

THE ROLE OF ENVIRONMENTAL POLICY AS A MODERATOR IN THE INFLUENCE OF GREEN INNOVATION AND CAPITAL STRUCTURE ON FIRM VALUE

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Abstract:

This study aims to analyze the impact of green innovation and capital structure on firm value and to examine the role of environmental policy in moderating this relationship. The study is motivated by the importance of enhancing firm value through sustainability strategies and effective financing decisions within the energy sector. A quantitative approach with a causal design was employed. The study population consists of energy sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period, with a sample of 42 companies selected via purposive sampling. Data analysis was conducted using panel data regression with the Random Effect Model (REM) approach. The results indicate that green innovation has a positive and significant effect on firm value, suggesting that increased eco-friendly innovation can enhance a firm's value. Capital structure also exerts a positive and significant influence on firm value, demonstrating that optimal capital structure management can increase market appreciation. Moderation analysis reveals that environmental policy does not moderate the impact of green innovation on firm value; conversely, environmental policy is shown to strengthen the impact of capital structure on firm value. This study contributes to the development of Signaling Theory, the Resource-Based View, and Pecking Order Theory by demonstrating that the effectiveness of environmental policy as a moderating variable depends on the context of the relationship being tested. Practical implications highlight the importance of implementing green innovation, managing capital structure optimally, and effectively applying environmental policies to enhance firm value.

Keywords: Green Innovation, Capital Structure, Environmental Policy, Firm Value, Panel Data Regression.

INTRODUCTION

Energy sector companies in Indonesia make a significant contribution to the country's economy. This situation attracts investors and encourages shareholders to increase company value (Alifian & Susilo, 2024). Following a 2.76% decline in the Jakarta Composite Index over the same period, the energy sector was recorded as one of the worst-performing corporate sectors throughout the first half of 2023 (Widiastuti et al., 2025). This condition indicates that despite the energy sector's important role in the economy, companies within it continue to face market pressures that can impact investor perceptions and company value. Company value is an indicator of a company's ability to fulfill its obligations to investors; it also reflects the company's future sustainability. Companies are expected to maintain and increase company value well amidst economic challenges and dynamics (Dinata and Tenaya, 2018). Company value reflects a company's condition during a specific period (Rahayu and Sari, 2018). Corporate value reflects the success or failure of a company's operations, thus affecting



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shareholder prosperity (Suhadak et al., 2019). Increasing corporate value is crucial because it demonstrates that the company is striving to maximize the achievement of its goals (Damayanthi, 2019).

The increase in company value can be seen in the market response reflected in the stock price. The higher a company's stock price, the higher the company's value. High company value is a company's desire because it indicates shareholder prosperity. Companies need to communicate well in disclosing information to attract potential investors to invest in the company, which will increase the company's value (Hanevie, 2018). Financial condition alone is not enough to guarantee sustainable company value growth. A company is inseparable from the surrounding community and environment. In Indonesia, there have been several cases of environmental damage caused by company operations, which have negatively impacted the company's stock price. For example, the case of PT. Freeport is currently attracting attention from various parties regarding the change in the status of its work contract to a Special Mining Business Permit (IUPK). Simultaneously, Freeport is also required to build a smelter within five years and hand over 51% of its Gresberg mine shares to Indonesia. Furthermore, there have been cases of layoffs and environmental pollution issues. In addition to the Freeport case, the Lapindo mudflow has caused economic, social, and environmental losses. Such as people losing their homes, damaged infrastructure and ecosystems (Dinata and Tenaya, 2018).

