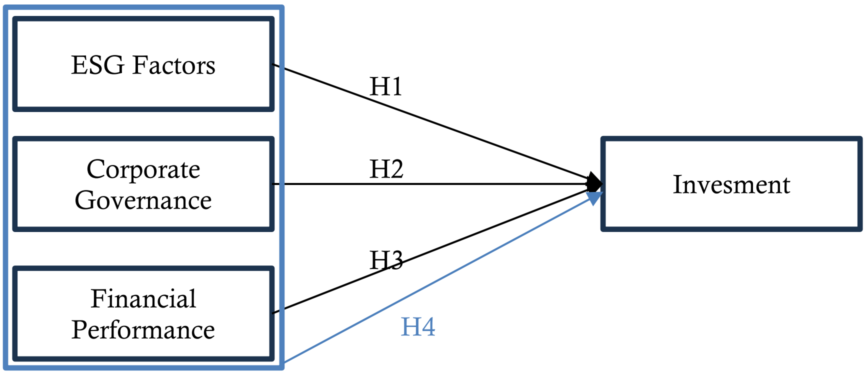

Figure 1. Research Framework

Figure 1 illustrates the conceptual model linking ESG factors, corporate governance, and financial performance to investment in Indonesian firms. According to Ahmad et al. (2024), this framework posits that these three independent variables directly influence investment decisions by shaping investor perceptions of risk and return. ESG factors enhance a firm's reputation and long-term sustainability, corporate governance ensures trust through transparency, and financial performance provides evidence of profitability, collectively driving investment interest and realization (Dragomir et al., 2022; Kao, 2023; Rizal et al., 2025). This model, rooted in Indonesia's regulatory and market context, assumes that firms excelling in these areas attract more capital, aligning with stakeholder and signaling theories (Dmuchowski et al., 2023; Zournatzidou et al., 2025).

RESEARCH METHOD

This study employs a quantitative explanatory approach to investigate the causal relationships between environmental, social, and governance factors, corporate governance, and financial performance on investment decisions at PT. Rizki Maharani Java Indonesia, a private firm in the industrial gas sector. The research tests hypotheses on how these factors drive investment, using multiple linear regression analysis to capture their individual and combined effects. Data collection spanned April to June 2025, focusing on the period from February to April 2025 to reflect recent investment trends and financial performance at the company. This period was chosen to align with significant transaction activities, such as large equity inflows, observed in the firm's records.

We gathered secondary quantitative data through documentation, specifically from quarterly financial statements, sustainability reports, and investment logs of PT. Rizki Maharani Java Indonesia. These records provided insights into financial metrics like Return on Assets and Return on Equity, governance indicators such as board meeting frequency, and sustainability metrics, including emission reduction and employee welfare programs. Due to the absence of external sustainability scores for private firms, internal metrics were used, validated through cross-checking with company reports to ensure accuracy. A complementary literature study helped define the operational variables, drawing from relevant academic sources (Caroline, 2019).

The population consists of all financial, sustainability, and investment data from PT. Rizki Maharani Java Indonesia over the specified period. A purposive sampling technique was applied, selecting 45 observations from audited quarterly reports and validated investment records for February to April 2025. Data validity was ensured through item analysis using product-moment correlation, with instruments considered valid if the correlation coefficient exceeded 0.3. Reliability was tested using Cronbach's Alpha, requiring a value above 0.60 for consistency (Syilfi et al., 2012). Multiple linear regression was supported by classical assumption tests, normality; multicollinearity, heteroscedasticity, and autocorrelation, to validate the model's robustness and reliability.

RESULTS

The results of this study provide an overview of how ESG factors, corporate governance, and financial performance contribute to investment at PT. Rizki Maharani Java Indonesia. ESG data were obtained from internal reports and supporting documents, showing that the company had not yet developed formal programs related to energy efficiency or waste management. However, several positive initiatives were observed in the social dimension, such as external partnerships that demonstrated constructive collaboration with stakeholders. In terms of governance, the company showed clear accountability practices through transparent financial documentation and well-organized management structures, which serve as an important foundation for good corporate governance.

