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The Influence of Green Investment and Corporate Social Responsibility on Company Financial Performance with Capital Structure as a Mediating Variable

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Abstract

Environmental sustainability has become increasingly critical in corporate strategy, driven by climate change concerns and evolving stakeholder expectations. This [A1] research [A2] aims to analyze the effect of Green Investment on improving corporate financial performance, examine the impact of Corporate Social Responsibility (CSR) practices on corporate financial performance, analyze the effect of capital structure on enhancing financial performance, assess the influence of Green Investment on a company's capital structure, investigate the impact of CSR practices on capital structure, evaluate the role of capital structure in mediating the relationship between Green Investment and financial performance, and analyze the mediating effect of capital structure on the relationship between CSR and financial performance. This research employs a quantitative approach. The research object consists of companies listed in the ESGS *Kehati* Index during the 2020–2024 period. The sample was selected using purposive sampling, resulting in 48 companies. The data used in this research are secondary data, collected through documentation of annual reports and sustainability reports. The data were analyzed using descriptive statistics, classical assumption tests, panel data model selection, t-tests, coefficient of determination, and the Sobel test. The results indicate that Green Investment does not have a significant effect on financial performance, while Corporate Social Responsibility has a significant positive effect on financial performance. Capital structure is proven to have a significant positive effect on financial performance and serves as a mediating variable in the relationship between Green Investment and financial performance. However, capital structure does not mediate the relationship between CSR and financial performance. The findings imply that strengthening an efficient capital structure is essential to enhance the effectiveness of Green Investment. Additionally, companies are encouraged to maintain and improve CSR practices as an integral part of their sustainable business strategy.

Keywords: Corporate Social Responsibility, Green Investment, Financial Performance, Capital Structure

INTRODUCTION

Global environmental awareness has reached unprecedented levels, with climate change, pollution, and ecosystem degradation emerging as critical challenges requiring immediate corporate response. This environmental consciousness has fundamentally transformed consumer behavior, with stakeholders increasingly demanding sustainable business practices from organizations. Public awareness of environmental issues has been increasing worldwide. Climate change, pollution, and ecosystem degradation have raised serious concerns and driven a shift in consumer behavior. Consumers are now more selective in choosing products and services, showing a tendency to support brands that demonstrate a clear commitment to environmental sustainability.

A report by McKinsey & Company (2020) highlights that 70% of young consumers prefer brands with explicit social and environmental responsibility, indicating that sustainability has become a critical factor in purchasing decisions. This change in consumer preferences compels

companies to adapt their business strategies to meet the demands of consumers, regulators, and investors. Corporate performance is no longer assessed solely in terms of profitability, but also by the extent to which companies integrate sustainable business practices into their operations (Eccles et al., 2018). Flammer (2020) emphasizes that external expectations regarding sustainability have become a key determinant of corporate competitiveness in the modern era.

The transition toward sustainable business models faces significant implementation barriers that challenge corporate financial efficiency and strategic planning. Despite the rising awareness of sustainable investment, many companies continue to face financial constraints. Barriers such as limited funding, lack of incentives, and high implementation costs hinder the adoption of green initiatives (Glavas, 2023). Therefore, comprehensive strategies are required to bridge the gap between sustainability goals and financial efficiency, enabling companies to overcome these challenges and realize the full potential of sustainable investments. Financial performance remains a key indicator for investors in evaluating corporate health.

High profitability reflects a company's ability to manage costs and generate consistent returns. Analytical methods such as the DuPont model provide a comprehensive perspective on profitability, operational efficiency, and asset management. Thus, financial performance not only reflects a company's overall health but also serves as a major attraction for investors. In response to these challenges, companies have increasingly adopted Green Investment and Corporate Social Responsibility as strategic approaches to balance financial objectives with environmental stewardship. Green Investment emerges as a strategy that integrates financial objectives with sustainability. Green investments encourage companies to allocate funds toward environmentally friendly projects that provide long-term economic benefits, such as energy efficiency and cost savings (Guo et al., 2020; Prasetyo & Adinugraha, 2023). In Indonesia, this commitment is reinforced by government regulations such as Law No. 3 of 2014 on Industry and Presidential Regulation No. 16 of 2012 on the General Investment Plan (Arna, 2023).

In addition to Green Investment, Corporate Social Responsibility (CSR) has become an essential strategy for companies to strengthen their relationship with society and stakeholders. CSR implementation not only enhances consumer loyalty but also improves corporate reputation in the market. Nielsen (2023) reports that 66% of global consumers are willing to pay more for products from companies committed to creating positive social and environmental impacts. This underscores CSR as a factor that can potentially boost financial performance.

