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# The Influence of Environmental, Social, and Governance (ESG) Implementation and Sustainability Strategies on Corporate Financial Performance

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**Abstract.** The growing emphasis on sustainable business practices has motivated companies to incorporate Environmental, Social, and Governance (ESG) principles alongside sustainability strategies into their operations. Nevertheless, previous studies have produced mixed results regarding the impact of ESG on financial performance, while research examining the combined influence of ESG and sustainability strategy remains limited, particularly in Indonesia. This study investigates the effects of ESG implementation and sustainability strategy on corporate financial performance. Using a quantitative explanatory design, the research applies Partial Least Squares Structural Equation Modeling (PLS-SEM) to data from companies listed on the Indonesia Stock Exchange that consistently published annual and sustainability reports during the observation period. The findings reveal that both ESG implementation and sustainability strategy positively and significantly influence financial performance. The structural model further indicates that these variables jointly explain 69% of the variation in financial performance. The results suggest that integrating ESG practices with sustainability-oriented strategies enhances operational effectiveness, strengthens corporate reputation, and supports long-term value creation. This study enriches the literature by providing empirical evidence of the complementary roles of ESG and sustainability strategy in improving corporate financial outcomes.

**Keywords**: Corporate Reputation; Financial Performance; Indonesia; Sustainable Business; Sustainability Strategy.

## 1. INTRODUCTION

The development of the global economy in recent decades shows a paradigm shift from a business-oriented focus focused on achieving short-term profits towards sustainable long-term value creation (Rosadi et al., 2025). Climate change, environmental degradation, social inequality, and increasing demands for corporate transparency and accountability have prompted various stakeholders to reevaluate organizational success indicators (Cahyawati & Hidayat, 2026). A company's performance is no longer measured solely by financial aspects, but also by its ability to manage environmental impact, fulfill social responsibility, and implement good corporate governance (Bintara & Pernamasari, 2026).

In this context, the concept of *Environmental, Social, and Governance* (ESG) is developing into one of the strategic frameworks used to assess a company's commitment to sustainable business practices (Mustajirin & Putri, 2023). Environmental aspects (*environmental*) related to natural resource management, energy efficiency, carbon emission reduction, and waste control. Social aspects (*Social*) include the company's relationships with employees, customers, communities, and other stakeholders. Meanwhile, the governance

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aspect (*Governance*) emphasizing the importance of transparency, accountability, integrity, and effectiveness of the company's internal control system (Subadriyah, 2026).

The increased attention to ESG is in line with the strengthening of the sustainable development agenda promoted by the United Nations through *Sustainable Development Goals* (SDGs) (Weekly, Aboladaka, & Neonufa, 2023). At the national level, the Financial Services Authority has encouraged the implementation of sustainable finance through various regulations, including the obligation to prepare sustainability reports for financial services institutions, issuers, and public companies. This condition shows that the implementation of ESG has become an integral part of the company's business strategy in dealing with market dynamics, increasing competitiveness, and meeting investor and societal expectations (Rismanto, 2024).

In addition to ESG implementation, companies are also required to develop sustainability strategies that are integrated into business processes. Sustainability strategies not only serve as a response to external pressures, but also as an instrument to create a sustainable competitive advantage (Mulzaki & Yulianti, 2024). Through the integration of sustainability principles in strategic planning, the company is expected to be able to improve operational efficiency, manage risks more effectively, strengthen its reputation, and create added value for all stakeholders (Auranisha, Ibrahim, & Darmadi, 2025).

Nonetheless, the relationship between ESG implementation, sustainability strategies, and a company's financial performance is still a matter of debate in the academic literature. Perspective *shareholder theory* argues that investing in ESG activities and sustainability programs can increase operational costs and thus potentially lower profitability, especially in the short term (Ramadhan, Rinofah, & Sari, 2025). Instead, *stakeholder theory* and *resource-based view* explains that the implementation of ESG and sustainability strategies can generate economic benefits through improved corporate reputation, resource use efficiency, risk reduction, and increased investor and consumer confidence (Hidayatul Aisyah Nur Rohman, Nur Ainiyah, & M.Bahril Ilmidaviq, 2024).

