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The Impact of ESG Practices on Firm Value: a Human Resource Management and Financial Decision Perspective

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Abstract

The development of the business world that increasingly emphasizes sustainability aspects encourages companies to implement Environmental, Social, and Governance (ESG) principles as a strategy in creating long-term corporate value. This study aims to analyze the impact of ESG practices on corporate value from the perspective of human resource management and financial decision-making. This study uses a qualitative approach with descriptive methods through literature studies and analysis of company documents, such as annual reports, sustainability reports, and various relevant scientific references. Data analysis techniques are carried out through content analysis with the stages of data collection, data reduction, data presentation, and drawing conclusions. The results show that the implementation of ESG practices has a positive impact on increasing corporate value by strengthening reputation, increasing investor confidence, reducing business risks, and creating competitive advantages. From a human resource management perspective, ESG plays a role in improving employee welfare, competency development, workforce engagement, and establishing a sustainable organizational culture. Meanwhile, from a financial decision-making perspective, ESG helps companies in determining more effective investment, funding, and risk management strategies. This study concludes that the integration of ESG into corporate strategy is a crucial factor in building business sustainability and increasing corporate value in the long term.

INTRODUCTION

Increasing global awareness of sustainability issues has encouraged companies to focus beyond simply achieving financial returns to also consider the social and environmental impacts of their business activities. The concept of *Environmental, Social, and Governance* (ESG) has become an increasingly widely adopted approach as an indicator of corporate sustainability in facing modern economic challenges. ESG implementation is seen as enhancing corporate competitiveness through improved risk management, enhanced corporate reputation, and strengthened stakeholder relationships (S. A. Sari et al., 2025). In various countries, investors are beginning to consider ESG scores as a key consideration in investment decisions, as they are seen as reflecting the quality of corporate governance and long-term growth prospects. In Indonesia, ESG implementation has also experienced significant development as regulators, capital markets, and the public pay increased attention to responsible business practices. The Indonesia Stock Exchange, together with the Financial Services Authority (OJK), continues to encourage public companies to increase the transparency of their sustainability reporting through ESG and *Sustainability Reports* . This demonstrates that ESG has become a crucial part of business strategies oriented towards creating sustainable firm value (Xaviera & Rahman, 2023).

Corporate value is one of the main indicators reflecting investor perceptions of a company's performance and future prospects. The higher the company's value, the greater the investor's confidence in its ability to generate sustainable profits. From a financial perspective, corporate value is influenced by various factors such as profitability, capital structure, dividend policy, investment decisions, and the quality of corporate governance (Wahyuni & Ahdim, 2025). However, developments in the modern business paradigm indicate that non-financial factors such as ESG practices also contribute significantly to increasing corporate value. Investors now evaluate not only financial reports but also how companies manage their environmental impact, treat employees, build relationships with the community, and implement transparent and accountable governance. Therefore, successful ESG implementation is a positive signal to the market that a company is capable of maintaining business sustainability while mitigating various long-term risks (Cahyawati & Najla, 2026).

From a human resource management (HRM) perspective, ESG implementation is not only concerned with environmental and governance aspects, but also encompasses social dimensions directly related to workforce management. Companies that consistently implement ESG practices tend to pay greater attention to employee well-being, occupational safety and health, competency development, diversity, equality, and an inclusive organizational culture. These practices can increase employee motivation, job satisfaction, organizational commitment, and productivity, thus contributing to overall company performance. Furthermore, companies with a strong ESG reputation find it easier to attract and retain quality talent than those that neglect sustainability. In an era of global competition and digital transformation, the quality of human resources is a strategic asset that determines the success of ESG implementation. Therefore, HRM plays a central role in ensuring that sustainability policies are not merely administrative documents but are truly internalized in the organizational culture and behavior of all employees (Setiawan, 2026).

Beyond human resource aspects, ESG practices are also closely linked to a company's financial decision-making process. Investment decisions, financing decisions, and dividend policies in the modern era increasingly consider sustainability as part of a long-term value creation strategy. Financial management is no longer oriented toward short-term profit maximization but also considers various environmental, social, and governance risks that can impact a company's future financial stability (Nabilaa & Purwanti, 2025). For example, companies that neglect waste management face potential legal sanctions, reputational damage, and even a loss of investor confidence. Conversely, companies that invest in environmentally friendly technologies, energy efficiency, and good governance tend to gain access to cheaper funding due to the perceived lower risk. Therefore, integrating ESG into financial decision-making is a crucial strategy for improving resource efficiency while strengthening a company's value in the eyes of investors (Pradika et al., 2025).