PT RMK Energy Tbk (RMKE) experienced a share price decline from Rp940 in 2022 to Rp498 in 2024. This decline coincided with the emergence of environmental pollution cases in the South Sumatra coal port area involving the company. According to a report by RMOL Sumsel (2023), RMKE's coal loading and unloading activities caused air and water pollution that impacted communities around the port. This issue received attention from the Ministry of Environment and Forestry and raised concerns among investors about the company's reputation and governance. Another case also occurred with PT Medco Energi Internasional Tbk (MEDC), which came into public attention after residents of Panton Rayeuk Village, East Aceh, reported alleged air pollution resulting from natural gas exploitation activities. A report from the Indonesian Forum for the Environment (WALHI Aceh, 2023) stated that these activities caused health problems for residents and reduced air quality in the surrounding area. Negative reactions from the public and media put pressure on the company's reputation. Furthermore, criticism of its environmental performance was also experienced by PT Bayan Resources Tbk (BYAN), one of the largest coal companies in Indonesia. The company has come under public scrutiny for its post-mining land reclamation practices, which are deemed non-compliant with environmental regulations. According to reports by Tempo (2023) and the Mining Advocacy Network (JATAM, 2023), BYAN's mining activities in East Kalimantan have caused water pollution in the Santan River and delayed the reclamation process in several active mining areas. Although the company has recorded high profits and continues to expand production, these environmental issues have drawn criticism from the public and environmental activists, who question the company's commitment to sustainability.

Negative shareholder sentiment due to environmental damage and losses arising from a company's operational activities can lead to a decline in share prices and the company's value. Air pollution, water pollution, and ecosystem degradation are inseparable issues from the operations of companies in this sector and can impact the company's reputation and market perception of its performance. Investors are increasingly using sustainability performance as a basis for screening potential investments and managing portfolio risk, making environmental and social considerations



a crucial factor in assessing a company's value (Brooks & Oikonomou, 2020). Addressing environmental issues is a key factor in a company's competitive advantage (Setiawan, 2018). Competitive advantage, based on the Resource-Based View (RBV) theory, emphasizes how a company utilizes existing resources to achieve a sustainable competitive advantage (Wernelfelt, 1984). Achieving a sustainable competitive advantage requires a well-chosen combination of resources. Companies need to consider innovative ways to combine resources that may be difficult for competitors to imitate and create a competitive advantage. Competitive advantage can be achieved, among other things, by implementing green innovation (Jermsittiparsert et al., 2020).

Green innovation allows for the efficient use of raw materials and encourages waste recycling, thereby reducing raw material costs and waste disposal costs. Companies recognized as pioneers in green innovation strategies have a greater opportunity to achieve and maintain a competitive advantage (Xie et al., 2019). This competitive advantage increases the company's future value. Green innovation can enhance environmental reputation, gain greater social recognition, and achieve premium prices while increasing sales growth (Zhang and Ma, 2021). When business activities, products, and services align with prevailing societal norms and values, the company will gain public support. This support can increase productivity and profitability (Tanasya & Handayani, 2020). Investors view increased corporate profitability positively because they perceive the company as having good future prospects. Investors tend to feel more secure when investing due to the assurance of business sustainability. Furthermore, companies committed to environmental management have the potential to attract more investors and increase their market capitalization (Sulistiyanto & Sigit, 2023), thereby increasing the company's value, as reflected in its share price. Several previous researchers have examined the effect of Green Innovation on firm value and have shown varying results. Research conducted by Agustia et al. (2019) and Damas et al. (2021) indicates that Green Innovation has a positive and significant effect on firm value. However, this contrasts with research conducted by Yao et al. (2019), which shows that Green Innovation has no effect on Firm Value, and Xie et al. (2022) shows that Green Innovation has a negative effect on Firm Value.

One important factor believed to influence company value, in addition to Green Innovation, is capital structure. Brigham and Houston (2001) state that capital structure indicates how a company finances its assets through a combination of debt and equity. Selecting the right capital structure is expected to lower the cost of capital and increase company value. Capital structure is the ratio of long-term debt to equity (Gz & Lisiantara, 2022). From a Signaling Theory perspective, capital structure decisions are viewed as signals given by management to external parties, particularly investors, regarding the company's condition and prospects. Ross (1977) states that the use of debt can be a positive signal because companies with good prospects tend to be more willing to use larger amounts of debt to finance their operations and investments.

