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INVESTMENT DECISION DETERMINATION: ESG, FINANCIAL CONSTRAINTS, AND PROFITABILITY

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Abstract: The purpose of this study is to examine the role of ESG, financial constraints, and profitability on investment decisions. The population used was banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2024. The sampling method used was purposive sampling, resulting in 19 companies, with a total sample of 76 companies. This study employed quantitative methods and is categorized as descriptive research with a causal nature. Hypothesis testing used multiple regression analysis. The results showed that ESG did not increase investor confidence, which ultimately had no effect on investment decisions. Financial constraints and profitability negatively affected investment decisions.

***Keywords**:* *ESG, financial constraints, profitability, and investment decisions*

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1. Introduction

Investment decisions are crucial for a company's growth and sustainability. A company's financial resources are used for investment and business development to increase profitability. Companies make investment decisions based on financial, sustainability, and economic stability. Investors are attracted to companies with strong financial and non-financial performance, which is a key consideration for corporate sustainability. Financial factors include financial constraints and profitability, while non-financial factors include ESG.

Indonesia has begun adopting ESG (Environmental, Social, and Governance) as a form of corporate sustainability. Companies that have adopted ESG include banking, financial institutions, and public companies. ESG has an important role in being able to provide information to investors about the company's non-financial information so that the company has sustainability (Zhu et al., 2024). ESG has the function of assessing environmental, social and good governance performance. Companies should maximize the allocation of data resources, promote transparency, enhance investor appeal, and enhance sustainable development outcomes (SDGs) (Zhou et al., 2023).

Investment as one of the basic financial activities of a company, which has a direct impact on company growth, company value and financial performance so that it becomes a long-term concern for investors. Companies find it difficult to obtain external funding in a competitive market due to the limited number of investors. However, this is different, ESG can decline because the consumption of company resources and their use as a tool for managerial personal interests can reduce investment efficiency.

ESG acts as an important information intermediary for companies and investors, thus influencing the investor decision-making process. ESG as an investor tool to assess the long-term sustainability performance of risks and company reputation that influence investment decisions. Information asymmetry between companies and investors can be reduced if ESG disclosure is good. According to (Khemir et al., 2019); (Safriani & Utomo, 2020), shows ESG drives investment decisions. This contrasts with (Khan & Iqbal, 2024), stated that it is not easy to integrate ESG into investment decision making. Companies with good financial performance and social disclosure are considered to have better sustainability.

Financial constraints pose significant challenges, limiting companies' ability to pursue profitable investment opportunities and impacting their performance. Investment is crucial because company value is maximized through investment (Rokhmawati, 2017). Funding constraints pose significant challenges, limiting companies' ability to pursue profitable investment opportunities and impacting their performance. This is supported by (Elwan, 2025), who found that companies facing financial constraints tend to invest less. This contrasts with research by (Emerensiana, 2020); (Amanah et al., 2024), which found that companies with financial constraints actually have a positive impact on cash flow on investment decisions.

Profitability is useful for analyzing a company's financial condition. High profitability provides investors with an overview of the profits generated, thus increasing their interest in investing. Investors choose to invest in companies with high profitability levels, hoping to achieve high returns or capital gains. According to (Putra et al., 2021); (Aini & Andry, 2025) high profitability has the potential to influence a company's investment decisions. However, this contradicts the research findings of (Sa'adatunnisa & Norisanti, 2022), which states that profitability does not impact investment decisions.

Currently, many investors choose banking as a place to make investment decisions because it offers security supervised by official government institutions and a variety of product choices such as government securities, mutual funds, and deposits. Banking is a popular choice for both novice and experienced investors seeking stability and growth potential through bank stocks or other structured products, with investment banks also helping companies raise capital market funds.

This study differs from (Denisa & Sulfitri, 2025) study, which linked ESG, financial distress, and profitability to firm value. This study's contribution is that it uses investment decisions as the dependent variable, as investors are increasingly looking to the capital market for long-term investments. This study examines the impact of ESG, financial constraints and profitability on investment decisions.

Research Hypothesis

ESG on Investment Decisions

ESG is a reference for assessing the impact of investments made by companies on sustainability and social aspects. ESG plays a crucial role in helping manage risk, building reputation, positively impacting the environment and society, and preventing regulatory sanctions. ESG implementation is a crucial element for investors in making investment decisions and supporting the achievement of corporate sustainability goals (Rismanto, 2024).

The theory underlying the relationship between ESG and investment decisions is signaling theory. Good ESG disclosure provides positive information to investors, thus encouraging investors to invest in the company. This is because strong ESG disclosures reflect a higher level of sustainability and better corporate governance. This aligns with (Young-Ferris & Roberts, 2021), states that ESG is an important information intermediary that connects companies and investors, thus influencing the investor decision-making process.