Capital structure plays a pivotal role as a mediating mechanism that influences how sustainability strategies translate into financial outcomes, determining the optimal balance between debt and equity financing to support long-term environmental initiatives. In relation to Green Investment and CSR, capital structure plays a strategic role in supporting the success of sustainability strategies. An optimal capital structure enables companies to finance sustainability programs without jeopardizing financial stability. A PwC (2023) report shows that companies with optimal capital structures achieve an average ROE 9% higher than those with excessively high or low leverage. Therefore, capital structure can be viewed as a crucial mediating variable linking Green Investment, CSR, and financial performance.

Research in Indonesia remains limited in integrating Green Investment, CSR, and capital structure as mediating variables for financial performance, particularly among ESGS *Kehati* Index companies that represent the most sustainability-committed entities in the Indonesian capital market. Based on this context, the present research focuses on companies listed in the ESGS *Kehati* Index on the Indonesia Stock Exchange. This index consists of stocks with superior environmental, social, and governance (ESG) performance, making it an ideal context for examining the interrelation between Green Investment, CSR, capital structure, and financial performance. By integrating capital structure as a mediating variable, this research seeks to provide both theoretical and practical contributions to the understanding of how sustainability strategies influence corporate profitability in the Indonesian capital market. Therefore, this research aims to investigate how Green Investment and Corporate Social Responsibility influence financial performance through capital structure mediation among ESGS *Kehati* Index companies, with the objective of providing empirical evidence for optimal sustainability financing strategies in emerging markets.

METHOD

This research employs a quantitative approach with a causal relationship design. The quantitative approach aims to systematically measure and analyze numerical data. Meanwhile, the causal relationship design is used to test hypotheses regarding the influence among variables. This method is expected to generate objective and reliable findings, as well as demonstrate the significance of relationships among variables. The research variables consist of the independent variables, namely Green Investment and Corporate Social Responsibility (CSR); the dependent variable, namely financial performance; and the mediating variable, namely capital structure.

Data collection techniques employed documentation studies, systematically gathering information from published annual reports and sustainability reports accessed through the official IDX website (www.idx.co.id) to ensure data accuracy and reliability. Data sources include both quantitative financial data and qualitative sustainability disclosures covering the five-year observation period from 2020 to 2024.

This research uses secondary data obtained from annual reports and sustainability reports of companies listed in the ESGS *Kehati* Index on the Indonesia Stock Exchange. The secondary data include both published and unpublished historical information to provide valid and reliable empirical evidence regarding causal relationships among variables. The research was conducted on companies included in the ESGS *Kehati* Index and listed on the Indonesia Stock Exchange during the 2020–2024 period. The research data, consisting of annual and sustainability reports, were collected from the official IDX website (www.idx.co.id) to ensure accuracy and relevance to the research period. The population of this research comprises all companies listed on the Indonesia Stock Exchange. From this population, a total sample of 62 companies was selected from the ESGS *Kehati* Index based on IDX Announcement No. Peng-00029/BEI.POP/02-2025. This sample selection ensures that the analyzed data are representative and relevant in relation to Green Investment practices and Corporate Social Responsibility disclosure in Indonesia.

The sampling technique employed in this research is purposive sampling, a method of selecting samples based on specific criteria. The criteria applied are: (1) companies listed on the IDX and included in the ESGS *Kehati* Index for the 2020–2024 period; (2) companies that published annual reports or sustainability reports during this period; and (3) companies that disclosed the amount of environmental allocation costs for the 2020–2024 period.

Data analysis techniques include both descriptive and inferential statistical methods. Descriptive analysis examines data characteristics through measures of central tendency and variability, while inferential analysis employs panel data regression to test causal relationships among variables, supplemented by mediation testing using the Sobel test to evaluate capital structure's mediating role. The dependent variable is financial performance, measured through profitability with the DuPont model as the primary indicator (Brigham & Houston, 2020). The independent variables include: (a) Green Investment, measured by the ratio of green investment to total assets; and (b) Corporate Social Responsibility, measured using the Corporate Social Responsibility Disclosure Index (CSRDI) based on the Global Reporting Initiative (GRI) 2: General Disclosures 2021.

The mediating variable is capital structure, defined as the combination of equity and debt financing. Data analysis was carried out through two main stages: descriptive analysis and inferential analysis. Descriptive statistics were used to describe the characteristics of the data, such as mean, standard deviation, variance, maximum value, minimum value, kurtosis, and skewness. Subsequently, inferential analysis was conducted using regression techniques to examine causal relationships among variables, along with mediation testing to evaluate the role of capital structure in linking Green Investment and Corporate Social Responsibility to corporate financial performance.

RESULT AND DISCUSSION

Description of Research Data

This research uses secondary data from the annual report and sustainability report of ESGS-Kehati index companies accessed through the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official website of related companies. Sampling was carried out by the purposive sampling method, which is a sample selection technique based on certain criteria that are relevant to the research objectives.

Of the 62 companies included in the ESGS-Kehati index during the observation period, only 48 companies met the selection criteria that had been set. The total number of observation data analyzed in this research was 240, obtained from 48 companies during the five-year observation period. However, in the analysis process, 31 outlier data were found, so that the total observation data used was 209.