Optimal capital structure can increase investor confidence and ultimately increase firm value (Spence, 1973; Ross, 1977). However, signals conveyed through capital structure are not always interpreted positively by the market. Excessively high debt levels can actually be perceived as a signal of increased financial risk and potential bankruptcy, thus negatively impacting firm value. These differences in investor perceptions of capital structure signals are what lead to mixed empirical research findings. (Hidayah & Yulianto 2023) ; Nurdin et al. (2023) found that capital structure has a positive and significant impact on firm value. These results indicate that the more optimal the capital structure, the higher the firm value. However, research conducted by Anggraini et al. (2025); Mustajirin & Putri (2025) concluded that capital structure has no effect on firm value.



Previous research on the influence of Green Innovation and Capital Structure on company value has yielded mixed results. The controversy surrounding the findings on the influence of Green Innovation and Capital Structure on company value provides a research opportunity to incorporate Environmental Policy as a moderating factor. Environmental Policy is the responsibility of the government or organization for regulations, laws, or procedures related to environmental issues (Ministry of Environment, 2014). The implementation of Environmental Policy can be seen in the acquisition of ISO 14001 certification. According to the Banten Province Manpower and Transmigration Office (2020), ISO 14001 is a global standard published by the International Organization for Standardization (ISO) and is recognized as a system for environmental management. Delmas and Toffel (2008) define Environmental Policy as an internal company policy designed to ensure compliance with environmental regulations while improving environmental performance through structured management practices. Environmental Policy aims to protect and use the natural environment sustainably (Altenburg & Assmann, 2017), so that Environmental Policy can be seen from the environmental policy disclosure index based on the 2021 Global Reporting Initiative (GRI) standards according to research by Lestari & Sinta (2024).

The presence of ISO 14001 and the Global Reporting Initiative (GRI) 2021 standards in companies can help improve their ability to improve environmental quality, thereby increasing company performance. To maximize this, compliance with applicable Environmental Policy can be supported. According to research by Chen and Ma (2021), it is clear that Environmental Regulation has a moderating effect that strengthens company performance, especially in the long term. This is because when companies face pressure from environmental regulations, green innovation behavior can help avoid government regulations, thereby improving the company's environmental performance. This improvement in environmental quality can drive improvements in financial performance and ultimately increase company value. Therefore, this study added the environmental policy variable as a moderator.

The Resource-Based View (RBV) theory emphasizes how companies use existing resources to achieve sustainable competitive advantage (Wernelfelt, 1984; Cullen, 2015). Companies can create competitive advantage by transforming resources into heterogeneous processes that are rarely imitated by competitors (Barney and Clark, 2007). Competitive advantage can be achieved, among other things, through green innovation (Jermisittiparsert et al., 2020). Green innovation enables companies to create competitive advantage by transforming resources that are difficult for competitors to imitate. Companies can create innovative processes and products that impact the creation of environmental and economic value, thereby increasing competitive advantage and impacting company performance (Negrao et al., 2017). Green innovation creates this competitive advantage, which will increase company value (Bech, 2013). The better the green innovation practices in a company, the more attractive it will be for investors to invest in its shares, which has an impact on increasing stock demand and thus rising stock prices. This is in line with research conducted by Asni & Agustia (2022), Dai & Xue (2022); Novitasari & Agustia (2021); Damas et al. (2021); and Tarigan & Dewi (2025), which shows that green innovation has a positive and significant impact on company value.

H1: Green innovation has a positive and significant effect on company value.

Capital structure shows how a company finances its assets through a combination of debt and equity, where choosing the right capital structure is expected to lower the cost of capital and increase the company's value (Brigham and Houston, 2001). From the perspective of Signaling Theory,



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capital structure decisions are seen as signals given by management to external parties, especially investors, regarding the company's condition and prospects. Ross (1977) stated that the use of debt can be a positive signal because companies with good prospects tend to dare to use larger debt to finance their operations and investments. Capital structure, especially the use of debt, is seen as a positive signal if the company is able to manage its financial obligations optimally. An increase in the proportion of debt can indicate management's confidence in the company's ability to generate cash flow and profits in the future. An optimal capital structure can increase investor confidence and ultimately increase the company's value (Spence, 1973; Ross, 1977). A better capital structure will increase the company's value. This is in line with research conducted by Hidayah & Yulianto (2023); Nurdin et al. (2023); Fernanda et al. (2025); Bui et al (2023); Ngatno et al (2021) found in their studies that capital structure has a positive and significant influence on firm value.