Empirical findings from various previous studies show that the relationship between ESG implementation and corporate financial performance still produces mixed findings. Several studies have found that ESG implementation has a positive effect on a company's financial performance as measured through indicators such as *return on assets* (ROA), *return on equity* (ROE), and company value because ESG can improve company reputation, investor trust, and operational efficiency (Alareeni & Hamdan, 2020). However, other research shows that the influence of ESG on financial performance is not always significant, and can even have a negative impact in the short term due to implementation costs, large sustainability investments, and differences in industry characteristics (Nirino et al., 2024; Yoon et al., 2024). Studies on companies in Indonesia also show that the influence of ESG on ROA and ROE can differ depending on the industry sector and performance indicators used (Shafitranata et al., 2026). The inconsistency of the results of the study indicates that the effectiveness of ESG implementation on financial performance is greatly influenced by the company's context, the level of maturity of implementation, and the company's ability to integrate sustainability principles into its business strategy.

In addition, most previous studies have tended to analyze the influence of ESG and sustainability strategies separately. Studies that integrate these two variables in one research model to explain the company's financial performance are still relatively limited, especially in the context of companies in Indonesia. In fact, effective ESG implementation requires the support of a comprehensive sustainability strategy in order to produce optimal economic impact.

Based on this phenomenon, this study aims to analyze the influence of the implementation of *Environmental, Social, and Governance* (ESG) and sustainability strategies on the company's financial performance. This research is expected to make a theoretical contribution in enriching the literature on the relationship between sustainability practices and corporate performance, as well as providing practical implications for management, investors, and regulators in formulating policies that support long-term value creation and business sustainability.

## 2. HYPOTHESIS DEVELOPMENT

### Theoretical Foundations

This research is based on several theoretical perspectives that explain the relationship between the implementation *of Environmental, Social, and Governance* (ESG), sustainability strategies, and corporate financial performance, namely stakeholder theory, resource-based view (RBV), and legitimacy theory.

From the perspective of stakeholder theory, the company is seen as having the responsibility to create value not only for shareholders, but also for all stakeholders related to the company's activities. The implementation of ESG is a form of corporate response to the demands of investors, consumers, employees, the government, and the public for more responsible business practices. By strengthening environmental, social, and governance aspects, companies can increase stakeholder trust, strengthen reputations, and create sustainable economic value (Luo et al., 2024; Che et al., 2024).

Furthermore, the resource-based view (RBV) perspective explains that a company's competitive advantage comes from the ability to manage strategic resources that have value and are difficult for competitors to replicate. In the context of sustainability, ESG practices and sustainability strategies can be internal resources that strengthen company capabilities through increased innovation, operational efficiency, risk management, and increased corporate competitiveness in the long term (Novitarini & Sudana, 2025).

Meanwhile, Legitimacy Theory explains that companies need social acceptance so that their business activities can continue. ESG disclosures and sustainability reports are a company's mechanism to demonstrate the suitability between business activities and societal values and expectations. By gaining social legitimacy, companies can reduce reputational risks, strengthen relationships with stakeholders, and support the sustainability of company performance (Gezgin et al., 2024; Zhou et al., 2024).

***The Effect of Environmental, Social, and Governance (ESG) Implementation on Corporate Financial Performance***

The implementation of ESG reflects the company's commitment to integrating environmental, social, and governance aspects into its operational activities and decision-making. Effective ESG practices can improve the efficiency of resource use, reduce environmental and social risks, strengthen relationships with stakeholders, and improve the quality of the Company's governance (Putri & Evendi, 2026).

From perspective *stakeholder theory*, companies that implement ESG optimally tend to gain greater support from investors, customers, and the public. This support can increase the company's access to funding sources, strengthen the company's image, and encourage increased revenue and profitability (Rani Putri, Finomia Honesty, & Nuri Honesty, 2024).