Hypothesis test

In this research, hypothesis tests were carried out using two models. The first model explains the relationship between Green Investment (GI), Corporate Social Responsibility (CSR),

Weighted Average Cost Of Capital (WACC) and Return on Equity (ROE). While the second model explains the relationship between Green Investment (GI), Corporate Social Responsibility (CSR) and Weighted Average Cost of Capital (WACC).

T test

1) The influence of GI, CSR, WACC on ROE

Table 1. Test Results of the First Model t

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	-0.041687	0.020666	-2.017143	0.0454
GI	10.07431	14.19094	0.709912	0.4788
CSR	0.061898	0.021618	2.863292	0.0048
WACC	0.795270	0.072939	10.90322	0.0000

Source: Appendix 18, page 176

From the multiple linear regression above, the regression equation is known as follows:
ROE = □0,042 + 10,074 GI + 0,062 CSR + 0,795 WACC + e

(a) The first hypothesis of this research states that "Green Investment (GI) has a positive and significant effect on Return on Equity (ROE)". Based on the results of regression testing, it was found that GI has a regression coefficient of 10.07 which shows a theoretical positive relationship with ROE. If the GI variable increases by one unit, it will increase the ROE variable by 10.07 units. However, the significance value of 0.4788 is greater than 0.05. This means that although in theory an increase in GI can increase ROE, in the context of the sample and data of this research the influence is not strong enough to be statistically proven. This means that changes in GI are not consistently or meaningfully affecting ROE. Based on this test, the first hypothesis was rejected, meaning GI had no significant influence on ROE.

(b) The second hypothesis of this research states that "Corporate Social Responsibility (CSR) has a positive and significant effect on Return on Equity (ROE)". Based on the results of the t-test, the CSR variable showed a regression coefficient of 0.062. If the CSR variable increases by one unit, it will increase the ROE variable by 0.062 units. The t-test for CSR showed a significance value of 0.0048 less than 0.05 implying that an increase in CSR practices or disclosures was significantly related to an increase in profitability as measured by ROE. This shows that CSR can be seen as a strategic factor that has positive implications for the company's financial performance. Based on these findings, the second hypothesis is accepted, which means that the CSR variable has a positive and significant effect on ROE.

(c) The third hypothesis says that "Weighted Average Cost of Capital (WACC) has a positive and significant effect on Return on Equity (ROE)". Based on the results of the t-test, the result of the WACC regression coefficient was 0.795. If the WACC variable

increases by one unit, it will increase the ROE variable by 0.795. This test shows a significance value of 0.000 that is smaller than 0.05. This shows that WACC is a very strong predictor of ROE in this regression. Based on this hypothesis test, the third hypothesis is accepted or in other words the WACC variable has a significant positive effect on ROE.

2) The influence of GI and CSR on WACC

Table 2. Test Results of the Second Model t

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	Prob
C	0.822823	0.038476	21.38532	0.0000
GI	158.6516	50.35850	3.150445	0.0019
CSR	-0.324294	0.265507	-1.221416	0.2237

Source: Appendix 19, page 177

From the multiple linear regression above, the regression equation is known as follows:
WACC = 0,823 + 158,65 GI □ 0,324 CSR + e

(a) The fourth hypothesis says that "Green Investment has a positive and significant effect on the Weighted Average Cost Of Capital". Based on the results of the second model t-test, Green Investment (GI) showed a regression coefficient value of 158.65. Statistically, every one unit increase in GI will increase the WACC by 158.65 units. The significance value of 0.0019 is smaller than 0.05 which indicates that an increase in green investment consistently and significantly increases WACC. Based on this hypothesis test, the fourth hypothesis is accepted so that GI has a positive and significant effect on WACC.

(b) The fifth hypothesis says that "Corporate Social Responsibility (CSR) has a positive and significant effect on the Weighted Average Cost Of Capital (WACC)". Based on the results of the t-test, the value of the regression coefficient was □0.324. Numerically, this means that every one unit increase in CSR will decrease the WACC variable by 0.324 units. However, statistically the results of the t-test showed a significance value of 0.5806 greater than 0.05. This condition implies that changes in CSR activities do not consistently affect the WACC variable. Based on the tests, the fifth hypothesis was rejected which means that CSR had no effect on WACC.

Coefficient of Determination

Table 3. Determination Coefficient Test Results

Model	R *Square*	*Adjusted R Square*
I	0,595255	0,470523
II	0,267146	0,047290

Source: Lampiran 18&19, page 176-177

1) Influence of GI, CSR, WACC, on ROE

In the first model, the R-Square value of 0.595 indicates that 59.5% of the variation in the company's financial performance (ROE) can be explained by GI, CSR, and WACC simultaneously. Meanwhile, the Adjusted R Square value of 0.471 indicates a value that has been adjusted for the number of independent variables and the number of samples, about 47.1% of the variation in ROE can be explained by this model when generalized to the population.

