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## Integrating ESG Metrics into Corporate Strategy: Analysing the Long-term Value and Profitability

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### Abstract

Research by McKinsey and the NYU Stern Centre for Sustainable Business indicates that robust ESG indicators are associated with enhanced returns and less negative risk. In Indonesia, firms possess a poor comprehension of the impact that integrating Environmental, Social, and Governance (ESG) measures into corporate strategy has on long-term value generation, resilience, and profitability. This study seeks to delineate the role of ESG in enhancing financial performance and sustainable growth within Indonesian firms. Researchers utilize purposive sampling to identify organizations that have consistently disclosed sustainability metrics in accordance with Environmental, Social, and Governance (ESG) requirements for a duration of five years. The population comprised 938 publicly listed companies on the Indonesia Stock Exchange (IDX), with 38 selected enterprises that consistently reported. This research does a comprehensive panel regression analysis using financial data sourced from the Bloomberg Terminal. The study reveals a complex relationship between Environmental, Social, and Governance disclosures and corporate financial success, particularly in emerging markets like Indonesia. It suggests that while firms prioritize governance transparency, its impact on financial performance may be temporary, affecting short-term profitability. Environmental and social disclosures, while positively connected with ROA, necessitate additional time or continuous application to yield financial benefits. The study emphasizes the imperative for a balanced and sustainable approach to Environmental, Social, and Governance integration in resource-constrained environments.

### Keywords

Environment, Social, Governance, Profitability, Corporate Strategy, Profitability.

## 1. Introduction

In today's business environment, the incorporation of Environmental, Social, and Governance (ESG) metrics into corporate strategy has become increasingly important. ESG indicators assess a company's dedication to sustainable practices, ethical governance, and social responsibility (Chen et al., 2023). As global issues, including environmental degradation, social inequality, and corporate governance scandals, escalate, stakeholders are increasingly demanding enhanced transparency and accountability from firms (Candio, 2024). Organizations that adeptly integrate ESG concepts into their plans are more likely to attain sustainable value creation and profitability (Saha & Khan, 2024). Investors are increasingly incorporating Environmental, Social, and Governance (ESG) performance into their investment decisions. This is due to the fact that investors recognize that businesses that have strong ESG policies can minimize risks and enhance financial returns (Alghafes et al., 2024). Chen et al. (2023) made the discovery that businesses that demonstrate high environmental, social, and governance (ESG) performance typically achieve superior financial returns as a result of improved operational efficiencies and risk management. Candio (2024) similarly identified a favourable correlation between ESG attitudes and financial performance in European firms, indicating that ESG integration may improve profitability and shareholder value (Abror & Muharam, 2024).

Despite the growing evidence supporting the financial benefits of ESG integration, several obstacles still remain. A major challenge is the absence of standardized ESG measurement and reporting frameworks, hindering companies' ability to appropriately evaluate their ESG performance and complicating investors' efforts to compare enterprises effectively (Khanchel et al., 2023). Moreover, firms in emerging nations frequently have resource limitations and underdeveloped regulatory frameworks, which may impede the effective execution of ESG initiatives (Dewanti & Susila, 2024). Nonetheless, whereas numerous studies have investigated the influence of ESG integration on financial performance in established economies, there remains a paucity of research analysing this link within emerging market contexts like Indonesia. Research in emerging countries, shown by Chininga et al. (2024) in South Africa, indicates that factors like firm size and market conditions may influence the correlation between ESG ratings and financial performance. Palacin-Bossa et al. (2024) emphasized the necessity for additional research in developing nations by examining the correlation between ESG, financial success, and business reputation in Colombia. This disparity engenders uncertainty over the applicability of favorable outcomes from industrialized nations to emerging markets, where factors such as resource limitations and diminished regulatory backing may influence the efficacy of ESG integration. Consequently, research explicitly examining the influence of ESG integration on corporate financial performance in Indonesia is essential to address this knowledge gap (Weston & Nnadi, 2023).