H2: Capital Structure has a positive and significant effect on company value.

Green innovation enables companies to create competitive advantages by transforming resources that are difficult for competitors to imitate. Companies can create innovative processes and products that impact the creation of environmental and economic value, thereby increasing competitive advantage and impacting company performance (Negrao et al., 2017). This environmental investment is a company strategy to gain and maintain legitimacy (Chariri et al., 2018). From a signaling theory perspective, the implementation of green innovation reflects a positive signal conveyed by management to investors regarding the company's commitment to sustainability, operational efficiency, and long-term prospects (Spence, 1973; Ross, 1977). A good reputation and competitive advantage lead to increased company value, as indicated by increased stock prices. The better a company's green innovation practices, the more attractive it will be to investors to invest in its shares, which impacts increased stock demand and thus share prices. This is in line with research conducted by Asni & Agustia (2022), Dai & Xue (2022); Novitasari & Agustia (2021); Damas et al. (2021); Tarigan & Dewi (2025) showed that green innovation has a positive and significant effect on company value.

To maximize this, compliance with applicable environmental policies can be supported. According to research by Chen and Ma (2021), environmental regulation has a moderating and strengthening effect on financial performance, especially in the long term. This is because when companies face pressure from environmental regulations, green innovation behavior can help avoid government regulations, thereby improving the company's environmental performance. Within the framework of signaling theory, compliance with environmental policy strengthens the credibility of the signal the company sends to investors that its green innovation activities are substantive and sustainable, not merely symbolic. This improvement in environmental performance ultimately increases investor confidence and drives increased company value.

H3: Environmental Policy Moderating the Effect of Green Innovation on Firm Value

Capital structure shows how a company finances its assets through a combination of debt and equity, where choosing the right capital structure is expected to lower the cost of capital and increase the company's value (Brigham and Houston, 2001). From a Signaling Theory perspective, capital structure decisions are seen as signals given by management to external parties, especially investors, regarding the company's condition and prospects. Ross (1977) stated that the use of debt can be a positive signal because companies with good prospects tend to be bold enough to use more debt to finance their operations and investments. Capital structure, especially the use of debt, is seen as a positive signal if the company is able to manage its financial obligations optimally. An increase in



the proportion of debt can indicate management's confidence in the company's ability to generate future cash flow and profits. An optimal capital structure can increase investor confidence and ultimately increase company value (Spence, 1973; Ross, 1977). A better capital structure will increase company value (Hidayah & Yulianto (2023); Nurdin et al. (2023); Fernanda et al. (2025); Bui et al. (2023); Ngatno et al. (2021)). However, the signals received by investors are influenced not only by financing decisions but also by the environmental context and the company's compliance with applicable regulations. Environmental policy acts as a mechanism that can amplify the signals generated by capital structure decisions. According to research by Chen and Ma (2021), it is clear that environmental regulation has a moderating effect on financial performance, especially in the long term. Companies that comply with environmental policies and demonstrate a commitment to sustainability tend to be perceived as having lower long-term risk, better governance, and more stable business prospects. Within the framework of signaling theory, compliance with environmental policy enhances the credibility of positive signals from capital structure because investors assess that the company is capable of managing not only financial risks but also environmental and regulatory risks. Therefore, the combination of an optimal capital structure and compliance with environmental policy further enhances investor confidence and contributes to increased company value.

H4: Environmental Policy Moderating the Effect of Environmental Policy on Firm Value.

METHODS

This research was conducted by continuously collecting data from energy companies listed on the Indonesia Stock Exchange (IDX) and publishing financial reports and annual reports which were accessed through the official website of the Indonesia Stock Exchange (IDX).www.idx.co.id). The objects of this study are Green Innovation, Environmental Policy, and the Value of Energy Sector Companies. A population is a generalized area consisting of subjects or objects with certain quantities and characteristics determined by the researcher to be studied and then conclusions drawn (Sugiyono, 2017:80). All 91 energy companies listed on the Indonesia Stock Exchange for the 2022-2024 period were used as the population in this study.

