NATIONAL SUSTAINABLE DEVELOPMENT STUDIES
Volume 4, Issue 2, December 2025 | pp. 164-183
https://doi.org/10.63208/21012-220

The Sustainable Value Creation: Integrating ESG into Corporate Financial Strategies

Widad Nabila Azzahra[1*], Irene Rini Demi Pangestuti[1]

Universitas Diponegoro, Semarang, Indonesia[1]

ABSTRACT

Sustainability has emerged as a central focus in modern corporate financial strategies, reflecting the growing recognition that businesses must not only deliver long-term financial value but also contribute positively to society and the environment. As environmental, social, and governance (ESG) factors increasingly influence corporate decision-making, organizations are under pressure to adopt strategies that balance financial performance with sustainable practices. This paper seeks to explore how the integration of ESG principles into corporate strategies can foster sustainable value creation, covering key areas such as financial performance and market valuation. By employing a Systematic Literature Review methodology, this research examines existing studies on the implementation of ESG practices within business strategies, focusing on how companies manage, report, and disclose ESG. The findings are expected to offer valuable insights into how integrating ESG factors into corporate strategies can not only improve financial outcomes but also enhance social responsibility, providing a path for companies to achieve both financial and social sustainability in an increasingly complex and digitally-driven business environment.

Keywords: *Corporate Strategies, ESG, Financial Performance, Sustainability.*

CORRESPONDING AUTHOR:
Widad Nabila Azzahra
Universitas Diponegoro, Semarang, Indonesia
contact: *widadna18@gmail.com*

ARTICLE HISTORY
Received : May 28, 2025
Final Revised : September 16, 2025
Accepted : December 12, 2025
Published : December 30, 2025

1. | INTRODUCTION

ESG framework provides standards for assessing how a company manages its responsibilities toward stakeholders, its environmental impact, and the effectiveness of its corporate governance structures. At the same time, Corporate Social Responsibility reflects a strategic framework through which organizations uphold their social responsibilities to the public and relevant stakeholders. The growing global emphasis on environmental and economic sustainability has forced companies to face increasing pressure to disclose their ESG/CSR initiatives (Meles et al., 2023).

Stakeholders rely on ESG disclosures to evaluate a company's sustainability performance, its ability to withstand external disruptions, and its alignment with global social and environmental objectives such as the United Nations Sustainable Development Goals (SDGs) (Paridhi et al., 2024). The growing importance of ESG disclosure parallels the rapid expansion of sustainable investing, with ESG-related assets under management surpassing USD 3.9 trillion globally by 2021, as investors increasingly view sustainability as a driver of long-term value. This surge is also fueled by shareholder activism, where investors leverage proxy voting to demand greater transparency and accountability (Inderst, 2021). In 2020, 90% of S&P 500 firms published ESG reports; however, shareholder resolutions calling for deeper social and environmental disclosure continued to grow particularly those addressing climate change and racial equity (M. Li & Rasiah, 2024).

In this dynamic landscape, the rising prioritization on sustainability has elevated the value of embedding ESG principles within corporate strategies. By strategically adopting ESG principles, businesses can transform sustainability into a driver of competitive advantage, fostering greater business process efficiency and stronger shareholder confidence. Thus, companies with strong ESG performance tend to establish enduring stakeholder relationships that support long-term financial resilience (Nareswari et al., 2023). On the other hand, several scholars contend that investments linked to ESG may create extra monetary pressures, notably in sectors with high capital requirements, consequently diminishing short-term profit levels. In certain instances, firms that place excessive focus on ESG activities without aligning them strategically may encounter operational inefficiencies, resulting in lower financial performance. Moreover, according to Signalling Theory, firms with strong ESG ratings convey favourable messages to investors, shaping market perceptions and influencing stock prices. Nevertheless, the degree to which ESG efforts deliver measurable financial benefits largely depends on industry structure, regulatory context, and overall economic conditions (Meng-tao et al., 2023).