The influence of ESG integration on financial performance in Indonesia is attracting growing attention. Dewanti & Susila (2024) investigated firms listed on the Indonesia Stock Exchange and determined that ESG disclosures have a beneficial impact on financial performance. Their research underscores the capacity of ESG practices to improve profitability in emerging countries, accentuating the significance of transparency and stakeholder involvement. The correlation between ESG integration and financial performance is intricate and affected by multiple aspects, including industrial sector, firm size, and regional dynamics (Chininga et al., 2024). The majority of researchers have employed sophisticated analytical techniques to deepen our understanding of the impact of ESG on financial results. Cheng et al. (2025) used artificial neural networks to look at how ESG divergence affected the financial performance of Hong Kong-listed companies. They found

interesting details about how differences in ESG practices affect profits. Jin (2024) employed a random forest analysis to investigate the unique effects of ESG pillars on the financial performance of Korean listed companies, revealing that the various ESG components exert varied levels of influence. These studies emphasize the necessity for customized ESG initiatives that take into account particular organizational settings.

Sector-specific research further highlights the diverse effects of ESG integration. Alghafes et al. (2024) looked at how important ESG factors affect Islamic banks in Gulf Cooperation Council (GCC) countries. They found that certain ESG factors greatly improve the financial performance of banks. Pinheiro et al. (2024) discovered that the interaction between ESG, innovation, and economic performance enhances financial results in the energy sector, indicating that ESG integration can foster competitiveness and growth. Nevertheless, certain studies illustrate a more intricate scenario. Despite the correlation between ESG ratings and corporate financial performance, Chininga et al. (2024) found that variables like firm size and market conditions moderate this link. This suggests that the advantages of ESG integration may vary across different situations, necessitating organizations to customize their ESG strategy accordingly. The challenges of ESG integration underscore the necessity for standardized frameworks and optimal procedures. According to Parashar et al. (2024), using advanced analytical methods, such as unsupervised machine learning, can help companies better understand the link between ESG and financial performance, which can help them come up with better strategies.

Understanding the financial ramifications of ESG integration is essential for corporate executives, investors, and governments. It provides organizations with guidance on utilizing ESG measures to attain sustainable growth and competitive advantage Saha & Khan (2024). Investors can gain insights into the impact of ESG issues on financial performance, facilitating more educated investment decisions Chen et al. (2023). Policymakers can utilize this information to establish supportive rules and frameworks that promote sustainable corporate practices Khanchel et al. (2023). This study aims to examine the impact of incorporating ESG metrics into company strategy on long-term value generation and profitability. The intention of this study is to identify effective strategies for environmental, social, and governance (ESG) integration and to solve the challenges that are faced by firms operating in emerging countries like Indonesia. This will be accomplished by combining data from previous empirical investigations (Cinciulescu, 2024). The researcher utilizes purposive sampling to identify organizations that have consistently disclosed sustainability measures in accordance with Environmental, Social, and Governance (ESG) standards throughout a five-year duration. This study utilized regression panel data to elucidate the relationship between ESG integration and financial outcomes (Patil et al., 2024).

The primary issue discussed is the ambiguity surrounding the ways by which ESG integration influences long-term financial performance, especially in emerging markets where resources and governmental assistance may be constrained (Iliescu & Voicu, 2021). Providing corporate leaders with strategies for utilizing environmental, social, and governance (ESG) metrics to achieve sustainable growth and competitive advantage, educating investors on the impact of ESG factors on financial performance, and assisting policymakers in formulating supportive regulations and frameworks that promote sustainable business practices are all reasons why this research is relevant. This study aims to illustrate that the inclusion of ESG criteria into company strategy is both ethically essential and commercially advantageous. The results are expected to offer actionable recommendations that help improve profitability and shareholder value while fostering sustainability and responsible governance.

## **2. Literature Review**

### ***2.1. Environmental, Social and Governance (ESG)***

Environmental, Social, and Governance (ESG) standards have become essential in assessing a company's ethical influence and sustainability efforts. ESG denotes a framework of criteria for a company's operations utilized by socially responsible investors to evaluate prospective investments (Chen et al., 2023). The environmental component evaluates a company's efficacy as a custodian of the natural world. This encompasses policies related to climate change, carbon emissions, energy efficiency, waste management, and resource conservation (Tsang et al., 2023). The social dimension evaluates how a firm oversees its relationships with employees, suppliers, consumers, and the communities in which it operates (Atif, 2021). Concerns like labour practices, human rights, diversity, and community engagement are encompassed within this area. Governance encompasses the internal framework of rules, controls, and processes that an organization implements to self-regulate, facilitate effective decision-making, adhere to legal requirements, and satisfy the demands of external stakeholders (Saha & Khan, 2024).