The sample used in this study were energy sector companies listed on the Indonesia Stock Exchange for the period 2022 to 2024. This study used a nonprobability sampling method with a purposive sampling technique in conducting sampling. The nonprobability sampling method is a sampling technique that does not provide equal opportunities or chances for each element (member) of the population to be selected as a sample member (Sugiyono, 2022:131). Based on the sample selection process with purposive sampling in Table 4.1, 42 companies were obtained as samples for the period 2022-2024, resulting in a total of 126 research observations.

Company value is the shareholder's perception of the success of energy sector companies in the 2022-2024 period, which is often associated with share prices and is measured by the Tobin's Q Ratio. *Green innovation* In energy sector companies for the 2022-2024 period, green innovation is a new technology (hardware or software) related to products or production processes that will encourage energy efficiency, pollution reduction, waste recycling, green product design, and corporate environmental management (Chen, 1994). The measurement of Green Innovation refers to research by Xie et al. (2019) which uses a content analysis approach to analyze information in annual reports and corporate sustainability reports. Each measurement item related to production processes and products is scored from 0 to 2 with the criteria "0" meaning no information regarding the indicator item, "1" meaning there is a simple description without implementation details (e.g., a



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detailed plan or implementation process related to green innovation), and "2" meaning there is a detailed description of related details (e.g., a numeric indicator, type of product/process innovation to illustrate appropriate environmental practices). In addition, the measurement of Capital Structure in this study refers to Hidayah and Yulianto (2024) using the Debt to Equity Ratio (DER) as an indicator. And the Environmental Policies in this study refer to the research of Lestari & Sinta (2024) using international standards, namely GRI 302–GRI 308, which are part of the GRI Standards 2021.

Data analysis techniques are techniques for processing collected data and then interpreting the results of the analysis, which will be used to answer the formulated problems (Sugiyono, 2018:243). The data analysis method used in this study is panel data regression analysis. This study uses a computer program tool to manage the data, namely Eviews-13 software.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1. Results of Descriptive Statistical Tests

Variables	N	Mean	Elementary School	Min	Max
Company Values	126	0.96	0.23	0.53	1.38
Green Innovation	126	0.67	0.27	0.13	1.25
Capital Structure	126	1.08	0.58	0.03	2.20
Environmental Policy	126	0.52	0.24	0.12	1.07

Source: Processed data, 2026

Based on the descriptive statistics in Table 5.1, it is known that the number of observations in this study was 126 observations. The description of the company's value obtained an average of 0.96 with a standard deviation of 0.23, with the lowest value obtained at 0.53 and the highest value at 1.38. These results indicate that the company's value in the sample companies tended to be around the average value, with a relatively low level of variation between companies during the study period. The description of green innovation obtained an average of 0.67 with a standard deviation of 0.27, with the lowest value obtained at 0.13 and the highest value at 1.25. The standard deviation value is still smaller than the average value indicating that the variation in Green Innovation data is relatively low, so that the characteristics of companies in implementing green innovation do not show too much difference between the research samples.

The average capital structure description was 1.08 with a standard deviation of 0.58, with the lowest value being 0.03 and the highest being 2.20. The large standard deviation reflects the relatively higher level of capital structure differences among the companies studied. The average environmental policy description was 0.52 with a standard deviation of 0.24, with the lowest value being 0.12 and the highest being 1.07. These results indicate that environmental policy implementation in the sample companies varies. This reflects differences in the implementation of environmental policies among companies, but the level of variation is still within a relatively moderate range.