ESG has emerged in the form of primary measure of a firm's overall competitiveness, complementing its firm profitability. Businesses are increasingly shifting from profit-oriented strategies toward a holistic model of sustainable development that seeks to balance economic efficiency, social responsibility, and environmental stewardship. Accordingly, examining the relationship between corporate ESG performance and financial outcomes is essential to better understand non-financial disclosures, support strategic decision-making, and promote sustainable social progress (Shan et al., 2024). Deloitte (2011) notes that the connection between financial outcomes and ESG performance becomes clearer when ESG initiatives are directly aligned with a company's overall strategy and business model. Furthermore, shareholders and other stakeholders are increasingly interested in understanding which ESG issues companies consider "material" and how they manage them (Eccles et al., 2015). In recent years, ESG factors have also started to influence corporate investment decisions, executive compensation policies, and public relations strategies (Berg et al., 2021). Consequently, more firms have begun publishing ESG reports to meet these growing expectations.

Over recent years, attention toward ESG principle has grown significantly being a vital component of corporate financial strategies and market valuation. Empirical studies have shown that a firm ESG performance which encompasses environmental responsibility, social contribution, and governance quality can have a positive impact to firm value, determined by indicators such as Tobin's Q, market capitalization, and the market-to-book ratio. For instance, research on manufacturing firms in China found that strong ESG performance significantly enhances firm value (Wu et al., 2022). Furthermore, a hybrid literature review confirmed that the relationship between ESG and firm value has become an increasingly important research topic, particularly through mechanisms such as lowering the cost of capital and strengthening investor confidence (Postiglione et al., 2024).

Firms with higher Environmental, Social, and Governance (ESG) performance tend to experience lower stock price volatility, indicating that ESG serves as a market risk-mitigation mechanism (Askarany & Xin, 2024). Empirical evidence from European industry data shows that ESG factors significantly influence stock return volatility across sectors, suggesting that sustainability performance contributes to market stability (Sandu & Mihaela, 2024). Similarly, during the COVID-19 period, companies with strong ESG ratings exhibited reduced price fluctuations, reflecting investors' perception of ESG as a signal of sound risk management and long-term resilience (Askarany & Xin, 2024).

This study explores how integrates the ESG principles to corporate financial strategies including financial performance, firm value, and market risk. Using a Literature Review approach, it analyzes recent research to understand ESG's function in promoting higher firm value, profitability, and investor confidence. The article highlights that while ESG integration is increasingly viewed as essential for sustainable value creation, previous findings remain inconsistent across industries and markets. By addressing these discrepancies, the study aims to clarify how ESG-driven financial strategies can support long-term corporate sustainability and guide firms in aligning profitability with responsible business practices.

2. | LITERATURE REVIEW

Environmental, Social, and Governance (ESG)

ESG as a conceptual framework involve non-financial information that remains materially relevant in assessing a company's challenges and performance in these spheres. ESG data provides valuable complementary insights that enhance the quality of investment evaluations, enabling investors to make more informed judgments by gaining a clearer understanding of potential risks and opportunities (Bassen & Kovács, 2008). Although ESG disclosures often lack consistent standards across industries, researchers emphasize their strategic importance in helping firms adapt to evolving environmental and social conditions. Furthermore, integrating ESG principles into corporate strategy can enhance a company's competitive advantage, resilience, and long-term value creation (Galbreath, 2013). The ESG score is typically categorized into three dimensions are environmental, social, and governance each reflecting a firm performance in these specific areas. The environmental dimension assesses factors including CO_2 emissions and overall waste output generated by the firm. The social score evaluates issues regarding to equality, human rights, and labor conditions, whereas the governance score focuses on elements such as shareholder rights and corruption control. Together, these dimensions form the overall ESG disclosure score, which is compiled and published by several major data providers, including ASSET4, SAM, Bloomberg, and Thomson Reuters Eikon™ (Galbreath, 2013).

Corporate Financial Strategies

Corporate financial strategy is an integral part of business strategy that focuses on how a company optimally manages its financial resources to enhance both firm value and financial performance. According to (Randøy et al., 2001), a company's financial strategy encompasses strategic decisions related to capital structure, dividend policy, liquidity management, and investment policy, all of which must align with the corporate objective of maximizing market value and minimizing the cost of capital. They emphasize that a corporate financial strategy is not merely tactical but serves as a long-term instrument for achieving competitive advantage through effective management of global capital costs and the enhancement of market valuation.