According to Candio (2024), global challenges such as climate change, socioeconomic inequities, and corporate scandals have led to an increase in the relevance of environmental, social, and governance (ESG) factors. This has resulted in increased stakeholder demands for openness and accountability (Dewa, 2023). Organizations that incorporate environmental, social, and governance (ESG) factors into their strategy have the potential to enhance their brand, attract investors who are socially responsible, and achieve sustainable growth Pinheiro et al. (2024). Companies have been driven to embrace sustainable practices as a result of the growing awareness of the deterioration of the environment. These practices reduce the impact that corporations have on the environment and result in financial savings through increased efficiency (Khanchel et al., 2023).

Furthermore, the rise of consumers who are socially conscious has driven businesses to increase the amount of time they spend participating in social activities. According to Alghafes et al. (2024), businesses that successfully promote diversity, equity, and inclusion while simultaneously cultivating positive community participation have the potential to increase both customer happiness and brand loyalty. Another research from Palacin-Bossa et al. (2024), it is possible for effective governance procedures to lower the risks of fraud and corruption, hence increasing investor trust. Some examples of such procedures include public reporting and ethical leadership.

### ***2.2. The Relationship Between ESG and Financial Performance***

There have been a lot of studies done on the connection between environmental, social, and governance policies and financial performance, but the results have been equivocal. Strong environmental, social, and governance (ESG) policies have been shown to have a favourable correlation with improved financial performance, according to a considerable body of research. Chen et al. (2023) investigated a selection of multinational corporations and found that those with higher environmental, social, and governance (ESG) scores achieved better financial performance. This performance was attributed to increased operational efficiencies and proficient risk management. According to the findings of the research, environmental, social, and governance (ESG) policies can lead to cost reductions, increased productivity, and entry into new markets (Ologbenla, 2021).

A quantitative re-evaluation of European companies was carried out by Candio (2024), who concluded that positive perceptions of environmental, social, and governance (ESG) and corporate social responsibility (CSR) are associated with increased financial success. According to the findings of the research, businesses that actively implement environmental, social, and governance (ESG) policies can attract

investments from socially responsible investors, which ultimately results in a lower cost of capital and an increase in firm value. According to Dewanti & Susila (2024), the companies that are listed on the Indonesia Stock Exchange were investigated in the context of emerging markets. The findings of their study reveal that environmental, social, and governance (ESG) disclosures have a beneficial effect on financial performance. This highlights the significance of openness in establishing trust among stakeholders and boosting the reputation of corporations. According to the findings of the study, environmental, social, and governance (ESG) policies assist differentiate businesses in areas that may have regulatory regimes that are more relaxed, hence offering a competitive advantage.

However, there is research that describes a link that is more complicated than previously thought. Chininga et al. (2024) conducted research on South African businesses and discovered that although there is a correlation between environmental, social, and governance (ESG) ratings and corporate financial success, this association is mitigated by factors such as the size of the company and the conditions of the market. Larger firms that have access to more resources are better able to successfully embrace environmental, social, and governance principles, which can result in financial gains. On the other hand, tiny businesses could experience challenges due to a lack of available resources. Another finding from Jin (2024), investigated the specific effects that environmental, social, and governance (ESG) pillars have on financial performance by using a random forest analysis on publicly traded Korean enterprises. Based on the findings of the investigation, it was determined that the governance pillar had a significantly greater beneficial impact on the financial performance than the environmental and social pillars. When it comes to determining the value of a company, this suggests that investors can give corporate governance a higher priority.

In addition, Parashar et al. (2024) carried out an empirical investigation on renewable energy enterprises by employing unsupervised machine learning. According to the findings, although there is a general correlation between ESG scores and higher financial performance, there are some instances in which strong ESG performers did not necessarily generate superior financial results. This shows the intricacy of the relationship between environmental, social, and governance (ESG) and financial performance and suggests that elements that are specific to the industry play a significant influence.