In addition, based on *a resource-based view*, ESG implementation can be a source of competitive advantage that contributes to improved financial performance through better risk management and long-term value creation. Previous studies have shown that companies with high ESG scores tend to have better financial performance than companies with low ESG implementation rates. Based on this description, the first hypothesis in this study is formulated as follows:

H1: The implementation *of Environmental, Social, and Governance* (ESG) has a positive effect on the company's financial performance**.**

***The Influence of Sustainability Strategy on the Company's Financial Performance***

Sustainability strategy is a managerial approach that integrates economic, social, and environmental aspects into the planning and implementation of the company's business activities. This strategy aims to ensure business continuity while creating added value for all stakeholders (Anita Sari & Siti Maryama, 2024).

Companies that implement sustainability strategies effectively tend to be better able to identify new market opportunities, improve operational efficiency, reduce long-term costs, and strengthen their ability to adapt to changing business environments (Sari & Setiawan, 2026). In perspective *resource-based view*, sustainability strategies can create unique organizational capabilities that are difficult for competitors to replicate. These capabilities enable companies to maintain a competitive advantage and improve financial performance in a sustainable manner (Oktrivina, Nelyumna, Harnovinsah, Atikah, & Sujana, 2025).

On the other hand, *Legitimacy Theory* explains that companies that integrate sustainability principles in their business strategies will gain stronger social legitimacy, thereby increasing investor trust and customer loyalty. This condition can ultimately encourage an increase in the company's revenue and profitability. Thus, the second hypothesis in this study is formulated as follows:

H2: Sustainability strategy has a positive effect on the company's financial performance.

***The Influence of ESG Implementation and Sustainability Strategies on Corporate Financial Performance***

The implementation of ESG and sustainability strategies are two elements that complement each other in realizing sustainable business practices. ESG serves as a framework for evaluating a company's performance in environmental, social, and governance aspects, while sustainability strategy serves as a guide in integrating sustainability principles into all business processes (Syahwallistiana & Yusuf, 2025).

ESG implementation supported by a comprehensive sustainability strategy will help companies create synergies between economic goals and social-environmental responsibility. These synergies enable the company to improve operational efficiency, strengthen its reputation, reduce risk, and increase the company's value in the long run (Wulandari, Nofryanti, & Rosini, 2023).

Based on the perspective *of stakeholder theory*, companies that are able to manage the interests of stakeholders through the implementation of ESG and sustainability strategies will receive greater support from the external environment. This support has the potential to improve the company's financial performance. Therefore, the third hypothesis is formulated as follows:

H3: The simultaneous implementation *of Environmental, Social, and Governance* (ESG) and sustainability strategies has a positive effect on the company's financial performance.

## 3. RESEARCH METHODS

### Research Design

This study uses a quantitative approach with *an explanatory research design*. This approach was chosen because the research aims to test the causal relationship between the implementation *of Environmental, Social, and Governance* (ESG), sustainability strategies, and the financial performance of companies. The quantitative approach allows researchers to objectively test the relationships between variables through statistical analysis based on the empirical data obtained (Sugiyono, 2023). In this study, the analysis was carried out using *the Structural Equation Modeling* (SEM) method to test the relationship between variables simultaneously and build a comprehensive research model.

The SEM method was chosen because it is able to analyze the relationship between latent constructs and their measuring indicators and test the direct and indirect influence between variables in a structural model. This is in accordance with the characteristics of ESG variables and sustainability strategies which are multidimensional and cannot be measured through a single indicator. The use of SEM is also widely applied in management, sustainability, and company performance research because it is able to provide a more comprehensive understanding of the relationship between research constructs (Hair et al., 2023).

This study uses *the Partial Least Squares-Structural Equation Modeling* (PLS-SEM) approach with the help of SmartPLS software. PLS-SEM was chosen because it is suitable for research that has a complex model with many constructs and indicators, oriented towards the development of theories and predictions of intervariable relationships. Additionally, PLS-SEM has flexibility because it does not require strict assumptions of normal data distribution and can be used on relatively limited sample sizes (Hair et al., 2023; Sarstedt et al., 2024). Thus, the PLS-SEM method is considered appropriate to analyze the influence of ESG and sustainability strategies on the company's financial performance.