A fairly high R Square value indicates that this model has good predictive capabilities. This means that the three independent variables in this model collectively have a meaningful contribution to changes in a company's ROE. The not too big difference between the R Square and the Adjusted R Square also shows that this model is quite stable.

2) The influence of GI and CSR on WACC

The second model test showed an R Square value of 0.267146 meaning that 26.71% of the WACC variation could be explained by the GI and CSR variables. While the remaining 73.29% was influenced by other factors outside the model. The Adjusted R Square value of 0.047290 indicates that after adjusting for the number of variables and sample size, the model is only able to explain about 4.73% of the WACC variation when generalized to the population. The considerable difference between the R Square and the Adjusted R Square indicates that this model has weak predictive power and is less stable.

Path Analysis

Path analysis in this research uses Sobel tests to test the sixth and seventh hypotheses. The Sobel test was carried out by examining the indirect influence of exogenous variables (X) on endogenous variables (Y) through mediating variables (Z) (Taufik et al., 2022). The Sobel test was used to determine the influence of the mediation variable, namely the Weighted Average Cost Of Capital (WACC). The following is the flow of the research model:

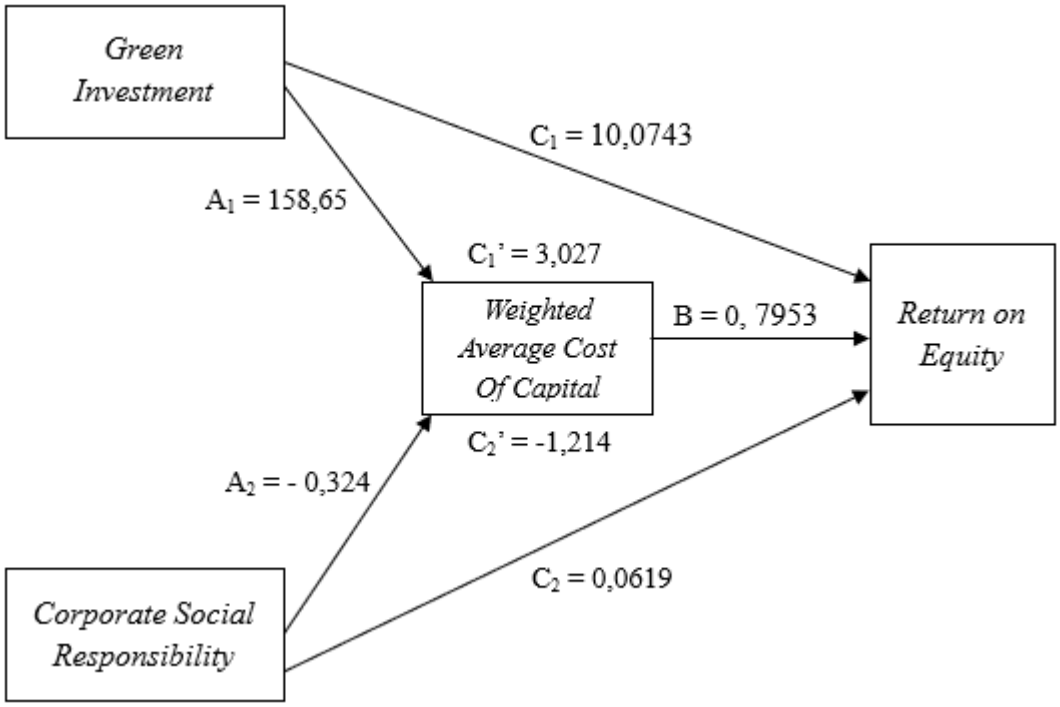

Figure 1. Path Analysis

In this research, the Sobel test was carried out through two test models as follows:

1) The role of WACC in the relationship between GI and ROE

Table 4. Regression Results of the First Model

Variable Relationships	Coefficient	Std *Error*	p–value	Conclusion
GI – WACC	158,6516	50,35850	0,0019	Significant
WACC – ROE	0,795270	0,072939	0,000	Significant
GI – ROE	10,07431	14,19094	0,4788	Insignificant

Source: Appendices 18&19, pages 176-177

The results of the regression analysis in table 4 show that only the relationship between GI and ROE is not statistically significant. To explore the indirect influence of GI on ROE through WACC, a Sobel test was carried out using a Sobel test online calculator with the following results:

Table 5. Test Results of the First Model Sobel

Input		***Test Statistic***		***Std. Error***	***p - value***
a	158,6516	Sobel Test	3,027	41,687	0,0025
b	0,795270	Aroian Test	3,015	41,848	0,0026
S_a	50,35850	Godman Test	3,038	41,525	0,0024
S_b	0,072939				

Source: Appendix 20, page 178

Based on table 5, the results of the Sobel test show that the p-value of 0.0025 is below 0.05. In other words, these results suggest a small probability of 0.25% explaining that WACC is unable to mediate the relationship between GI and ROE. Meanwhile, the statistical value of 3.022 is much greater than 1.96, where this value shows a fairly strong mediation effect. This value shows the strength of the WACC mediating effect on ROE. This indicates that WACC significantly mediates the full influence of GI on ROE. Although GI has no direct effect on ROE, the indirect influence through WACC has proven significant. The WACC acts as a full mediator in the relationship. Thus, hypothesis six is accepted which means that the capital structure is able to mediate the GI on the company's financial performance through.