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Panel Data Regression Model Selection Test

Table 2. Results of Panel Regression Model Selection Test

Test	Comparison	p	Note:
LM test	Common vs Random	0.001	Random effect
Chow Test	Common vs Fixed	0.000	Fixed effect
Hausman Test	Random vs Fixed	0.398	Random effect

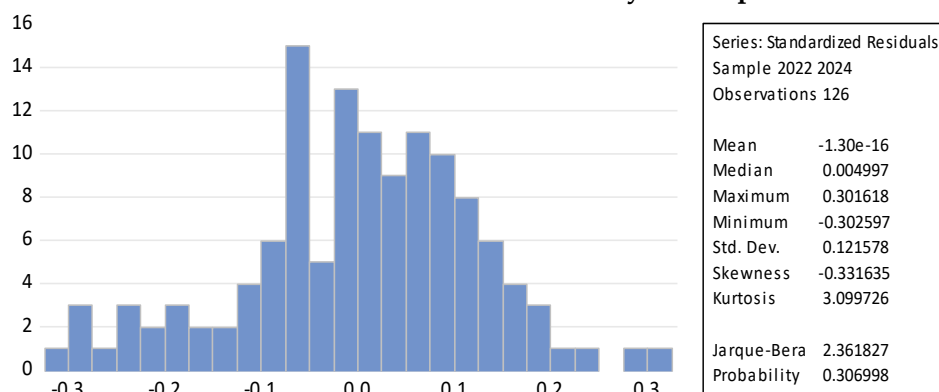
Source: Processed data, 2026

Based on Table 2, the results of the panel regression model selection test (attachment 2), namely testing the influence on financial performance, obtained a significance value (p) from the LM test of 0.001 ($p < 0.05$) so that the random effect was selected, then from the Chow test obtained a significance value (p) of 0.000 ($p < 0.05$) so that the fixed effect was selected, and from the Hausman test obtained a significance value (p) of 0.398 ($p > 0.05$) so that the random effect was selected. Thus the selected panel regression model is a random effect.

Residual Normality Test

The normality test is used to determine whether the independent and dependent variables in a regression model have a normal distribution (Priyatno, 2022:64). The following are the results of the normality test:

Picture 1. Results of the Residual Normality Assumption Test



Source: processed data, 2026

Based on Figure 1, the residual normality test conducted using the Jarque-Bera test obtained a significance value (p) of 0.307. These results indicate a significance value of more than 0.05 ($p > 0.05$) so that it meets the test requirements, meaning that the residual model is normally distributed.

Multicollinearity Test

The multicollinearity test is used to determine whether there is a strong relationship or correlation between the independent variables in a regression model (Ghozali, 2021:107). The results of the multicollinearity test are presented below:



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Table 3. Results of the Multicollinearity Assumption Test

Variables	VIF	Condition	Note:
Green Innovation	1,647	<10.0	Fulfilled
Capital Structure	1,522	<10.0	Fulfilled
Environmental Policy	1,112	<10.0	Fulfilled

Source: processed data, 2026

Panel Data Regression Analysis Results

Panel data regression analysis aims to determine the effect of independent variables on dependent variables by considering inter-individual differences and time differences (Priyatno, 2022). In this study, hypothesis testing was conducted using panel data regression analysis. The panel regression model uses data from a combination of several companies observed over a specific time period. Based on the results of the model selection test, the panel data regression model used in this study is the Random Effects Model (REM). The results of the panel data regression analysis using the Random Effects Model (REM) are presented in the following table:

Table 4. Results of Influence on Company Value

Variables	Coef	SE	T	P	Note:
Constant	0.499	0.073	6,816	0.000	Significant
GRI	0.373	0.123	3,019	0.003	Significant
CS	0.111	0.055	2,000	0.048	Significant
GRI*EP	-0.194	0.242	-0.799	0.426	Not significant
CS*EP	0.203	0.101	2,010	0.047	Significant
R-square = 0.660; F = 46.514; p = 0.000					

Source: Processed Research Data (2026)

Panel regression analysis with a random effect approach is used to test the influence of green innovation and capital structure on firm value with environmental policy moderation. A constant value of 0.499 indicates that if Green Innovation, Capital Structure, and Environmental Policy are assumed to be zero, then the Firm Value is predicted to be 0.499. In the Random Effect Model, this value is the average intercept that has considered random variations between firms through the random effect component. Furthermore, the R-square value of 0.660 indicates that the firm value can be explained by 66.0 percent by green innovation, capital structure with environmental policy moderation, while the remaining 34 percent is influenced by other factors outside the model. The results of the simultaneous influence test obtained an F value of 46.514 with a significance value (p) of 0.000 ($p < 0.05$), which means that green innovation, capital structure with environmental policy moderation simultaneously have a significant effect in predicting firm value.