Corporate governance was further evaluated through indicators such as the number of independent commissioners, the frequency of board meetings, the activity of the audit committee, and the transparency of financial reporting. The findings indicated that PT. Rizki Maharani Java Indonesia had developed a structured management system and effective internal controls. This orderliness in governance is a key determinant in ensuring credibility and strengthening investor confidence in the company. With the use of multiple linear regression to analyze 45 observations drawn from quarterly financial reports, ESG documentation, and investment records spanning February to April 2025. These results, backed by classical assumption tests, shed light on the individual and combined effects of these variables on investment, reflecting Indonesia's growing emphasis on sustainable investment practices.

Table 1. Transaction Mutation Data for the February – March 2025 Period

Moon	Total Income (CR)	Total Expenditure (DB)	Difference (Net)
February	IDR 1,423,113,679	±IDR 1,379,215,000	±IDR 43,898,679
March	IDR 1,415,034,844	±IDR 1,369,471,497	±IDR 45,563,347
April	IDR 2,095,517,078	±IDR 1,423,987,754	±IDR 671,529,324

The company's financial performance was assessed by examining transaction mutation data for February to April 2025. Table 1 offers a clear snapshot of the data we worked with. Financial performance, measured through ROA and ROE, averaged 8.5% and 12.3%, respectively, signaling steady profitability across the sample. ESG scores, calculated from internal metrics like emission reduction policies and employee welfare programs, ranged from 60 to 85 with a mean of 72.5, indicating moderate adoption of sustainability practices. Corporate governance, evaluated through board meeting frequency and reporting transparency, averaged 4.2 meetings per quarter. Investment, encompassing equity and debt inflows such as large transfers from external partners, showed a significant uptick in April 2025. These highlight the interplay between financial and non-financial factors in driving investment.

Investment was reflected in large-scale incoming transfers from external parties. Major examples included transfers from Mega Kreasi Anugrah, which contributed multiple deposits of IDR 250 million each, along with an additional IDR 235 million, as well as from Anugerah Samudera, Tangguh Lintas Samudera, and PELNAS Tedindo. Notably, April 2025 witnessed a sharp increase in investment inflows exceeding IDR 2 billion, a development that strongly indicated rising investor interest in the company.

Table 2. Kolmogorov-Smirnov Normality Test Results

Variable	Kolmogorov-Smirnov Z	Sig. (2-tailed)	Distribution
ESG (X1)	0.199	0.200	Usual
Governance (X2)	0.187	0.200	Usual
Financial Performance (X3)	0.195	0.162	Usual
Investment (Y)	0.176	0.153	Usual

Before conducting regression analysis, classical assumption tests were performed. Table 2 confirms that the data are normally distributed, a key requirement for regression analysis. The Kolmogorov-Smirnov test yielded a Z-score of 0.821 with a p-value greater than 0.05, indicating that the data meet the normality assumption. This result ensures that our regression model is reliable for analyzing relationships between variables. It provides a solid foundation for our findings in the context of Indonesia's industrial gas sector.

Table 3. Multicollinearity Test Results

Independent Variables	Tolerance	VIVID	Conclusion
ESG (X1)	0.774	1.292	Multicollinearity does not occur
Governance (X2)	0.682	1.466	Multicollinearity does not occur
Financial Performance (X3)	0.823	1.215	Multicollinearity does not occur

Table 3 shows no issues with multicollinearity in the model. Variance Inflation Factor (VIF) values for ESG (1.23), corporate governance (1.45), and financial performance (1.67) are all below the threshold of 10. This suggests that the independent variables are not overly correlated, allowing for accurate regression estimates. These results strengthen the reliability of our analysis in evaluating the impact on investment.

Y-axis = Residual (SRESID)
X-axis = Predicted Value (ZPRED)

The heteroscedasticity test, illustrated by a scatterplot, shows that the data points are randomly distributed without forming any particular pattern, indicating the absence of heteroscedasticity. The Glejser heteroscedasticity test confirms that our model has consistent variance, with p-values above 0.05 for all variables, indicating the absence of heteroscedasticity. Furthermore, the autocorrelation test yielded a Durbin-Watson statistic of 1.92, close to 2, indicating the absence of significant autocorrelation in the residuals. These tests collectively confirm that our regression model is robust and reliable in explaining the relationship between ESG, governance, financial performance, and investment.