2) The role of WACC in the relationship between CSR and ROE

Table 6. Second Model Regression Results

Variable Relationships	Coefficient	Std Error	p–value	Conclusion
CSR – WACC	-0,324294	0,265507	0,2237	Insignificant
WACC – ROE	0,795270	0,072939	0,0000	Significant
CSR – ROE	0,061898	0,021618	0,0048	Significant

Source: Appendices 18&19, pages 176-177

The results of the regression analysis in table 16 show that CSR does not have a significant effect on WACC, although the direct influence of CSR on ROE is proven to be statistically significant. To further evaluate the potential of WACC mediation on the relationship between CSR and ROE, a Sobel test was conducted with an online calculator with the following results:

Table 7. Sobel Test Results of the Second Model

Input		*Test Statistic*		*Std. Error*	*p - value*
a	-0,324294	Sobel Test	-1,214	0,212	0,225
b	0,795270	Aroian Test	-1,209	0,213	0,227
S_a	0,265507	Godman Test	-1,219	0,211	0,223
S_b	0,072939				

Source: Appendix 21, page 179

The results in table 7 show that the p-value is greater than 0.05. In this model, the probability of WACC not being able to mediate the relationship between CSR and ROE is greater at 77.5%, while the WACC mediation effect is only 22.5%. In addition, the statistical value of -1.214 is smaller than 1.96 which indicates a weak association of the mediating effects of this model. This condition indicates that there is no significant mediating effect of WACC in the relationship between CSR and ROE. CSR has a direct effect on ROE, but not through WACC.

Thus, the seventh hypothesis is rejected which means that the capital structure is not able to mediate CSR on the company's financial performance.

Discussion

Green Investment Has no Significant Effect on The Company's Financial Performance

The results of the t-test showed that the Green Investment (GI) variable had a regression coefficient of 10.07 which statistically explained that every increase in GI increased by one unit, it would increase the Return on Equity (ROE) variable by 10.07 units. However, the significance level is 0.4788 > 0.05. Thus, it can be concluded that the effect of GI on ROE is not significant. This means that empirically green investments made by companies do not have a significant impact on increasing the company's profitability.

Green Investment (GI) is a form of investment that focuses on sustainable and environmentally friendly projects, such as renewable energy, energy efficiency, and waste management. However, the results of the analysis show that GI does not have a significant influence on Return on Equity (ROE). This insignificance can be due to the high initial cost of green investment and a long period of return so that the economic impact has not been reflected in the short-term financial statements. Zhang & Wei (2025) state that companies that run renewable energy or environmental efficiency projects often experience short-term financial pressures that are not in line with long-term results. In addition, some companies conduct GI only for compliance or imaging without profound operational changes, so the financial results are limited. Positive impacts such as cost efficiency, reduced energy consumption, or improved reputation are usually only seen after many years (Wang & Yu, 2023).

On the other hand, the non-financial benefits of GIs such as improved corporate image, ESG investor attractiveness, and reduced regulatory risk do exist, but they are difficult to measure directly in financial metrics such as ROE. Research by Y. Zhang et al. (2022) shows that green practices in many sectors have not resulted in a competitive advantage that has a direct impact on profitability. This implies that GI is indeed important for long-term sustainability, but its financial impact may only be seen over a longer time horizon or depending on regulatory and industry sector support. For companies assessing performance from short-term profitability, GI has not shown significant financial impact despite the obvious social and environmental benefits.

These findings are in line with the research of Bella & Murwaningsari (2023). This research revealed that GI has no effect on financial performance due to high investment costs while the benefits are felt in the long term. Not all companies are able to manage and integrate green investments strategically. In addition, the observation period in pandemic conditions where the economic condition of most companies suffered losses so that the costs incurred for green investment actually increased the company's burden.

The insignificant phenomenon of the influence of Green Investment (GI) on financial performance can be explained through the theory of legitimacy, which states that companies invest not solely to increase profitability, but also to gain social recognition and reduce reputational risks. In this context, GI is used as a tool to meet stakeholder expectations and improve public image,

although it does not always have a direct impact on financial performance (Youtang Zhang & Berhe, 2022). In other words, a company's decision to continue to make green investments, even without a guarantee of short-term financial gains, is part of a risk management strategy and legitimacy (Ye & Dela, 2023).