The effect of green innovation on company value obtained a coefficient of 0.373 with a significance value (p) of 0.003, indicating a significant positive effect, meaning that higher green innovation will have a significant effect on higher company value. This finding indicates that energy sector companies that implement environmentally friendly innovations tend to receive a positive response from investors. This attracts investors' interest in investing, resulting in increased stock prices, which reflects an increase in Company Value. These results reinforce the importance of integrating Green Innovation practices into company strategy as part of long-term value creation.



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Theoretically, these results can be explained through Signaling Theory developed by Ross (1977), which states that companies can send signals to the market to reduce information asymmetry between management and investors.

Green innovation is a strategic signal indicating a company's strong managerial skills, concern for sustainability issues, and long-term orientation. This signal can enhance investor perceptions of corporate value, thus positively impacting market valuation. The results of this study align with previous research by Asni & Agustia (2022), Dai & Xue (2022); Novitasari & Agustia (2021); Damas et al. (2021); and Tarigan & Dewi (2025), which show that green innovation has a positive and significant impact on corporate value. Green innovation strengthens consumer loyalty and brand perception, which are important determinants of increasing corporate value. These findings enrich the literature on corporate sustainability, particularly in the context of developing countries like Indonesia, where green innovation is still relatively new but is gaining increasing attention in business strategy. The success of green innovation in enhancing corporate value implies that sustainability is not only a moral responsibility but also a rational and profitable business strategy.

The effect of capital structure on firm value obtained a coefficient of 0.111 with a significance value (p) of 0.048, indicating a significant positive effect, meaning that a higher capital structure will have a significant effect on firm value. The results of this study are in line with the Signaling Theory proposed by Ross (1977). According to this theory, financing decisions taken by management contain information that can be used as signals by investors regarding the company's future prospects. In addition to being supported by Signaling Theory, the results of this study are also consistent with the Pecking Order Theory developed by Myers and Majluf (1984). This theory explains that companies have a preference order in obtaining funding sources, namely using internal funds first, then debt, and issuing shares as a last alternative. When internal funds are no longer sufficient, companies tend to choose debt over issuing new shares to avoid costs due to information asymmetry. The use of debt in these conditions reflects that the company still has good investment prospects and is able to meet its debt payment obligations. Therefore, the decision to finance through debt can be seen as an efficient strategy in increasing firm value as long as the leverage level remains at an optimal condition.

The findings of this study also receive empirical support from various previous studies. Hidayah & Yulianto (2023); Nurdin et al. (2023); Fernanda et al. (2025); Bui et al. (2023); Ngatno et al. (2021) in their studies found that capital structure has a positive and significant influence on firm value. The results of research conducted by Fernanda et al. (2025) showed that capital structure has a positive effect on firm value, while company size is unable to moderate this relationship. The study explained that debt financing decisions are still perceived positively by investors as long as the company is able to manage its financial risks effectively. Furthermore, research by Hafitriyanti, Syahrudin, and Pawitri (2025) on pharmaceutical companies listed on the Indonesia Stock Exchange also proved that capital structure is one of the determinants that increases firm value.

The effect of green innovation with environmental policy moderation on company value obtained a coefficient of -0.194 with a significance value (p) of 0.426, thus indicating a negative but insignificant effect, meaning that higher green innovation accompanied by higher environmental policy will not have a significant effect on company value. This finding indicates that the existence of environmental policies implemented by companies has not been able to strengthen or weaken the relationship between the implementation of Green Innovation and increasing company value. In other words, the effect of green innovation on company value is relatively unaffected by the high or



low level of Environmental Policy owned by the company.