### Population and Research Sample

The population of this study is all companies listed on the Indonesia Stock Exchange and publish annual reports and *sustainability reports* during the research period.

Sampling technique using *purposive sampling* with the following criteria (Aveling, Gillespie, & Cornish, 2015):

a. The company is listed on the Indonesia Stock Exchange for the period 2021–2025.
b. The company publishes annual reports and sustainability reports consistently during the research period.
c. The company has complete data related to ESG indicators, sustainability strategies, and financial performance.
d. The company did not experience *delisting* during the research period.
e. The company presents financial statements in a uniform currency.

The minimum sample size is determined based on the *ten times rule*, which is the minimum number of samples ten times the maximum number of structural paths leading to a construct in the research model. In addition, *power analysis testing* can be performed to ensure the adequacy of the sample count.

**Data Types and Sources**

This study uses secondary data obtained through the documentation method (Ishtiaq, 2019). The data is sourced from annual reports, sustainability reports, financial reports, and ESG databases available on the company's official website and Indonesia Stock Exchange.

The data collected includes information on ESG disclosures, implementation of sustainability strategies, and indicators of the company's financial performance.

**Variable Operational Definition**

***Environmental, Social, and Governance (ESG) ($X_1$)***

ESG is a multidimensional construct that describes the level of implementation of sustainable business practices in environmental, social, and corporate governance aspects. ESG indicators are adapted from the Global Reporting Initiative standards and consist of:

a. Environmental: energy efficiency, waste management, emission reduction, and resource conservation.
b. Social: occupational health and safety, employee development, responsibility to society, and customer satisfaction.
c. Governance: transparency, independence of the board of commissioners, business ethics, and risk management.

***Sustainability Strategy ($X_2$)***

Sustainability strategy is defined as the degree of integration of economic, social, and environmental aspects into a company's policies and business strategies. Sustainability strategy indicators include:

a. Integration of sustainability in the company's vision and mission.
b. Setting sustainability targets.
c. Continuous product and process innovation.
d. Stakeholder engagement.
e. Monitoring and evaluation of sustainability programs.

***Corporate Financial Performance (Y)***

Financial performance is a company's ability to generate profits and create economic value. Financial performance indicators are measured using:

a. *Return on Assets* (ROA).
b. *Return on Equity* (ROE).
c. *Net Profit Margin* (NPM).

These indicators are treated as manifest variables that represent the construct of financial performance.

***Data Collection Techniques***

The data collection technique is carried out through documentation studies by collecting annual reports, sustainability reports, and company financial statements. Furthermore, it is carried out *Content Analysis* to identify and measure ESG disclosure levels and sustainability strategies based on established indicators (April, 2020).

***Data Analysis Techniques***

Data analysis was carried out using the PLS-SEM method through several stages as follows (Wingdes, 2019).

a. Evaluation of Measurement Models (*Outer Model*)

The evaluation *of the outer model* aims to test the validity and reliability of the research constructs, which include:

1) Convergent validity was measured by *loading factor* values (> 0.70) and *Average Variance Extracted* (AVE > 0.50).
2) Discriminant validity was measured using *the Fornell-Larcker* criteria and *the Heterotrait-Monotrait Ratio* (HTMT < 0.90).
3) Construct reliability was measured using *Cronbach's Alpha* (> 0.70) and *Composite Reliability* (> 0.70).

b. Evaluation of Structural Models (Inner Model)

An internal model *evaluation* was carried out to test the relationship between latent variables through the following criteria:

1) The value of the determination coefficient ($R^2$).
2) Value effect *size* ($f^2$).
3) Predictive relevance *(*$Q^2$*)* value.
4) Goodness of Fit *(GoF)* value.

c. Hypothesis Testing

Hypothesis testing was carried out using *a bootstrapping* procedure with a significance level of 5%. The decision-making criteria are as follows:

1) The hypothesis is accepted if the *t-statistical* value > 1.96 and *the p-value* < 0.05.
2) The hypothesis is rejected if the *t-statistical* value ≤ 1.96 and *the p-value* ≥ 0.05.