Corporate Social Responsibility has a Positive and Significant Effect on The Company's Financial Performance

Corporate Social Responsibility (CSR) has transformed from a mere philanthropic activity to an integrated core strategy, with significant implications for the company's financial performance. The empirical findings of this research show that CSR is not just an operational "cost", but a strategic investment that generates positive returns. The results of the t-test showed a CSR coefficient of 0.062, indicating that every one unit increase in CSR initiatives was directly correlated with an increase in ROE of 0.062 units. In addition, the significance value of 0.0048 is greater than the threshold of 0.05. These indicators collectively affirm that CSR has a significant and positive influence on a company's financial performance.

This positive influence can be explained through several key mechanisms. Corporate Social Responsibility (CSR) reflects a company's commitment to social and environmental responsibility. In an era of increasingly socially and environmentally conscious consumers, companies that demonstrate social responsibility tend to attract more loyal customers and are willing to pay a premium for their products or services (Kim & Kim, 2020). A strong reputation can also attract ESG (Environmental, Social, and Governance) focused investors, who are looking for companies with sustainable practices for their portfolios that have the potential to increase stock prices and market valuations (A Fatemi et al., 2023).

CSR initiatives that focus on environmental management, such as waste reduction or energy conservation, can result in substantial cost efficiencies. Additionally, ethical and transparent business practices can reduce the risk of litigation, regulatory fines, or consumer boycotts, all of which can negatively impact shareholder profitability and equity (Flammer & Ioannou, 2022).

The results of this research are in line with the research of Ang et al. (2022) which stated that CSR has a positive effect on the company's financial performance. This research shows that the implementation of CSR provides a positive signal to stakeholders, improves the company's reputation, attracts investors, strengthens customer loyalty, and reduces operational risks thereby boosting financial performance. In addition, pressure from governments, society, and regulators encourages companies to demonstrate social responsibility. In this case, the implementation of CSR by a company not only fulfills social responsibility but also becomes a strategy to avoid sanctions, maintain operating licenses, or even obtain government support, all of which can contribute to financial performance.

Capital Structure has a POSITIVE and Significant Effect on the Company's Financial Performance

A competitive corporate landscape places capital structures as a crucial strategic foundation. This structure affects the stability and profitability of the company. The selection of the composition between debt and equity is at the core of a funding strategy that can directly shape financial performance.

This research shows that capital structure has a significant influence on financial performance. The results of the t-test showed a WACC regression coefficient of 0.795 indicating that each increase in WACC was correlated with an increase in ROE of 0.795 units. Statistically, this relationship is supported by a significance value of 0.000 smaller than 0.05. This provides strong evidence that the capital structure has a significant influence on a company's financial performance.

Although a high WACC is interpreted as an increase in the cost of capital expenditure, in this context a well-managed increase in WACC actually indicates that the efficient utilization of low-cost debt is being utilized. The optimal use of debt can increase shareholder profits through the effect of financial leverage, which is the use of borrowed funds to increase investment returns (Miller & Modigliani, 1961). In addition, debt provides tax savings benefits because debt interest can reduce the company's tax burden (Intan & Artini, 2019). However, excessive use of debt can increase the risk of default and interest costs. Therefore, the company must reach the optimal point to maximize the company's value (Adhikariparajuli & Sharma, 2021).

A healthy capital structure also has a strong psychological and strategic impact in the eyes of investors. Companies with a balanced proportion of funding between debt and capital themselves tend to be considered more stable, professional, and safe, thereby increasing investor confidence and they are willing to invest (Frank & Goyal, 2021). This can ultimately increase stock valuations and make it easier for companies to obtain additional funds in the future while also affecting the company's ability to invest in high-profit projects because funding is cheaper. This condition is expected to increase ROE in the long run (Alali, 2018).

These findings are in line with Bhattarai (2020) research which revealed that capital structure has a significant effect on the financial performance of insurance companies in Nepal. This research reveals that the use of debt allows companies to increase investment and expansion without spending their own capital thereby driving profits as long as debt costs are under control. In addition, debt interest can be deducted from corporate income tax which effectively increases net profit. A healthy capital structure reduces reliance on debt, lowers the risk of default, improves managerial efficiency, and increases investor confidence as well.

Green Investment has a Positive and Significant Effect on the Company's Capital Structure

Sustainability has evolved into a key strategic principle in the company's operations and finances. This research found that GI had a significant and positive influence on WACC. The results of the t-test showed a regression coefficient of 158.65 with a significance value of 0.0019 < 0.05, indicating that each increase in GI was followed by an increase in WACC. This shows that

the allocation of corporate resources to green investments has a real impact on the increase in capital costs.