In line with this view, (Ahmed et al., 2024) state that a corporate financial strategy serves as a decision-making framework that determines how capital is obtained and allocated to support innovation and operational efficiency, which ultimately affects financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). In this context, an effective financial strategy can create synergy among financing, investment, and dividend policy decisions, ultimately improving the firm's competitiveness within capital market. Both perspectives demonstrate that a corporate financial strategy is not merely focused on managing internal funds, but also serves as a strategic instrument in shaping a company's value in the eyes of investors. In the context of emerging markets, (Alghifari et al., 2022) emphasize that corporate financial strategy encompasses a company's efforts to determine an optimal capital structure that balances risk and return, thereby maximizing firm value. Their study indicates that financial decisions such as the proportion of debt to equity have a direct impact on firm performance and market valuation, particularly under volatile market conditions. (Bui et al., 2023) explain that a corporate financial strategy not only serves to enhance internal performance but also acts as a mechanism to control market risk through leverage management and capital cost efficiency. They emphasize that companies implementing a financial strategy that balances profitability and risk have a greater potential to create long-term market value.

From these various perspectives, it can be concluded that a corporate financial strategy is an integrated set of financial policies designed to optimize the relationship between firm performance, market valuation, and market risk. This strategy serves as a fundamental framework for corporate decision-making aimed at achieving sustainable growth, high market value, and financial stability amid a competitive and risk-prone market environment.

3. | RESEARCH METHOD

This paper applies a Systematic Literature Review (SLR) method to systematically examine and summarize the findings of previous studies on the integration of Environmental, Social, and Governance (ESG) principles into corporate financial strategies as a means of achieving sustainability value creation. The SLR method was applied since it enables a comprehensive insight into research trends, theoretical gaps, and future directions in the field of sustainable financial management (Snyder, 2019). The data collection process was conducted through the Watase Uake Tools platform following the PRISMA 2020 Reporting Framework (Page et al., 2021). Data were obtained from the Scopus database using the keywords "ESG to firm performance," "ESG to firm value," "ESG to market risk," and "ESG to corporate financial strategy", covering publications from 2020 to 2025.

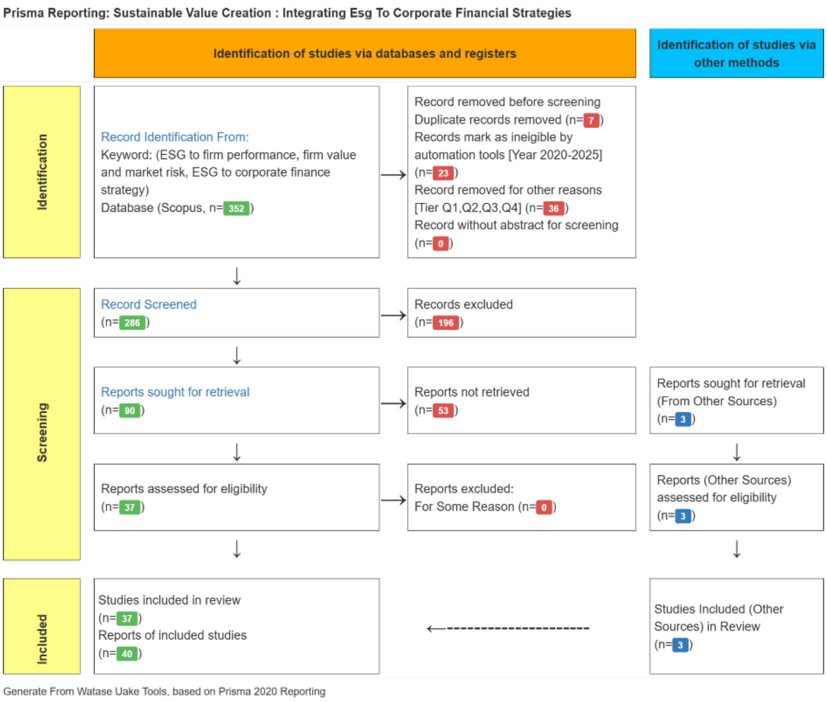

Figure 1. PRISMA Analysis Report

Based on the literature search conducted using the predetermined keywords, a sum of 352 articles were originally found through the Scopus database. After the screening process, 40 articles were deemed relevant and met the inclusion criteria. Among these, 37 studies were obtained directly through the Watase Uake Tools, while three additional articles were sourced from other reputable databases. During the review process, several articles were ommited due to duplication, lack of accessibility, or not aligning with the research topic. The selected articles were then analyzed descriptively to determine emerging themes, research patterns, and conceptual relationships related to the integration of ESG into corporate financial strategies.