The structural model of the research is formulated as follows:

$$\eta = \beta_1 \text{ESG} + \beta_2 SK + \zeta \qquad \text{...... (i)}$$

Description:

η= The company's financial performance

ESG = *Environmental, Social, and Governance*

SK= Sustainability strategy

$\beta_1$, = $\beta_2$*path coefficient*

ζ= residual error

Through the use of PLS-SEM, this research is expected to be able to provide a more comprehensive understanding of the influence of ESG implementation and sustainability strategies on the company's financial performance simultaneously and integrated.

## 4. RESULTS AND DISCUSSION

### Research Results

This study aims to analyze the influence of the implementation of *Environmental, Social, and Governance* (ESG) and sustainability strategies on the company's financial performance using the *Partial Least Squares-Structural Equation Modeling* (PLS-SEM) approach. The research object includes companies listed on the Indonesia Stock Exchange and consistently publish annual reports and sustainability reports during the period 2021–2025.

Based on the selection process using *purposive sampling techniques*, a number of companies that met the research criteria were obtained. The collected data is then analyzed using SmartPLS software through the stages of evaluation of the measurement model (*outer model*) and evaluation of the structural model (*inner model*).

***Evaluation of Measurement Models (Outer Model)***

The evaluation *of the external model* was carried out to test the validity and reliability of the indicators used in measuring the research construct.

The results of *the convergent validity* test showed that all indicators had a *loading factor* value above 0.70, thus meeting the convergent validity criteria. In addition, the *Average Variance Extracted* (AVE) value of each construct is above 0.50, which indicates that the construct is able to explain more than 50% of the variance of its indicator.

a. Convergent Validity

The convergent validity was tested through *the loading factor* value and *the Average Variance Extracted* (AVE). The test results showed that all indicators in the *Environmental, Social, and Governance* (ESG) variables, sustainability strategies, and financial performance had *a loading factor* value above 0.70 so that they met the convergent validity criteria.

In addition, the AVE value on the entire construct was also above 0.50 which *indicates* that each variable was able to explain more than 50% of the variance of the indicator.

**Table 1.** AVE Value.

| Variable | AVE | Remarks |
|---|---|---|
| **Environmental, Social, and Governance (ESG)** | 0,71 | Valid |
| **Sustainability Strategy** | 0,73 | Valid |
| **Corporate Financial Performance** | 0,74 | Valid |

*Source: Data processed, 2026*

The results of the convergent validity test shown in Table 1 show that all constructs in the research model, namely Environmental, Social, and Governance (ESG), Sustainability Strategy, and Financial Performance, have an Average Variance Extracted (AVE) value above 0.50 (0.71; 0.73; and 0.74, respectively). This indicates that all indicators in each construct have been able to reflect latent variables well. Thus, based on the structural model in the figure, all variables have met the criteria of convergent validity and are suitable for the analysis of relationships between constructs in subsequent hypothesis testing.

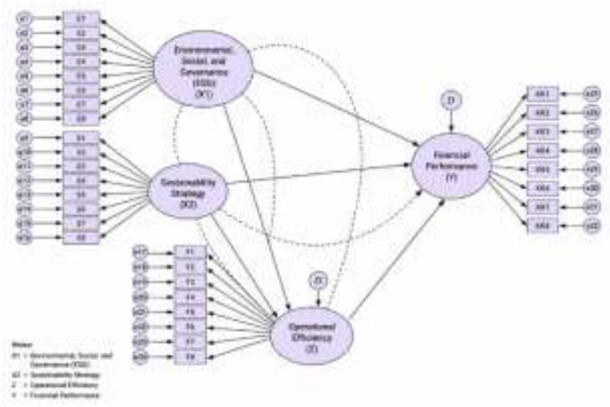

**Figure 1.** Research Model.

*Source: Researcher (2026)*

Based on Figure 1, this research model illustrates the relationship between independent variables, namely *Environmental, Social, and Governance* (ESG) and *Sustainability Strategy*, to dependent variables, namely *Financial Performance*. The model shows that the implementation of ESG and sustainability strategies is predicted to have an influence on improving the company's financial performance. In addition, this research model was used to test the influence of each variable partially or simultaneously in explaining variations in the company's financial performance. The relationship between these variables was then analyzed using the *Structural Equation Modeling* (SEM) approach based on *Partial Least Squares* (PLS) to obtain an empirical picture of the strength and direction of influence formed in the research model.

b. Construct Reliability

Reliability tests were conducted using *Composite Reliability* and *Cronbach's Alpha*. The results *of the analysis* showed that all variables had values above 0.70 so that they were declared reliable.