### ***2.3. Theoretical Framework***

The theoretical foundation of the correlation between ESG practices and financial success is based on several principal theories, chiefly Stakeholder Theory, Resource-Based View (RBV), and Legitimacy Theory also playing a significant role. According to the premises of the Stakeholder Theory, businesses are obligated not only to their shareholders but also to a wider variety of stakeholders, such as their employees, customers, suppliers, communities, and the environment (Freeman & Mcvea, 2001). According to Saha & Khan (2024), businesses have the ability to strengthen their connections with stakeholders, improve their reputation, and ensure their continued success over the long run if they address the interests and concerns of these stakeholders through ESG activities. Participating in ESG practices displays a commitment to ethical behavior and social responsibility, which can result in greater consumer loyalty, employee satisfaction, and community support. ESG activities can also contribute to higher community support (Pamela & Indrawati, 2022).

While the Resource-Based View, the sustained competitive advantage of a company can be gained by utilizing the company's internal resources that are valuable, unique, inimitable, and non-substitutable (Barney, 1991). According to Khanchel et al. (2023), environmental, social, and governance (ESG) practices can be seen as strategic resources that assist in the development of intangible assets such as brand reputation, intellectual capital, and organizational culture. Companies that

may differentiate themselves from their competition, attract top personnel, and stimulate innovation are those that include Environmental, Social, and Governance (ESG) into their basic strategies. As an illustration, environmental measures such as investing in technologies that reduce waste, or renewable energy sources can result in cost savings and operational efficiencies. Employee morale can be improved, and turnover rates can be decreased through the implementation of social initiatives such as fair labour practices and community engagement. According to Pinheiro et al. (2024), corporate governance measures that are strong ensure compliance, lower the risk of legal challenges, and create investor confidence. Last, the Legitimacy Theory, proposes that in order to legitimize their existence, businesses do their best to conduct their operations in accordance with the standards and boundaries of the societies in which they operate (Suchman, 1995). Companies can convey their commitment to societal values and expectations through the use of environmental, social, and governance (ESG) disclosures. Reported transparency on environmental, social, and governance (ESG) activities has the potential to enhance public perception and provide businesses with a "social license to operate" (Palacin-Bossa et al., 2024).

#### ***2.4. Hypothesis Development***

In the most recent academic discourse, the relationship between Environmental, Social, and Governance (ESG) disclosure and financial performance, in particular Return on Assets (ROA), has received a substantial amount of attention. According to Jin (2024), return on assets (ROA) is an essential indicator of a company's financial health since it measures the efficiency with which a company uses its assets to generate earnings. If ESG disclosure has a positive impact on return on assets, this indicates that businesses that engage in responsible environmental, social, and governance policies are more effective in their usage of assets, which ultimately results in increased profitability. This hypothesis is supported by a few observational research. The governance pillar of environmental, social, and governance (ESG) has a significant beneficial impact on return on assets (ROA), based on Jin (2024), who did a random forest study on Korean listed companies. The findings of the study, strong governance processes allow for better decision-making and resource allocation, which ultimately leads to increased financial efficiency. Cheng et al. (2025) conducted an investigation of Hong Kong-listed companies using an artificial neural network approach. They discovered that consistent and comprehensive Environmental, Social, and Governance (ESG) disclosures are related with greater return on assets (ROA). Reduced information asymmetry and greater investor confidence as a result of transparent environmental, social, and governance reporting are the factors that are responsible for this link (Pratiwi et al., 2024).

Companies that are listed on the Indonesia Stock Exchange were researched by Dewanti & Susila (2024) in the context of emerging markets. They found that higher levels of Environmental, Social, and Governance (ESG) disclosure are correlated with improved financial performance, including return on assets (ROA). The study highlights the fact that in markets such as Indonesia, clear Environmental, Social, and Governance (ESG) disclosures have the potential to reduce risks associated with regulatory uncertainties and improve market positioning. Both the Stakeholder Theory and the Resource-Based View (RBV) are examples of theoretical frameworks that are necessary for understanding this relationship. The stakeholder theory proposes that businesses can strengthen their connections with stakeholders and improve their reputations by addressing the interests of all stakeholders through Environmental, Social, and Governance (ESG) activities (Saha & Khan, 2024). This will ultimately lead to lasting success. Research by Khanchel et al. (2023), the RBV argues that Environmental, Social, and Governance (ESG) practices serve as valuable intangible assets that generate competitive benefits. These advantages include brand reputation and customer loyalty. Taking into account both the

empirical evidence and the theoretical viewpoints, it is envisaged that environmental, social, and governance (ESG) disclosure will have a beneficial impact on the return on assets (ROA) of a company by boosting stakeholder relationships, lowering risks, and improving operational efficiencies.