H1: ESG influences investment decisions

Financial constraints on investment decisions

Financial constraints are limitations on a company's ability to obtain capital. Financial constraints typically arise from external funding sources due to high debt and high interest rates (Damanudin & Rinofah, 2020). The greater a company's profits, the greater its tendency to utilize internal funds before considering debt financing. Information on profitability can be used by external parties as a basis for assessing and considering a company's performance prospects, as profitability levels are considered to reflect the company's financial condition.

Funding constraints pose significant challenges, limiting companies' ability to pursue profitable investment opportunities and impacting company performance. This is supported by (Rokhmawati, 2017) that companies that have unlimited cash have a significant influence on investment decisions and vice versa, companies do not make investments if they have financial constraints.

H2: Financial constraints influence investment decisions

Profitability on investment decisions

Profitability plays a role in measuring the success of a company from a financial perspective, especially in terms of profit achievement and efficiency in resource utilization (Lase et al., 2022). Companies that achieve high profitability tend to utilize internal funds before considering debt financing. External parties utilize profitability information to analyze the company's performance prospects, because the level of profitability is considered capable of describing the company's financial condition.

The theory that explains profitability with investment decisions is signaling theory. Signaling theory provides information signals needed by investors to consider stock investment decisions. A company in good financial condition can be seen from its profitability which has an impact on the prosperity of its shareholders. This attracts more investors, thus impacting the company's value. This is in line with (Putra et al., 2021); (Aini & Andry, 2025), who assert that high profitability has the potential to influence a company's investment decisions.

H3: Profitability influences investment decisions

2. Research Method

This type of research is quantitative and uses secondary data obtained from the financial reports of banking companies listed on the Indonesian Stock Exchange. This study's population consisted of companies listed on the Indonesia Stock Exchange, specifically banking companies, for the period 2021-2024. The sampling method used purposive sampling, with the criteria being companies that consistently published financial reports for the period 2021-2024 and used the rupiah currency. Based on these criteria, 47 banking companies used the rupiah currency, but 19 of them did not consistently present complete financial reports during the period 2021–2024. Thus, the final sample size for this study was 28 companies.

This study used four variables: three independent variables (ESG, financial constraints, and profitability), and one dependent variable (investment decisions).

Table 1. Variable Indicators

No	Variable	Indicators
1	ESG	$ESG = \frac{\Sigma \text{ itemyang diungkapkan}}{\Sigma \text{ item keseluruhan}}$ (Nasdaq, 2019)
2	Financial Constraints	SA=0,043×Size^2-0.737×Size 0,040×Age (Wang et al., 2025)
3	Profitability	$ROA = \frac{Laba\ bersih}{Total\ aset}$x100% (Kasmir, 2019)
4	Investment Decision	$PER = \frac{harga\ saham}{Earning\ per\ share}$x100% (Piristina & Khairunnisa, 2019)

Multiple regression analysis was used to determine the influence of ESG variables, funding constraints, and profitability on investment decisions. The regression equation for this study is:

$$KI = \alpha + \beta1\ ESG + \beta2\ SA + \beta3\ ROA + e$$

Where:

KI	:	Investment Decision
α	:	Constant
β	:	Regression Coefficient
ESG	:	ESG Disclosure
SA	:	Financial Constraints
ROA	:	Profitability
e	:	Error

3. Results and Discussion

3.1. Results

a. Classical Assumption Test Results

This study conducted classical assumption tests to ensure that the data used were normally distributed and to detect any deviations in the study.

Table 2. Classical Assumption Test Results

Model	Variable		Normality	Heteroscedasticity	Autocorrelation	Multilinearity	
	Indep	Depend	Sig	Sig	DW	Tolerance	VIF
1	ESG	KI	0.053	0.139	2.093	0.955	1.048
	SA			0.507		0.883	1.133
	ROA			0.541		0.885	1.130

Table 2 shows a normality sig value of 0.053, which is greater than 0.05, thus concluding that the data is normally distributed. The heteroscedasticity test is used on residual data to identify symptoms of heteroscedasticity. If the sig value is <0.05, heteroscedasticity is present, and vice versa (Ghozali, 2021). Table 2 shows a heteroscedasticity sig value > 0.05, thus concluding that the data is free from heteroscedasticity.

An autocorrelation test was conducted to assess the presence of correlation in the regression model. Based on Table 2, the Durbin-Watson (D-W) value of 2.093 is within the dU range of 1.7463 to 4–dU 2.2537, thus concluding that there is no autocorrelation. Meanwhile, the multicollinearity test is seen from the tolerance value > 0.10 and the VIF value < 10. Table 2 shows that all independent variables have a tolerance value of >0.10 and VIF <10, so the conclusion is that the research data is free from multicollinearity.

b. Results of f-test and t-test

Researchers conducted an F-test to determine the influence of ESG, financial constraints and profitability on investment decision variables. If the significance value F < 0.05, it means that the independent variables jointly influence the dependent variable, or vice versa. (Ghozali, 2021).