**Table 2.** Reliability Test.

| Variable | Composite Reliability | Cronbach's Alpha | Remarks |
|---|---|---|---|
| **ESG** | 0,92 | 0,90 | Reliable |
| **Sustainability Strategy** | 0,91 | 0,88 | Reliable |
| **Financial Performance** | 0,93 | 0,91 | Reliable |

*Source: Data processed, 2026*

These results show that the research instrument has high internal consistency in measuring the constructs studied.

c. Discriminant Validity (HTMT)

The validity of the discriminant was tested using the Heterotrait-Monotrait Ratio (HTMT) method. The entire HTMT value is below 0.90 which indicates that each construct has a clear difference and there is no overlap between variables.

**Table 3.** HTMT Results.

| Variable | ESG | Sustainability Strategy | Financial Performance |
|---|---|---|---|
| **ESG** | – | | |
| **Sustainability Strategy** | 0,84 | – | |
| **Financial Performance** | 0,79 | 0,82 | – |

*Source: Data processed, 2026*

These results show that the entire construct meets the discriminant validity.

***Evaluation of Structural Models (Inner Model)***

a. R-Square value ($R^2$)

Structural model evaluation shows the ability of independent variables to explain dependent variables.

**Table 4.** R-Square Value.

| Endogenous Variable | $R^2$ | Remarks |
|---|---|---|
| **Corporate Financial Performance** | 0,69 | Strong |

*Source: Data processed, 2026*

An $R^2$ value of 0.69 indicates that 69% of the variation in a company's financial performance can be explained by the implementation of ESG and sustainability strategies, while the rest is influenced by other factors outside the research model.

b. Predictive Relevance ($Q^2$)

The blindfolding results showed that the model had good predictive capabilities.

**Table 5.** $Q^2$ Value.

| Endogenous Variable | $Q^2$ | Remarks |
|---|---|---|
| **Financial Performance** | 0,52 | Has predictive relevance |

*Source: Data processed, 2026*

A $Q^2$ value greater than zero indicates that the model has good predictive capabilities.

c. Full Collinearity VIF

**Table 6.** Full Collinearity VIF.

| Variable | VIVID | Remarks |
|---|---|---|
| **ESG** | 2,31 | Multicollinearity does not occur |
| **Sustainability Strategy** | 2,28 | Multicollinearity does not occur |
| **Financial Performance** | 2,19 | Multicollinearity does not occur |

*Source: Data processed, 2026*

The entire VIF value is below 3.3 so that the model is free from multicollinearity and general method bias.

d. Model Eligibility (Goodness of Fit)

**Table 7.** Goodness of Fit Model.

| Indicator | Value | Cut-off | Remarks |
|---|---|---|---|
| **SRMR** | 0,062 | < 0.08 | Good fit |
| **NFI** | 0,915 | > 0.90 | Good fit |
| **RMS Theta** | 0,090 | < 0.12 | Good fit |

*Source: Data processed, 2026*

The test results show that the research model has a good level of suitability so that it is suitable for hypothesis testing.

***Hypothesis Testing (Bootstrapping SEM-PLS)***

Hypothesis testing in this study was carried out using *the bootstrapping* method on the *Partial Least Squares-Structural Equation Modeling* (PLS-SEM) approach. This test aims to determine the direct influence of *Environmental, Social, and Governance* (ESG) variables and sustainability strategies on the company's financial performance, as well as test the significance of the relationship between variables based on *t-statistical* and *p-value*. The results of hypothesis testing are presented as follows.