**H1:** Environmental disclosure has a positive significant effect on Return on Assets (ROA)

**H2:** Social disclosure has a positive significant effect on Return on Assets (ROA)

**H3:** Governance disclosure has a positive significant effect on Return on Assets (ROA)

### 3. Methods

The population for this research were 938 public listed companies in Indonesia Stock Exchange (IDX). However, because of the limitations of the data availability, purposive sampling was used and the outcome was 227 observations from all sectors. The 38 chosen firms were the firms that consistently reported ESG in six years (2018-2023). This paper chose all sectors to investigate whether ESG practices in a long term and in general beneficial or not. The Bloomberg Terminal was the main instrument used by the researchers to collect financial report data of manufacturing issuers from 2018 to 2023 to ensure correct retrieval of public listed firm data (Quyên, 2020). The Bloomberg Terminal is crucial for trustworthy data collecting in research since it offers a top-notch, standardized, extensive, and real-time library of financial information from several businesses and industries. A thorough panel regression study is carried out in this paper utilizing financial information obtained from the Bloomberg Terminal. The dependent variable of this paper was Return on Asset as the proxy of firm profitability. Independent variables used ESG disclosure scores as the proxy. Despite that, to differentiate from prior research (Dewanti et al., 2024) and contribute to the body of knowledge, this paper does not use ESG disclosure score as a whole. Instead, this paper uses ESG score per component as independent variables such as: environmental disclosure score; social disclosure score and governance disclosure score. This method is allowed to separate and examine the unique effects of social responsibility, environmental policies, and governance quality on stakeholder perceptions or performance measures. Analysing ESG dimensions independently, the study can uncover the distinct advantages, disadvantages, and connections between each element and other variables, deepening the analysis and shedding light on the particular elements that influence ethical and sustainable behavior in businesses (Friede et al., 2015).

### 4. Results

The descriptive statistics for Return on Asset (ROA), Environment Disclosure Score, Social Disclosure Score, and Governance Disclosure Score provide insights into the financial performance and transparency practices among 227 companies. The ROA, with a mean of 7.41 and a high standard deviation of 8.94, indicates substantial variation in financial efficiency, ranging from as low as 0.06 to a high of 70.09. This suggests that while some companies are highly efficient in generating returns from their assets, others demonstrate minimal profitability (Shah, 2022).

**Table 1.** Descriptive Statistic

Variable	Obs	Mean	Std. dev.	Min	Max
Return on Asset	227	7.41467	8.941207	0.06	70.09
Environment Disclosure Score	227	30.11445	18.79866	0.48	78.07
Social Disclosure Score	227	31.19775	10.83392	9.61	58.62
Governance Disclosure Score	227	74.10899	10.75452	42.81	98.62

Environmental and social disclosure scores show moderate levels of transparency, with means of 30.11 and 31.20, respectively. The Environment Disclosure Score exhibits more variability (standard deviation of 18.80) compared to the Social Disclosure Score (standard deviation of 10.83), indicating that environmental transparency practices are more diverse across companies. Ranging from a minimum of 0.48 to a maximum of 78.07 for environmental disclosures, and from 9.61 to 58.62 for social disclosures, these scores reveal a wide spectrum of commitment to disclosing environmental and social information. In contrast, the Governance Disclosure Score has the highest mean at 74.11, suggesting that companies prioritize governance transparency more consistently than environmental or social issues. The standard deviation of 10.75 reflects moderate variability, indicating that most companies place a strong emphasis on governance disclosure. Overall, these findings highlight that governance receives greater attention in disclosure practices, while environmental and social transparency exhibit wider disparities across companies in the sample.