Based on Signaling Theory proposed by Ross (1977), companies can convey information to investors through various activities that reflect the company's quality and prospects. One form of such signal is the implementation of Green Innovation, which demonstrates the company's commitment to sustainable innovation and environmental management. However, the results of this study indicate that the existence of an Environmental Policy has not been able to strengthen the signal generated by Green Innovation. These results suggest that investors are likely more oriented towards the outcomes of environmental activities than formal commitments (policy commitment). Green Innovation that results in cost efficiency, increased productivity, development of environmentally friendly products, or increased competitiveness will more easily translate into increased company value. Conversely, the existence of an Environmental Policy does not necessarily reflect the successful implementation of green innovation if it is not followed by consistent and measurable implementation. Therefore, Environmental Policy has not been able to act as a variable that strengthens the relationship between Green Innovation and Company Value.

The effect of capital structure with environmental policy moderation on firm value obtained a coefficient of 0.203 with a significance value (p) of 0.047, indicating a significant positive effect. This means that a higher capital structure accompanied by a stronger environmental policy will have a significant effect on the higher firm value. In other words, companies that are able to manage their capital structure optimally and supported by good environmental policies tend to achieve higher market appreciation than companies that only rely on financing decisions without demonstrating a commitment to environmental aspects. The results of this study are in line with the Signaling Theory proposed by Ross (1977). According to this theory, corporate decisions published to the market are signals used by investors in assessing the company's prospects. An optimal capital structure provides a signal regarding the company's ability to manage funding sources and meet its financial obligations. When this signal is supported by Environmental Policy, investors obtain additional information that the company not only has good financial capabilities but is also committed to sustainable business practices. Thus, environmental policies increase the credibility of financing decisions, thereby impacting the company's value.

An increase in the proportion of debt can indicate management's confidence in the company's ability to generate future cash flow and profits. An optimal capital structure can increase investor confidence and ultimately increase company value (Spence, 1973; Ross, 1977). A better capital structure will increase company value (Hidayah & Yulianto (2023); Nurdin et al. (2023); Fernanda et al. (2025); Bui et al. (2023); Ngatno et al. (2021)). However, the signals received by investors are not only influenced by financing decisions but also by the environmental context and the company's compliance with applicable regulations. Environmental policy acts as a mechanism that can strengthen the signals generated by capital structure decisions. According to research by Chen and Ma (2021), it can be seen that environmental regulation has a strengthening moderating effect on financial performance, especially in the long term. Overall, the results of this study indicate that environmental policy acts as a contingency factor that increases the effectiveness of capital structure in creating company value. Capital structure signals a company's ability to manage funding, while Environmental Policy reinforces this signal by demonstrating the company's commitment to sustainability. The combination of the two increases investor confidence, lowers perceived risk, and ultimately increases company value.



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CONCLUSION

This study aimed to determine the role of environmental policy in influencing green innovation and capital structure on company value in energy sector companies listed on the Indonesia Stock Exchange. Based on the data analysis, the following conclusions can be drawn:

Green Innovation has a positive effect on Company Value. These results indicate that the higher the level of green innovation implemented by a company, the higher its value. Green innovation is seen as a strategy capable of improving operational efficiency, competitiveness, and corporate image, thus eliciting a positive response from investors.

Capital Structure has a positive effect on Company Value. These findings indicate that optimal capital structure management can increase investor confidence in a company's prospects. The use of funding sources, particularly debt within optimal limits, is perceived as a positive signal regarding a company's ability to create future economic value.

Environmental Policy unable to moderate the influence of Green Innovation on Company Value. These results indicate that the existence of environmental policies has not been able to strengthen the relationship between Green Innovation and company value. This suggests that investors tend to pay more attention to the concrete implementation of green innovation and its resulting economic benefits than to the existence of formal environmental policies.

Environmental Policy able to moderate the influence of Capital Structure on Company Value. These findings suggest that environmental policies strengthen the relationship between capital structure and firm value. The existence of an environmental policy enhances the credibility of a company's financing decisions because it reflects a commitment to sustainable business practices. Therefore, companies with optimal capital structures supported by sound environmental policies tend to receive higher appreciation from investors.

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