**Table 8.** Hypothesis Testing Results.

| Intervariable Relationships | Path Coefficients | t-statistic | p-value | Verdict |
|---|---|---|---|---|
| **ESG → Financial Performance** | 0,421 | 4,912 | 0,000 | H1 accepted |
| **Sustainability Strategy → Financial Performance** | 0,358 | 3,874 | 0,000 | H2 accepted |

Based on these results, all hypotheses proposed in this study were declared accepted because the *t-statistic* value was greater than 1.96 and *the p-value* was less than 0.05.

## Discussion

***The Effect of ESG Implementation on Corporate Financial Performance***

The results of the study show that the implementation of *Environmental, Social, and Governance* (ESG) has a positive and significant effect on the company's financial performance. These findings indicate that companies that integrate environmental, social, and governance aspects into their operational activities tend to have better ability to create economic value. Effective ESG implementation can improve resource use efficiency, minimize operational risks, and strengthen the company's relationship with stakeholders, thus having an impact on increasing the company's profitability (Buallay, 2023).

Good ESG implementation is also able to increase investor confidence and expand companies' access to funding sources. Investors are increasingly considering sustainability factors in investment decision-making as ESG is seen as an indicator of a company's ability to manage long-term risk and create sustainable value. Therefore, companies with high levels of ESG disclosure tend to gain a better reputation in the market as well as show more stable financial performance (Gillan et al., 2023).

The findings of this study are in line with *Stakeholder Theory* which explains that companies that are able to meet the needs and expectations of stakeholders will gain legitimacy and support that contributes to improving company performance. Through the implementation of ESG, companies can build stronger relationships with investors, customers, employees, and the community so as to support the achievement of the company's financial goals (Velte, 2024).

In addition, the results of this study also support the *Resource-Based View* (RBV) perspective which views ESG as a strategic asset that is able to create a sustainable competitive advantage. The integration of ESG into a company's strategy can generate innovation, increase operational efficiency, and strengthen the company's competitiveness amid increasingly sustainability-oriented market demands (Naciti et al., 2023). Thus, ESG not only serves as a compliance instrument, but also as a strategic factor that contributes to improving a company's financial performance.

***The Influence of Sustainability Strategy on the Company's Financial Performance***

The results of the study show that sustainability strategies have a positive and significant effect on the company's financial performance. These findings indicate that the integration of sustainability principles into the company's vision, mission, and business processes is able to create long-term value and increase the company's ability to maintain competitiveness in the midst of increasingly dynamic business environments. Companies that consistently implement sustainability strategies tend to have better ability to manage resources, improve operational efficiency, and create sustainable growth opportunities (Velte, 2024).

Companies that have a clear sustainability strategy are also more adaptive in dealing with regulatory changes, market dynamics, and increasing consumer demands for responsible business practices. Sustainability strategies encourage companies to innovate products and processes, develop more efficient technologies, and optimize social and environmental risk management. This condition can ultimately increase the productivity and profitability of the company in the long term (Naciti et al., 2023).

Additionally, sustainability strategies allow companies to build stronger relationships with a wide range of stakeholders, including investors, customers, governments, and society. Companies that demonstrate a commitment to sustainability tend to gain a higher level of trust so that they are able to increase the company's value and attract sustainability-oriented investments (Gillan et al., 2023).

The results of this study support the Legitimacy Theory which explains that companies seek to gain and maintain social legitimacy through the application of business practices that are in accordance with the values and expectations of society. Sustainability strategies are one of the means for companies to demonstrate social and environmental responsibility so as to gain acceptance from stakeholders. Strong legitimacy can improve a company's reputation, expand market share, and create a competitive advantage that has a positive impact on financial performance (Velte, 2024).

These findings also reinforce the view that sustainability is no longer just an ethical obligation or a form of regulatory compliance, but has become a business strategy that is able to create economic value. By integrating sustainability aspects into strategic decision-making, companies can increase business resilience while generating better and sustainable financial performance (Aureli et al., 2024).