**Table 2.** Regression Analysis

Variable	Coefficient	Std. Err.	z	P> z	95% Conf. Interval Lower	95% Conf. Interval Upper
Environment Disclosure Score	0.050597	0.0441564	1.13	0.257	-0.03649	0.136605
Social Disclosure Score	0.0727252	0.0776039	0.94	0.349	-0.07938	0.224826
Governance Disclosure Score	-0.1418795	0.071121	-1.99	0.046	-0.28127	-0.00248
_cons	14.17166	4.716226	3	0.003	4.928027	23.41529

The regression analysis presented in Table 2 examines the relationships between Environment Disclosure Score, Social Disclosure Score, and Governance Disclosure Score with the dependent variable, likely a measure of financial or operational performance, indicated by the intercept (\_cons) value. Each coefficient represents the estimated impact of one disclosure score on the dependent variable, controlling for the effects of the other variables. The results suggest that Environmental Disclosure Score (coefficient = 0.0506) and Social Disclosure Score (coefficient = 0.0723) are positively associated with the dependent variable, although neither association is statistically significant (p-values of 0.257 and 0.349, respectively). The Governance Disclosure Score exhibits a negative association with the dependent variable, as shown by its coefficient of -0.1419. This negative relationship is statistically significant at the 5% level (p = 0.046), suggesting that higher governance disclosure may be associated with a lower value of the dependent variable. The 95% confidence interval for this coefficient ranges from -0.2813 to -0.0025, indicating a degree of confidence in the direction and magnitude of this effect, which implies that the negative association observed may be of practical relevance in this context.

The combination of descriptive statistics and regression analysis provides a comprehensive view of the relationships between financial performance (represented by Return on Asset, ROA) and corporate transparency practices, specifically Environmental, Social, and Governance (ESG) disclosures. The descriptive statistics reveal varying levels of commitment to each type of disclosure, with governance

disclosure scoring the highest average, indicating a strong emphasis on corporate governance transparency across the sample. Meanwhile, environmental and social disclosures show lower average scores and higher variability, suggesting inconsistent practices among companies regarding these types of information. The regression analysis further illuminates these relationships by exploring the potential impact of each disclosure score on the dependent variable, which could be linked to corporate performance or perceived value. The positive, albeit statistically insignificant, coefficients for Environmental Disclosure Score (0.0506) and Social Disclosure Score (0.0723) indicate that higher levels of disclosure in these areas may have a favorable but weak association with the dependent variable. This suggests that while companies engage in environmental and social disclosures, these practices may not yet have a strong or direct impact on financial outcomes, possibly due to the variability in disclosure practices or investor perception of these aspects (Sutrisno & Lazuardy, 2024).

In contrast, the significant negative coefficient for Governance Disclosure Score (-0.1419) suggests an adverse relationship with the dependent variable. This finding could imply that companies with higher governance transparency might experience lower financial performance or perceived value in the short term, possibly due to increased scrutiny or costs associated with implementing stringent governance practices. This findings in conform with several papers such as: (Hussain et al., 2024; Iancu et al., 2023; Li, 2024). Alternatively, it may suggest that governance transparency signals a focus on regulatory compliance or risk management, potentially viewed by investors as detracting from immediate financial gains. Together, these findings highlight that while governance remains a priority for disclosure, the financial market response may differ from environmental and social disclosures, underlining the complex dynamics between ESG practices and financial performance. Further research could explore the long-term effects of each type of disclosure to clarify these nuanced relationships.

## **5. Conclusion**

In conclusion, this study highlights the complex relationship between ESG (Environmental, Social, and Governance) disclosures and corporate financial performance, especially in the context of emerging markets such as Indonesia. The findings suggest that while companies are increasingly prioritizing governance transparency, its impact on financial performance may not be straightforward, as indicated by the significant negative association between Governance Disclosure Score and Return on Assets (ROA). This could imply that heightened governance practices, while crucial for regulatory compliance and risk mitigation, may entail short-term costs or scrutiny that affect immediate profitability. Meanwhile, environmental and social disclosures, although positively associated with ROA, did not show statistically significant impacts, suggesting that these practices may need more time or consistent execution to yield observable financial benefits.

These results underscore the importance of a balanced and long-term approach to ESG integration, especially in resource-constrained emerging markets where regulatory frameworks may still be evolving. For companies, this means that while ESG practices, particularly governance, remain essential for building a sustainable and transparent business, they must be prepared for potential short-term financial trade-offs. For policymakers, the study suggests the need to create supportive frameworks that encourage consistent ESG practices while considering local market dynamics. Future research could further investigate these relationships over a longer period or examine sector-specific ESG impacts to provide a more nuanced understanding of how these practices influence corporate performance in various organizational and economic contexts.

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