4. | RESULTS AND DISCUSSION

Based on the PRISMA screening process, a total of 90 reports were initially identified, of which 53 could not be retrieved, leaving 37 reports for eligibility assessment. All 37 met the criteria and were included in the review. An additional 3 reports were obtained from other sources and also met the eligibility requirements. In total, 40 articles were selected in this systematic review, providing comprehensive evidence on the integration of ESG into corporate financial strategies and its implications for financial performance, firm value, and market risk. Table 1 presents a comprehensive summary from selected articles reviewed in this paper.

Table 1. Article Review

No	Reference	Finding
1.	"Does Environmental Disclosure and Corporate Governance Ensure the Financial Sustainability of Islamic Banks?" (Muneer et al., 2025)	The study finds that strong corporate governance and environmental disclosure significantly enhance the financial performance of Islamic banks in Saudi Arabia, with mechanisms such as Shariah Supervisory Boards, sustainability committees, and board diversity improving transparency and supporting sustainable value creation.
2.	"Environmental, social and governance performance: influence on market value in the COVID-19 crisis" (Bodhanwala & Bodhanwala, 2023)	The study concludes that ESG performance did not significantly affect stock market performance of Indian firms during COVID-19, showing no difference between firms with strong versus weak ESG performance, thus supporting the idea of "ESG irrelevance" in crisis conditions.
3.	"Environmental, social and governance performance and firm value: does ownership concentration matter?" (Truong, 2025)	This study shows that ESG outcomes reduces corporate valuation and concentrated ownership weakens this relationship, especially during COVID-19. It highlights the influence of major shareholders in ESG implementation and the importance of stronger governance and minority shareholder protection.
4.	"Does ESG performance affect the systemic risk sensitivity? Empirical evidence from Chinese listed companies" (Saci et al., 2024)	The study reveals that firms with strong ESG ratings benefit from higher consumer loyalty, more stable institutional investor trading behavior, and reduced exposure to systemic risk compared to firms with weaker ESG scores. It also shows that the risk-reducing impact of ESG is less pronounced for large-cap firms than for small-cap firms.
5.	"The combined impact of ESG and Sharia compliance in mitigating stock price crash risk" (Hamsyi et al., 2025)	The study finds that ESG performance by itself does not meaningfully lower the risk of stock price crashes, but when combined with Sharia compliance, it effectively helps mitigate crash risk by strengthening the relationship between ESG and firm stability.
6.	"ESG and the performance of energy and utility portfolios: evidence from Australia" (Niblock, 2024)	The study shows that ESG performance was not significantly associated with the investment performance of Australian energy and utility firms during COVID-19. High ESG scores did not lower risk or improve returns, indicating that ESG commitment did not enhance investment outcomes during the crisis.