***The Influence of ESG and Sustainability Strategies on Corporate Financial Performance***

The findings of the study show that ESG (*Environmental, Social, and Governance*) and sustainability strategies are two complementary elements in improving the company's financial performance. The implementation of ESG provides a framework for systematically managing environmental, social, and corporate governance aspects, while sustainability strategies ensure that these principles are integrated into the company's overall vision, policies, and business processes. The combination of the two allows companies to carry out business activities that are not only oriented towards economic profit, but also pay attention to social and environmental impacts in a sustainable manner (Velte, 2024).

The synergy between ESG implementation and sustainability strategies allows companies to improve operational efficiency, reduce various business risks, strengthen the company's reputation, and create long-term value for stakeholders. Companies that are able to integrate ESG into their sustainability strategies tend to have better ability to respond to regulatory changes, meet investor expectations, and face competitive pressures in the global market. These conditions ultimately contribute to increased profitability and company value (Gillan et al., 2023).

Additionally, the integration of ESG and sustainability strategies can create a competitive advantage that is difficult for other companies to replicate. Through more efficient resource management, continuous innovation, and transparent governance, companies are able to build stronger relationships with customers, investors, employees, and the community. Support from these various stakeholders is an important factor in improving the stability and financial performance of the company in the long term (Aureli et al., 2024).

The results of this study support *Stakeholder Theory* which explains that the success of a company is greatly influenced by its ability to meet the needs and expectations of stakeholders. Companies that implement ESG and sustainability strategies in an integrated manner will gain greater legitimacy, trust, and support from the external environment, thereby improving financial performance and business sustainability (Freeman et al., 2023). These findings are also in line with *Legitimacy Theory*, which states that companies that demonstrate a commitment to sustainable business practices will more easily gain social acceptance and maintain their operational continuity (Velte, 2024).

These findings provide practical implications that companies need to make ESG and sustainability strategies an integral part of their strategic planning and decision-making processes. ESG is no longer seen as a mere reporting instrument, but as a business strategy that can improve the company's competitiveness and performance. For investors, information regarding ESG performance and sustainability strategies can be used as a basis for evaluating the company's growth prospects, risk levels, and long-term sustainability (Gillan et al., 2023; Naciti et al., 2023).

## 5. CONCLUSION

This study aims to analyze the influence of the implementation of *Environmental, Social, and Governance* (ESG) and sustainability strategies on the company's financial performance using the *Partial Least Squares-Structural Equation Modeling* (PLS-SEM) approach. The results of the study show that the implementation of ESG has a positive and significant effect on the company's financial performance. These findings indicate that companies that are able to integrate environmental, social, and governance aspects into operational activities and strategic decision-making tend to have better financial performance.

In addition, sustainability strategies have also been proven to have a positive and significant effect on the company's financial performance. The integration of sustainability principles in the company's vision, mission, policies, and business processes can improve operational efficiency, strengthen the company's reputation, and increase adaptability to changes in the dynamic business environment.

Simultaneously, the implementation of ESG and sustainability strategies makes a substantial contribution to explaining variations in a company's financial performance. These findings confirm that a company's success in creating long-term economic value is not only determined by financial achievement alone, but also by its ability to manage environmental, social, and governance aspects in an integrated manner through a comprehensive sustainability strategy.

This research makes a theoretical contribution by strengthening *stakeholder theory*, *resource-based view*, and *legitimacy theory*, which explains that sustainable business practices can be a source of competitive advantage and a means to gain legitimacy from stakeholders. From a practical perspective, the results of this study provide implications for corporate management to make ESG and sustainability strategies an integral part of strategic planning to improve competitiveness and long-term financial performance.

However, this study has several limitations, including the limited use of data on companies that publish sustainability reports and financial performance measurement that focuses on profitability indicators. Therefore, further research is suggested to expand the scope of the sample, consider more diverse industry sectors, as well as add other variables, such as green innovation, risk governance, and corporate value. Future research could also use a longitudinal approach or develop mediation and moderation models to gain a more comprehensive understanding of the relationship between ESG, sustainability strategies, and corporate financial performance.

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