Previous studies have shown that the relationship between ESG practices and company value still yields mixed findings. Some studies found that ESG implementation positively increases company value through increased investor confidence, operational efficiency, and reduced business risk. However, other studies indicate that the influence of ESG is inconsistent due to the influence of industry characteristics, company size, profitability, governance quality, and a country's economic conditions. Furthermore, most studies focus primarily on the financial perspective without integrating the role of human resource management as a factor supporting the success of ESG implementation (Antonius & Ida, 2023). However, the success of sustainability policies is highly dependent on the quality of human resource management that implements the strategy. This research gap highlights the need for a more comprehensive study of the relationship between ESG, HRM, financial decision-making, and company value within a single, integrated analytical framework (Rasyad & Onasis, 2020).

Regulatory developments and global investment trends further reinforce the urgency of research into the impact of ESG practices on company value. In Indonesia, the Financial Services Authority (OJK) has encouraged the implementation of sustainable finance through various regulations concerning sustainability reporting and ESG risk management. Internationally, a growing number of rating agencies and institutional investors are using ESG indicators as a basis for evaluating investment viability (Linawati & Prihandini, 2025). This phenomenon suggests that companies that integrate ESG practices into their business strategies have a greater opportunity to gain a competitive advantage, increase access to funding sources, and strengthen their reputation in the global market. However, ESG implementation still faces various challenges such as limited human resource competency, implementation costs, low management understanding, and suboptimal integration between sustainability policies and corporate financial strategies. Therefore, research is needed that can explain how ESG practices can provide added value through synergy between human resource management and financial decision-making (Hendriarto et al., 2025).

Based on this description, research on "The Impact of ESG Practices on Company Value: A Human Resource Management and Financial Decision-Making Perspective" is very important to conduct. This research is expected to provide a deeper understanding of the mechanisms by which ESG implementation influences the increase in company value through the optimization of human resource management and the quality of financial decisions. In addition to contributing to the development of human resource management theory, corporate finance, and business sustainability, this research is also expected to be a practical reference for company management in designing effective ESG strategies, for investors in evaluating company quality more comprehensively, and for regulators in formulating policies that encourage sustainable business practices. Thus, this research not only has academic contributions, but also provides practical benefits in supporting the creation of companies that are highly competitive, socially and environmentally responsible, and capable of creating long-term value for all stakeholders.

METHODS

This study uses a qualitative approach with descriptive methods to analyze the impact of Environmental, Social, and Governance (ESG) practices on company value from the perspective of human resource management and financial decision-making. The qualitative approach was chosen because this study aims to understand in-depth how companies implement ESG principles, the role of human resources in supporting sustainability, and how ESG practices influence the company's strategic decision-making process. Research data were obtained through literature studies, analysis of company documents in the form of annual reports , sustainability reports , and various scientific publications relevant to the research topic. Data sources were selected purposively based on the suitability of the information to the research objectives.

Data analysis was conducted using qualitative analysis techniques through several stages: data collection, data reduction, data presentation, and conclusion drawing. The data obtained were then analyzed to identify patterns, relationships, and the significance of ESG implementation in increasing company value. This study also used content analysis techniques to evaluate how environmental, social, and governance aspects are implemented in company strategy, including human resource management and financial decisions. The results of the analysis are expected to provide a more comprehensive understanding of the role of ESG as a sustainability strategy in creating long-term company value.

RESULTS AND DISCUSSION

Implementation of ESG Practices in Increasing Company Value

Based on data analysis through literature studies and company document reviews, it was found that implementing Environmental, Social, and Governance (ESG) practices is a crucial strategy for increasing company value. Companies that consistently implement ESG principles demonstrate a paradigm shift in business management, shifting from a short-term profit orientation to sustainable, long-term value creation. ESG not only serves as a form of compliance with regulatory and social demands but also serves as a strategic tool for enhancing reputation, mitigating business risks, and strengthening stakeholder relationships.

In terms of the environmental aspect, research results show that companies committed to environmental sustainability tend to receive positive perceptions from the public and investors. The implementation of programs such as energy efficiency, carbon emission reduction, waste management, and responsible resource use demonstrates a company's ability to anticipate future environmental challenges. These practices not only have a positive impact on the environment but also improve the company's operational efficiency by reducing costs and optimizing resource use (Andika & Nauli, 2026).

In terms of social aspects, companies that pay attention to relationships with employees, consumers, and the community demonstrate a better ability to build public trust. Attention to employee welfare, workforce protection, competency development, and diversity in the workplace are factors that support improved organizational performance. Employees who feel valued and supported by the company will have higher motivation and loyalty, thus contributing to the achievement of company goals (Arum, 2025).

Meanwhile, the governance aspect demonstrates that transparency, accountability, and management integrity are key factors in building investor confidence. Companies with good governance have a greater ability to manage risk and make strategic decisions effectively. Therefore, the comprehensive implementation of ESG can increase company value by creating the perception that the company has more stable and sustainable growth prospects.

The Role of Human Resource Management in Supporting ESG Success

The research findings indicate that human resource management plays a strategic role in ensuring the successful implementation of ESG within a company. ESG cannot be implemented effectively if it remains a formal policy without the involvement of employees as key implementers. Therefore, companies need to build an organizational culture that supports sustainability values through competency development, internal communication, and employee involvement in various ESG programs.