No	Reference	Finding
7.	"Unveiling climate risk's role in ESG and firm value dynamics: an emerging market perspective" (Singh & Kumar, 2025)	The study shows that environmental and governance performance lower firm value, particularly in high-polluting industries, and that climate risk worsens this negative effect. In low-polluting sectors, stronger ESG practices also reduce firm value, indicating that climate vulnerability amplifies ESG's adverse impact across industries.
8.	"Does corporate sustainability mitigate firm risk? An empirical analysis on S&P 500 controversial companies" (Sciarelli et al., 2024)	Findings indicate that stronger overall ESG score, reinforced by strong environmental and social performance, are associated with lower idiosyncratic risk. The results imply BETA is primarily influenced by industry-level factors rather than firm-specific characteristics, making it less sensitive to individual ESG dimensions.
9.	"Navigating Economic Policy Uncertainty: The Role of ESG Performance in Mitigating the Risk of Nonfinancial Firms in China" (Fan et al., 2025)	The study finds that companies with superior ESG performance show stronger resilience and lower financial risk under economic policy uncertainty, demonstrating ESG's role as a mitigating factor against adverse risk exposure in China.
10.	"ESG ratings and corporate success: analyzing the environmental governance impact on Chinese companies' performance" (Chen & Fan, 2024)	The research finds that ESG performance have positive impact on corporate performance by reducing financing costs and risks, enhancing reputation, and improving investment returns, with stronger effects within companies that maintain strong internal controls and are privately owned.
11.	"Financial distress, ESG practices and firm valuation: comparing pre- and post-Paris Agreement periods" (Yadav, 2025)	The study shows that strong ESG practices enhance firm value, particularly in times of financial distress, by increasing investor confidence. ESG's positive impact is strengthened by regulatory support and varies by firm size, with large firms implementing broad strategies and smaller firms excelling through innovation.
12.	"Influence of ESGC indicators on financial performance of listed pharmaceutical	The study finds a positive relationship between ESG performance and financial performance measured by ROA, ROE, and Tobin's Q among multinational pharmaceutical companies. It also shows that addressing ESG issues and managing controversies enhances

No	Reference	Finding
	companies alberto" (López-Toro et al., 2021)	company visibility, profitability, and market value, confirming that ESG investment represents a financially beneficial strategy.
13.	"ESG Risks and Market Valuations: Evidence from the Energy Sector" (Verma & Shroff, 2025)	The study shows that in the energy sector, environmental performance drives firm value more than governance, with efficiency and innovation improving valuations, while poor emissions management lowers them. It highlights the need to align governance with environmental goals to strengthen ESG effectiveness and market performance.
14.	"Understanding the impact of esg practices in corporate finance" (Kim & Li, 2021)	The finding shows that ESG factors enhance profitability and credit ratings, with governance having the strongest impact and the social factor most improving credit ratings, while the environmental factor slightly lowers them. Overall, ESG integration helps increase value and reduce financial risk.
15.	"Corporations ESG for Sustainable Investment in China: The Moderating Role of Regional Marketization" (Kong et al., 2023)	The study finds that ESG score strengthen corporate investment by reducing financing constraints and agency costs, consequently increasing the efficiency of investment decisions. The positive impact of ESG on investment is stronger for smaller, non-state-owned firms with weaker internal controls or audited by non-Big4 firms, especially in regions with higher marketization.
16.	"ESG Controversies and Firm Value: Evidence from A-Share Companies in China" (Ma & Ma, 2025)	ESG controversies reduce firm value by weakening green innovation, productivity, and financing capacity. However, strong environmental and social performance can mitigate these negative effects. The adverse impact is strongest for non-state-owned, high-pollution, and low-reputation firms, as well as those with high institutional ownership.
17.	"Can ESG Performance Sustainably Reduce Corporate Financing Constraints Based on Sustainability Value Proposition?" (Liao et al., 2025)	The study shows that strong ESG performance eases financing constraints by lowering risk, enhancing transparency, and expanding access to subsidies, with green innovation amplifying this impact, particularly for financially constrained and highly regulated firms.