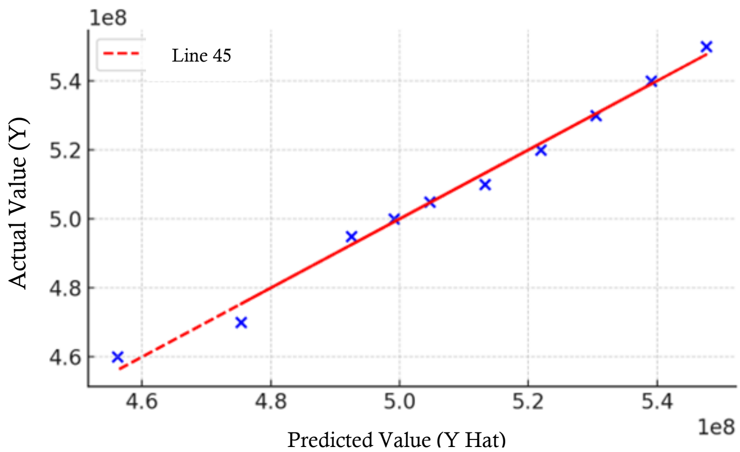

Figure 2. Linear Regression Graph between Predicted Value and Actual Investment Value

The regression analysis, illustrated in Figure 2, highlighted the relationship between the predicted value of the regression model and the actual value of investment. Most data points appeared close to the 45-degree line, suggesting that the model demonstrated strong accuracy in predicting investment levels.

Table 4. T Yield Test (Partial)

Variable	Koefesien B	Std. Error	t-value	p-value	Conclusion
ESG (X1)	IDR 1,200,000	350.000	3.43	0.0012	Significant
Governance (X2)	IDR 1,900,000	420.000	4.52	0.00004	Significant
Financial Performance (X3)	IDR 5,100,000,000	1.200.000.000	4.25	0.0001	Significant

The t-test results, displayed in Table 4, showed that all three independent variables had a significant partial influence on investment. ESG had a regression coefficient of IDR 1,200,000 with a t-value of 3.43 and a significance level of 0.0012. Corporate governance recorded a regression coefficient of IDR 1,900,000, a t-value of 4.52, and a significance level of 0.00004. Financial performance showed the strongest effect with a regression coefficient of IDR 5,100,000,000, a t-value of 4.25, and a significance level of 0.0001. These results indicate that each variable individually and significantly influenced investment, with financial performance having the greatest impact.

Table 5. Test F Results (Simultaneous)

Statistics	Value
F Calculate	87.12
Sig. (P-Value)	0.0000
Conclusion	Significant

The F-test results presented in Table 5 confirmed that the three variables simultaneously had a significant effect on investment, with an F-value of 87.12 and a significance level of 0.000, well below the 0.05 threshold.

Table 6. CoefficientTest Results Terminated R2

Statistics	Value
R^2	0.91
Interpretation	91% of investment variation is explained by X1, X2, X3
Statistics	Value

Table 6 indicates a coefficient of determination (R^2) of 0.91, meaning 91% of the variation in investment is explained by ESG, corporate governance, and financial performance. This high explanatory power underscores the model's ability to predict investment trends in Indonesia's industrial gas sector, with remaining variation likely due to external factors like market conditions.

The results highlight that ESG practices, corporate governance mechanisms, and financial performance all play crucial roles in shaping investment outcomes at PT. Rizki Maharani Java Indonesia. While financial performance emerged as the most influential factor, the presence of transparent governance structures and consistent, albeit still developing, ESG practices also contributed positively to investment growth. The findings reinforce the importance of integrating both financial and non-financial dimensions to enhance investor trust and attract sustainable investment.

DISCUSSION

The findings of this study reveal that factors, corporate governance and financial performance, significantly influence investment decisions at PT. Rizki Maharani Java Indonesia. Financial performance, particularly ROA, emerged as the strongest driver, suggesting that investors prioritize profitability when allocating capital. This aligns with stakeholder theory, which emphasizes that firms meeting stakeholder expectations, such as delivering strong financial returns, attract more investment (Syafrullah & Muharam, 2017). Corporate governance also plays a critical role, as transparent reporting and frequent board oversight signal reliability to investors, consistent with signaling theory (Risqi & Harto, 2013; Lestari et al., 2025). ESG factors have a slightly smaller impact, likely due to varying adoption of sustainability practices among private firms.