Table 3. F-test and t-test

Model	**Variable**	**Unstandar.Coeff**					**Koef.Detr**
		Beta	**T**	**Sig**	**F**	**Sig**	**Adj. R Sq**
	(Constant)	4,951	7,396	0,000	31,056	0,000	0,450
1	ESG	-0,261	-1,836	0,069			
	SA	-0,479	-2,081	0,040			
	ROA	-0,720	-9,106	0,000			

a. Dependent Variables of Investment Decisions

An adjusted R Square of 0.450 indicates that ESG, financial constraints, and investment decisions can collectively explain 45% of the variation in investment decisions, with other variables outside the research model influencing the remaining 55%. Based on Table 3, the F-test results show a significance value of 0.000 < 0.05, indicating that ESG, financial constraints, and profitability simultaneously have a significant influence on investment decisions.

The multiple linear regression equation obtained from the analysis is:

$$KI = 4.951 - 0.261ESG - 0.479SA - 0.720ROA + e$$

This equation indicates that each one-unit increase in each independent variable will result in an increase in investment decisions, assuming the other variables remain constant. The constant value of 4.951 indicates that if all independent variables are zero, the company's value remains at that number.

The first result, the ESG variable has a significance value of 0.069 > 0.05, which means ESG has no effect on investment decisions, and has a regression coefficient of 0.261 with a negative direction. Second, the financial constraint variable has a significance value of 0.040 < 0.05, which means financial constraints influence investment decisions, with a regression coefficient of 0.479 and a negative direction. Meanwhile, the profitability variable shows a significance value of 0.000 < 0.05, indicating that profitability has a significant effect on investment decisions, with a regression coefficient of 0.720 and a negative direction.

3.2. Discussion

The Influence of ESG on Investment Decisions

The ESG variable has a coefficient of β = -0.261 with a negative direction and a significance value of 0.069 > 0.05, thus rejecting H1. This indicates that investors prioritize financial performance over non-financial performance (ESG). ESG is often considered less important by investors because ESG data and ratings are not standardized, making them difficult to measure and compare. Furthermore, concerns regarding greenwashing practices and the unreliability of ESG information prevent ESG reports from having a significant impact on investment decisions.

These results contradict signaling theory, which states that investors rely on financial reports and corporate sustainability reports for investment decisions. These results indicate that ESG has no impact on investment decisions. The results of this study are the same as (Banerjee & David, 2025) which shows that investors prioritize traditional financial metrics over other considerations. In addition, it is also supported by research by (Al-Hiyari et al., 2023) which shows that ESG disclosure plays a less important role in encouraging investors to invest.

The Effect of Financial Constraints on Investment Decisions

The Financial constraints have a β value of -0.479, which means a negative direction and a sig value of 0.040 <0.05, so it can be concluded that H2 is accepted. Financial constraints arise because of low retained earnings, cash flow, or internal cash, but high debt levels. Companies that have financial constraints have a negative effect on investment decisions, meaning that if a company has high debt, funds are used to pay interest and debt costs, so the availability of funds is reduced, resulting in the company reducing investment.

These results support the pecking order theory, which states that companies tend to use internal funds before external funds, so that when facing financial constraints, companies delay or reduce investment. This finding aligns with research (Senjani, 2015) and (Perwitasari, 2021), which shows that financial constraints have a negative influence on investment decisions, because high dividend distributions cause the funds available for investment to become more limited.

The Effect of Profitability on Investment Decisions

Profitability has a β value of -0.720, indicating a negative trend, and a sig value of 0.000 <0.05, thus accepting H3. This means that increasing profitability is accompanied by a decrease in investment decisions. Companies with high profitability are more efficient in managing resources, which will encourage the company to grow. However, companies also limit investment to protect capital rather than pursue large profits.

These results align with the packing order theory, which states that companies will invest if they have high profitability, but they must also consider the risks involved in investing. This research aligns with this theory (Safrizal et al., 2023); (Aini & Priharta, 2025) that profitability influences investment decisions.

4. Conclusion

This study analyzes the influence of ESG, financial constraints, and profitability on investment decisions. The study subjects were banking companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, with 19 companies as a sample observed over three years, resulting in 57 company data. The results of simultaneous hypothesis testing indicate that the independent variables (ESG, financial constraints, and profitability) jointly influence the dependent variable (investment decisions).

The results of partial tests indicate that ESG variables have no effect on investment decisions, as investors prioritize a company's financial condition over ESG factors. Companies experiencing financial constraints prioritize meeting their obligations over investing. Companies with high profitability tend to limit investment to protect capital rather than pursue large profits.

The limitations of this study are evident in the R^2 value of 0.450, indicating that ESG, financial constraints, and profitability variables only explain 45% of the variation in investment decisions, while other factors influence the remaining 55%. Suggested variables for further research are capital and liquidity.

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