No	Reference	Finding
18.	"Integrating Environmental, Social, and Governance (ESG) Factors into the Investment Returns of American Companies" (Lunawat et al., 2025)	The analysis finds that ESG performance has a modest a positive impact on ROA, yet an even stronger positive impact with Tobin's Q, indicating that although ESG adoption may not lead to a notable improvement in short-term profitability, it enhances long-term market value by improving investor confidence and signaling effective management and lower risk.
19.	"When ESG Meets Uncertainty: Financing Cost Effects Under Regulatory Fragmentation and Rating Divergence" (Zhao et al., 2025)	The study shows that better ESG performance lowers financing costs, especially in highly regulated industries, while inconsistent ESG ratings reduce these benefits. Strong ESG practices help firms cut capital costs and improve financial access, particularly in capital-intensive sectors.
20.	"Shrinking the capital costs and beta risk impediments through ESG: study of an emerging market" (Gupta & Aggarwal, 2024)	The study shows that better ESG performance lowers cost of capital and systematic risk, with the governance pillar having the strongest impact, while environmental and social factors show weaker effects.
21.	"From ethics to efficiency: Understanding the interconnected dynamics of ESG performance, financial efficiency, and cash holdings in China" (Wang et al., 2024)	The study finds that higher ESG scores increase firm efficiency, which in turn leads to a reduction in cash holdings. This suggests that strong ESG performance enhances operational efficiency and influences financial strategies, highlighting the strategic role of sustainable practices in improving financial management.
22.	"Valuing ESG: How financial markets respond to corporate sustainability" (Chau et al., 2025)	The study shows a nonlinear S-shaped relationship between ESG ratings and firm value, where firm value first increases, then decreases, and rises again as ESG scores grow, influenced by governance quality, sustainability efforts, and regulatory strength.
23.	"The impact of ESG profile on Firm's valuation in emerging	The study shows a positive relationship between ESG performance and firm value in emerging markets, with higher ESG scores enhancing Tobin's Q and EV/S. However, ESG controversies negatively affect firm

No	Reference	Finding
	markets" (Rahat & Nguyen, 2024)	value, showing that while good ESG practices boost valuation, controversies can offset these benefits.
24.	"ESG reputational risk and market valuation: Evidence from the European banking industry" (Mandas et al., 2024)	The study shows that higher ESG reputational risk lowers banks' market value, while strong ESG investment enhances brand strength and valuation. After an ESG shock, market trust declines quickly but recovers slowly, with banks facing higher ESG risks experiencing deeper and longer drops in value.
25.	"Can ESG advantages mitigate corporate financial risk? New empirical evidence from Chinese listed companies" (K. Li et al., 2025)	The finding is that strong ESG performance significantly reduces corporate financial risk (CFR), especially under high economic uncertainty and weak institutional environments. This effect occurs mainly through lower financial constraints and reduced agency costs, highlighting ESG as a key factor in enhancing financial stability and sustainable business development.
26.	"Impact of environmental, social and governance practices on financial performance: evidence from listed companies in Southeast Asia" (Le, 2024)	The study shows that strong ESG performance lowers corporate financial risk by reducing financing constraints and agency costs, with stronger effects under economic uncertainty and weak institutions.
27.	"Do ESG scores matter? An empirical analysis of corporate financial performance in BRICS economies" (Bilivogui & Iqbal, 2025)	The study shows that ESG factors influence financial performance differently across BRICS countries, environmental and social effects vary by nation, while governance consistently improves profitability and firm value. Larger firms perform better, but high leverage reduces profitability, particularly in Russia.
28.	"ESG disclosure and firm sustainable growth nexus in Indonesia's emerging markets: does working capital management matter?" (Kunaifi et al., 2025)	The study finds a negative relationship between ESG disclosure and sales growth (SGR), indicating that implementation costs and information risks can outweigh short-term gains. However, working capital management (WCM) mitigates these negative effects, helping firms optimize ESG initiatives for better financial performance.

No	Reference	Finding
29.	"Alternative finance in bank-firm relationship: how does board structure affect the cost of debt?" (Palmieri et al., 2025)	The study reveals that increased access to alternative financing leads to higher debt costs for firms, especially those with weaker ESG performance. It also shows that companies with younger boards, boards dominated by economic specialists, or high board turnover experience greater borrowing costs as alternative finance grows, highlighting the importance of strong governance in reducing these risks.
30.	"ESG disclosure and financial performance in debt market: evidence from the oil and gas industry" (Alvarez-Perez & Fuentes, 2024)	The study shows that higher ESG disclosure is associated with lower corporate bond spreads, indicating reduced borrowing costs for firms with stronger ESG performance. It also finds that ESG practices enhance financial performance more effectively in non-state-owned firms than in state-owned enterprises.
31.	"Does environmental, social, and governance performance affect financial risk disclosure? Evidence from European ESG companies" (Chouaibi et al., 2024)	The study finds that environmental and governance performance increase financial risk disclosure among European firms, whereas social performance shows no effect. It also shows that larger and more profitable firms disclose more financial risk information, while leverage has no significant influence.
32.	"ESG trade-off with risk and return in Chinese energy companies" (Naseer et al., 2024)	The study finds that greater ESG disclosure reduces firm risk and is having a positive effect on stock market returns, meaning that firms with more transparent ESG practices face lower risk exposure and perform better in the market.
33.	"ESG strategies and corporate financial performance: a comparison of the US energy and renewable energy industries" (Hyusein & Cek, 2025)	The study finds that ESG strategies improve accounting performance but reduce market performance in energy firms. The social pillar positively affects accounting results, while the environmental pillar negatively impacts market performance, and governance shows no significant effect.
34.	"The impact of environmental, social and governance (ESG) disclosures on corporate financial performance in the energy sector" (Ozata	The study finds no significant overall relationship among ESG disclosures and financial outcomes of companies within the energy industry. Individually, environmental disclosure negatively affects performance, social disclosure positively affects ROA, and governance disclosure shows no significant impact.