From an ESG social perspective, human resource management is a crucial indicator reflecting a company's responsibility to its workforce. Companies that implement ESG-based HRM practices prioritize employee well-being, safety, equal opportunity, and career development. This creates a healthier and more productive work environment, thereby improving individual and organizational performance.

Furthermore, research shows that companies that integrate ESG into their HR strategies are better able to attract and retain high-quality talent. The current generation of workers increasingly considers a company's values and sustainability commitments before joining. Therefore, a strong ESG reputation can be a competitive advantage in attracting top talent (Nugroho et al., 2024).

This discussion demonstrates that ESG success is highly dependent on a company's ability to manage its people as a strategic asset. Employees are not merely operational implementers but also agents of change, helping the company achieve its sustainability goals. Thus, the synergy between ESG and HRM can create added value, impacting both performance and corporate value (Hanum et al., 2025).

The Influence of ESG on Corporate Financial Decision Making

The research results show that ESG practices are closely linked to a company's financial decision-making process. In the modern business environment, financial decisions no longer solely consider financial returns but also consider sustainability risks that could impact the company's future performance. ESG provides additional information for management in determining investment, funding, and risk management strategies.

From an investment perspective, companies that implement ESG tend to direct resources to projects with long-term benefits, such as investing in environmentally friendly technology, sustainable product innovation, and improving human resource quality. While these investments require significant upfront costs, the long-term benefits of efficiency, enhanced reputation, and reduced risk can provide economic benefits to the company (Antonetta & Simon, 2026).

In terms of funding, companies with strong ESG practices tend to command higher levels of trust from investors and financial institutions. Investors are increasingly considering sustainability in their investment decisions, as companies with lower ESG risks are perceived as more capable of maintaining long-term performance. This can improve a company's access to funding sources and strengthen its financial structure (N. M. Sari, 2025).

Furthermore, ESG helps management identify risks that could potentially disrupt a company's stability. Environmental risks, social conflicts, and weak governance can negatively impact a company's financial condition. Therefore, integrating ESG into financial decisions is a crucial strategy for creating a more resilient and sustainable company.

ESG as a Strategy for Sustainable Corporate Value Creation

Based on research findings, ESG can be understood as a strategy capable of creating sustainable corporate value through a balance between economic, social, and environmental objectives. Companies that implement ESG are not only focused on increasing profits but also strive to create harmonious relationships with all stakeholders.

The implementation of ESG contributes to increasing company value through several mechanisms, including enhancing corporate reputation, strengthening investor confidence, increasing employee loyalty, and reducing business risk. Companies with a strong reputation for sustainability tend to receive greater public and market support, enabling them to sustain long-term business growth (Amelia et al., 2026).

The research also shows that ESG plays a role as a bridge between a company's internal strategy and external stakeholder expectations. Internally, ESG encourages companies to improve governance, enhance human resource quality, and optimize decision-making. Externally, ESG enhances a company's image and strengthens relationships with investors, consumers, and the public (Matitaputty et al., 2026).

Thus, ESG is not just a corporate responsibility concept, but a strategic approach that can enhance a company's overall value. Integrating ESG with human resource management and financial decisions is key to building an adaptive, competitive, and sustainable company amidst a changing global business environment (Vaniatan & Mukhtaruddin, 2025).

CONCLUSION

Based on the research results on "The Impact of ESG Practices on Company Value: A Human Resource Management and Financial Decision-Making Perspective," it can be concluded that the implementation of Environmental, Social, and Governance (ESG) practices plays a strategic role in increasing company value sustainably. ESG is not only a form of corporate responsibility towards the environment and society, but also a business approach that can strengthen competitiveness, enhance reputation, and build trust from stakeholders. Companies that integrate ESG principles into their business strategies demonstrate better capabilities in managing risk, creating innovation, and maintaining long-term business sustainability.

From a human resource management perspective, ESG implementation significantly contributes to building employee quality and engagement. Companies that prioritize social aspects through employee well-being, competency development, occupational safety, diversity, and an inclusive organizational culture are able to create a productive work environment. Employees who feel connected to the company's sustainability values will be more motivated to contribute to achieving organizational goals. Therefore, ESG-based human resource management is a crucial factor in creating a company's competitive advantage.

Furthermore, ESG practices also influence a company's financial decision-making process. Integrating environmental, social, and governance factors into investment, financing, and risk management decisions helps companies develop more effective and long-term financial strategies. Companies with strong ESG performance tend to command higher investor confidence due to perceived more transparent governance and lower business risks.

Overall, this research demonstrates that ESG is a strategy capable of linking economic interests with social and environmental sustainability. The success of ESG implementation is heavily influenced by the synergy between effective human resource management and sound financial decision-making. Therefore, companies need to make ESG an integral part of their organizational strategy to increase corporate value, strengthen competitiveness, and create long-term benefits for all stakeholders.

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