Green investments generally require large initial capital and have a longer payback period than conventional investments. This characteristic increases the perception of risk in the eyes of investors and can lead companies to access funding sources at a higher cost. The instability of environmental regulations adds to the uncertainty and drives up the risk premiums that investors are asking for. On the other hand, Wang et al. (2022) show that green investments, although expensive at the beginning, are able to improve a company's reputation and attract sustainability-oriented investors, which in turn can lower the cost of capital in the future. Similar findings were presented by Li et al. (2023), who showed that companies with strong green commitments have wider access to green financing, such as green bonds. Therefore, the positive influence of GI on WACC in the short term reflects the transition phase of investment or industrial sector specification, and reinforces the importance of a long-term strategic approach in sustainability.

These findings support the research of Nishihara (2023) who explains that Green Investment has an effect on a company's capital structure because the decision to invest in sustainable projects is closely related to financing strategies and sensitivity to long-term risks. Companies that choose green projects tend to implement a more conservative capital structure, with a lower proportion of debt, as these types of projects have high start-up costs and generate cash flow in the long run. In contrast, companies that choose non-sustainable projects tend to use higher leverage to maximize short-term returns before ESG risks are realized. The journal also shows that when access to debt is limited or corporate tax rates decline, companies become more motivated to switch to green investments. Therefore, the capital structure not only reflects the company's financial policies, but also becomes an important channel that influences the direction and commitment of the company to sustainability.

Corporate Social Responsibility does not have a Significant Effect on the Company's Capital Structure

The results of the t-test in this research showed that CSR did not have a significant influence on WACC. Although a regression coefficient of -0.324 indicates that every one unit increase in CSR will decrease the WACC by 0.324 units, this value is not statistically significant. This is indicated by a significance value of 0.5806 which is greater than 0.05. These indicators collectively show that the relationship between CSR and WACC observed in this sample is in contrast to the theoretical expectation that CSR can lower a company's capital costs (Alkhouri & Suwaidan, 2023).

Theoretically, CSR is seen as a mechanism to build a company's reputation and reduce risk perception so that it has an impact on reducing the cost of capital. However, in practice, these results are not always achieved. CSR is considered an additional expense that does not bring in direct returns, which in turn can increase the perception of risk and consequently the cost of a company's capital (García-Sánchez et al., 2020). In addition, capital market perceptions have not fully translated CSR initiatives into lowering risk premiums or capital costs because the adoption

of ESG principles is still uneven compared to developed countries (N. P. I. Wulandari & Artini, 2019). The long-term, non-financial benefits of CSR, such as improved corporate reputation or mitigation of social risks, have not been adequately quantified to influence the perception of risk by investors and creditors. The research that Wu et al. (2020) also emphasized that the relationship between CSR and financial performance is influenced by the industry sector, company size, and ongoing business cycles. In Indonesia, the implementation of CSR is often more legal compliance than an integrated financial strategy (Makosa et al., 2020). On the other hand, WACC fluctuations are likely to be more influenced by macroeconomic factors such as national financial market conditions, Bank Indonesia interest rates, and sectoral risks (Carluccio et al., 2018).

Based on institutional theory, CSR does not always contribute directly to the capital structure. This happens because corporate decision-making is often influenced by institutional pressures rather than just financial incentives. In Indonesia, companies implement CSR practices as compliance with the regulations of the Limited Liability Company Law. Thus, CSR serves as a company's strategic response to existing social norms and institutional expectations, although it does not focus exclusively on capital structures (Jackson & Apostolakou, 2019). While CSR can increase a company's legitimacy in the eyes of stakeholders, it is not always directly related to the company's debt and equity composition decisions. Companies may choose to invest in CSR initiatives as part of a strategy to gain and maintain social and operational legitimacy, without directly impacting capital structure or lowering capital costs. Therefore, if the primary goal of CSR is legitimacy, then the impact on funding decisions may be minimal, as the priority is compliance and public perception, not financial efficiency.

The findings of this research are in line with the research of Krištofík et al. (2022) who stated that CSR does not affect the capital structure of a company. Although companies with high CSR ratings tend to have a higher level of leverage than non-CSR companies, no significant differences were found in the relationship between capital structure determinants such as tax rates, depreciation, and available cash to leverage. This condition is interpreted to mean that in the European market, the potential benefits of CSR on capital structures are counterbalanced. In other words, being the company with the best CSR may no longer provide a considerable differential advantage in terms of funding decisions, as the market may already expect high CSR standards, or other factors determining the traditional capital structure have a more dominant influence and have compensated for the effects of CSR.

Capital Structure Mediates the Influence of Green Investment on the Company's Financial Performance

The results of the sobel test in the research showed a statistical value of 3.022 greater than 1.96 with a significance level of 0.0025 smaller than 0.05. Statistically, this confirms that WACC significantly mediates the full influence of GI on ROE. This means that the influence of GI on the company's profitability does not occur directly, but through the mechanism of changes in the structure and composition of the company's capital costs which then have an impact on the level

of return on equity. These results confirm the research of Jihadi et al. (2019) which stated that changes in the cost of capital can affect the profitability of companies indirectly.