No	Reference	Finding
	Canli & Sercemeli, 2025)	
35.	“Taking ESG strategies for achieving profits: a dynamic panel data analysis” (Useche et al., 2025)	The study finds a positive linkage between ESG strategies and financial performance, indicating that strong ESG practices reduce bankruptcy risk, enhance financial strength, and improve value creation and risk-adjusted returns.
36.	“Firm value and risk: how relevant are ESG factors and ESG controversies?” (Brighi et al., 2025)	The study finds that ESG controversies lower firm value and raise risk levels, but firms with higher ESG scores experience weaker negative effects, especially in terms of risk exposure.
37.	“Do the ESG factors truly enhance real estate companies' valuation and performance in uncertain times” (Nguyen & Nguyen, 2025)	The study finds that ESG may not always enhance firm success in stable periods but becomes highly beneficial during crises like COVID-19, when firms with strong ESG ratings show better market performance and recovery. Investors view ESG as a mechanism for mitigating risk primarily during periods of significant uncertainty.
38.	“Environmental, social, and governance (ESG) impact on corporate financial strategy of energy and utilities companies worldwide” (Christine et al., 2025)	The study finds that the environmental component has the strongest effect on corporate financial strategy, while market value is the most impacted outcome of ESG implementation, emphasizing its key role in shaping sustainable financial decisions
39.	“Impact of ESG performance on firm value and profitability” (Aydoğmuş et al., 2022)	The study finds that overall ESG performance significantly positive impacts both firm value and profitability. Specifically, governance and social factors enhance firm value, while all ESG dimensions environmental, social, and governance improve profitability, confirming that strong ESG investment boosts financial returns.
40.	“Impact of ESG disclosure on firm performance and cost of debt: Empirical evidence	Indian firms with higher ESG disclosure perform better financially, receive higher market valuations, and are viewed more favorably in credit assessments, although the strength of these effects varies across industries and during the COVID-19 period.

No	Reference	Finding
	from India" (Malik & Kashiramka, 2024)	

This study demonstrates that integrating Environmental, Social, and Governance (ESG) practices into corporate financial strategies plays a pivotal role in achieving sustainable value creation by strengthening financial performance, increasing firm value and reducing market risk. Consistent with prior research (Muneer et al., 2025; Chen & Fan, 2024; Liao et al., 2025), the empirical evidence suggests that enterprises displaying stronger ESG engagement often achieve higher profitability, lower financing costs, and better operational efficiency. This indicates that embedding ESG into financial strategies not only supports responsible business conduct but also serves as a catalyst for financial resilience. Through mechanisms such as enhanced transparency, reduced asymmetry of information and improved stakeholder trust, ESG adoption contributes to a company's ability to sustain long-term growth and financial stability.

In terms of financial performance, ESG implementation has been widely associated with improved profitability and efficiency. Prior studies reveal that ESG-oriented firms can reduce financial constraints and agency costs while achieving superior return on assets and equity (Aydoğmuş et al., 2023; Gupta & Aggarwal, 2024). Governance quality, in particular, strengthens managerial oversight and ensures the effective allocation of financial resources, leading to sustainable operational gains. Moreover, the integration of environmental initiatives, specifically long run, even though short-term profitability may initially decline due to implementation costs. Thus, ESG-driven financial strategies can be interpreted as strategic investments that yield cumulative benefits over time.