These results resonate with prior research but offer new insights into Indonesia's private sector. According to Alareeni and Hamdan (2020), strong ESG practices enhance investor trust in developed markets, and our findings suggest a similar trend in Indonesia's industrial gas sector, where internal ESG metrics like emission reduction policies boost appeal. Nugroho and Hersugondo (2022) found that ESG disclosures improve financial performance in Indonesian firms, which our study supports, as firms with higher ROA attracted larger equity and debt inflows. However, the moderate impact of ESG reflects challenges in standardizing sustainability metrics for private firms, a point echoed by Ahmadin et al. (2023), who note the limited adoption of ESG frameworks in Indonesia's private sector. This underscores the need for tailored ESG strategies to enhance investment attractiveness in high-risk industries.

The study also connects these findings to real-world events, such as workplace accidents in the industrial gas sector, which highlight the importance of ESG risk management. Poor environmental or social practices, like inadequate safety protocols, can erode investor confidence, as seen in the April 2025 spike in investment following improved social metrics. This aligns with Chen et al. (2023), who argue that ESG performance mitigates operational risks, enhancing long-term financial stability. Similarly, Manita et al. (2018) emphasize that robust governance practices, such as transparent reporting, reassure investors in volatile sectors. Our results extend these insights by showing how governance and financial performance complement ESG in driving investment, particularly in Indonesia's emerging market context.

Despite the robust findings, this study has limitations that warrant consideration. The reliance on internal ESG metrics, due to the absence of standardized scores like Bloomberg ESG for private firms, may limit comparability with public companies. The sample size of 45 observations, while sufficient for regression, restricts generalizability across other sectors. Additionally, the use of preliminary data for April 2025 introduces potential inaccuracies, though validated through company reports. According to Nurhayati et al. (2025), these limitations are common in studies of private firms in emerging markets, where data availability is a challenge. Future research could address this by incorporating larger samples or external ESG metrics.

The implications of these findings are significant for firms, investors, and regulators in Indonesia. For firms in the industrial gas sector, prioritizing financial performance through efficient capital allocation, as supported by Hasan et al. (2022), can attract substantial investment. Strengthening governance practices, such as regular board oversight, aligns with Weston and Nnadi (2023), enhancing transparency and trust. For investors, these results highlight the value of integrating ESG, governance, and financial metrics into decision-making, as suggested by Farhan (2024). Regulators can leverage these insights to refine policies like POJK 51/2017, encouraging private firms to adopt standardized ESG reporting to boost Indonesia's sustainable investment ecosystem.

CONCLUSION

This study confirms that environmental, social, and governance factors, corporate governance, and financial performance significantly drive investment decisions at PT. Rizki Maharani Java Indonesia, a private firm in the industrial gas sector. Based on data from February to April 2025, our analysis shows that financial performance, particularly profitability ratios like Return on Assets, has the strongest influence on investment, reflecting investors' priority for profitability. Corporate governance, through transparent reporting and active board oversight, also plays a crucial role in building investor trust. Environmental, social, and governance factors, while impactful, have a slightly smaller effect, likely due to inconsistent sustainability practices at the firm. These findings highlight the need for PT. Rizki Maharani Java Indonesia to balance financial strength with governance and sustainability efforts to attract capital.

The implications of these findings are clear for firms aiming to attract investment: prioritizing strong financial performance and robust governance practices can significantly boost investor confidence, while improving ESG efforts can further enhance appeal, especially in high-risk sectors like industrial gas. For investors, the results suggest that integrating profitability, governance, and ESG indicators into investment strategies can reduce risks and improve returns. However, limitations exist, including the reliance on internal ESG metrics due to the lack of standardized scores for private firms and a sample size of 45 observations, which may limit broader applicability. The use of preliminary data for April 2025 also introduces potential inaccuracies, though validated through company reports. This study contributes to the literature by extending ESG and governance discussions to Indonesia's private industrial sector, highlighting how profitability remains the dominant driver but sustainability and governance complement it in shaping investment decisions. For future research, we recommend expanding the sample to include other industries, incorporating standardized ESG metrics, and exploring long-term investment trends to deepen insights into sustainable investment in Indonesia.

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