Logically, this mechanism can be explained through structural dynamics in corporate financing. GI often demands high upfront costs, but these investments can improve operational efficiency, reduce environmental risks, and regulatory compliance in the long run. Lower risk makes investors and creditors demand smaller risk premiums so that the cost of debt and the cost of equity of the company decrease, which ultimately decreases WACC (Ali Fatemi et al., 2018).

The development of sustainable financing institutions such as green bonds provides funding alternatives with more competitive interest rates and expands companies' access to capital at low costs. This decline in WACC then creates a wider financial space for companies to invest productively and increase return on equity (ROE) (Clark et al., 2018). In addition, GI also encourages the improvement of the reputation and attractiveness of investors who are oriented towards environmental, social, and governance (ESG) principles, thus making the company's equity more in demand. This condition will reduce the cost of equity and WACC as a whole, thus creating a wider financial space for companies to invest productively and encourage an increase in ROE (N. P. I. Wulandari & Artini, 2019).

Research by Judijanto et al. (2024) shows the same results where GI affects a company's financial performance through its capital structure because green investment helps create financial efficiency and resilience that supports optimal capital structure. GI not only reduces operational costs but also increases investor confidence and the company's reputation thereby improving access to cheaper sources of financing. Companies can adjust debt and equity proportions more strategically by leveraging cost efficiency and lower risk perception.

Capital Structure is not able to Mediate Corporate Social Responsibility on the Company's Financial Performance

The results of the analysis from the sobel test showed that WACC did not fully mediate the influence of CSR on ROE. The sobel test statistical value of -1.214 is smaller than 1.96, as well as the significance of 0.225 which is greater than 0.05. These findings show that the influence of CSR on ROE does not go through the path of changes in capital costs. This research is in contrast to the research results of Ben-Saad & Belkacem (2022) which states that capital structure is able to mediate the relationship between CSR and corporate financial performance.

In terms of competition theory, this condition according to the pecking order theory model explains that companies prefer internal funding over external funding. This means that companies that have invested in CSR tend to finance these activities with internal resources rather than seeking debt or issuing new equity (Dahlia, 2019). This approach allows the company to maintain its existing capital structure and avoid changes in capital composition that can pose risks or losses for shareholders. Within the framework of this theory, funding decisions are influenced more by the availability of internal funds and information costs than by reputation or public perception of CSR. So, even if companies increase their CSR activities, if they have enough internal cash, they

won't change their capital structure. As a result, CSR does not mediate the influence on Return on Equity (ROE) through WACC, as changes in financing do not occur.

In this context, CSR is more implemented to strengthen the company's social position and meet stakeholder expectations, rather than changing funding structures or optimizing capital costs. This is in line with the idea that the company's involvement in CSR activities is an effort to gain legitimacy from the community and improve the company's image in the eyes of stakeholders (Mawardi, 2022). When CSR activities are not considered credible or substantial by investors, then the impact on the cost of capital becomes indirect or even non-existent. Investors don't always see CSR as an indicator of credit risk or equity risk. If CSR fails to change the perception of risk among investors, they will not lower their return expectations. On the other hand, if CSR is carried out consistently and realistically, it can strengthen consumer loyalty, increase employee productivity, and ultimately contribute directly to increasing profits and ROE (Mawardi, 2022; Araújo et al., 2023).

CONCLUSION

This research is motivated by the increasing global awareness of sustainability issues, which encourages companies to integrate Green Investment and Corporate Social Responsibility practices as business strategies. Within the framework of signaling, stakeholder, and trade-off theory, this research aims to analyze the influence of Green Investment and Corporate Social Responsibility on the financial performance of companies with capital structure as a mediating variable. This research took a sample of companies that are members of the *Kehati* ESGS Index as a representation of entities with a high sustainability commitment. The results of the research show that Green Investment has a significant positive influence on capital structure, but not significantly on financial performance directly. On the other hand, Corporate Social Responsibility has been proven to have a positive and significant effect on financial performance, but not on capital structure. Capital structure was found to have a significant positive effect on financial performance. In addition, capital structure acts as a mediating variable in the relationship between Green Investment and financial performance. However, capital structure is not able to mediate the relationship between Corporate Social Responsibility and financial performance. These findings emphasize that the characteristics of Green Investment as a form of investment with direct financial implications make it more sensitive to the calculation of capital structure, while Corporate Social Responsibility tends to play a more direct role in building the image, loyalty, and trust of stakeholders. Thus, the integration of sustainability strategies in the form of Green Investment and Corporate Social Responsibility has an impact on the company's financial performance. However, the success of optimizing financial performance through this strategy depends on the effectiveness of managing the company's capital structure. These findings reinforce the importance of strategic financial management in supporting sustainability goals and provide a foundation for investment and financing decision-making that is aligned with ESG principles and long-term competitiveness.

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