Regarding firm value, ESG activities are found to positively influence corporate valuation through enhanced investor confidence, improved market reputation, and reduced perceived risk (Rahat & Nguyen, 2024; Hamsyi et al., 2025). The governance dimension often serves as the most influential pillar in boosting valuation outcomes, while environmental and social dimensions strengthen corporate credibility and stakeholder loyalty. However, these effects vary across industries and institutional contexts. For example, companies operating in highly regulated sectors or with strong external monitoring tend to experience more substantial gains from ESG integration (Saei et al., 2024). This highlights the essential role of aligning sustainability principles with managerial decision-making and industry-specific governance frameworks to maximize the valuation impact of ESG initiatives.

With respect to market risk, ESG engagement has been shown to act as a powerful risk mitigation mechanism. Firms with enhanced ESG ratings are associated with lower levels of credit and market volatility, faster recovery after financial shocks, and better resilience during crises such as COVID-19 pandemic (Mandas et al., 2024; Zhao et al., 2025; Truong, 2023). This stabilizing effect stems from enhanced investor trust, consistent disclosure practices, and stronger stakeholder relationships, which collectively buffer firms against adverse market movements. Furthermore, ESG-driven governance frameworks provide an early warning system by integrating environmental and social risks into corporate risk management structures, ensuring proactive responses to market disruptions.

Overall, these findings reaffirm that ESG is not limited to a compliance-focused framework but a strategic financial instrument that enhances profitability, increases firm valuation, and reduces exposure to financial and market risks. By embedding ESG across financial planning processes, investment policy frameworks, and risk management system. companies can achieve sustainable value creation that harmonizes economic performance with social responsibility and environmental stewardship. Future research could further explore sectoral heterogeneity and cross-country differences to refine the understanding of the integration of ESG as a catalyst for sustainable corporate finance.

5. | CONCLUSION

This paper highlights that the integration of Environmental, Social, and Governance (ESG) factors into corporate financial strategies plays an essential part in attaining sustainable value creation. The result reveal that strong ESG performance enhances financial performance through the optimization of operational processes, reducing financing costs, and encouraging long-term profitability. Furthermore, ESG integration contributes to higher firm value through increased investor confidence, improved reputation, and greater strength and stability during volatile market conditions

In addition, ESG implementation effectively mitigates market risk, as firms with higher ESG scores tend to experience lower financial volatility and are better equipped to navigate economic uncertainties. These benefits demonstrate that ESG practices not only serve as a moral or regulatory obligation but also as a strategic financial tool that supports sustainable business growth and competitiveness.

Overall, this study underscores that embedding ESG into corporate financial strategies provides a balanced approach to financial success and social responsibility. Through the strategic alignment of sustainability goals with financial objectives, companies can strengthen stakeholder trust, achieve long-term resilience, and promote financial and social sustainability within a global business landscape that is becoming increasingly complex and dynamic.

Acknowledgment

We gratefully acknowledge the contributions of individuals who supported the completion of this article.

Funding Information

This research did not receive any funding.

Conflict of Interest Statement

The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

REFERENCES

Ahmed, F., Rahman, M. U., Rehman, H. M., Imran, M., Dunay, A., & Hossain, M. B. (2024). Corporate capital structure effects on corporate performance pursuing a strategy of innovation in manufacturing companies. *Heliyon*, *10*(3). https://doi.org/10.1016/j.heliyon.2024.e24677.

Alghifari, E. S., Hermawan, A., Gunardi, A., Rahayu, A., & Wibowo, L. A. (2022). Corporate Financial Strategy in an Emerging Market: Evidence from Indonesia. *Journal of Risk and Financial Management*, *15*(8). https://doi.org/10.3390/jrfm15080362.

Alvarez-Perez, H., & Fuentes, R. (2024). ESG disclosure and financial performance in debt market: evidence from the oil and gas industry. *Academia Revista Latinoamericana de Administracion*, *37*(4), 634–653. https://doi.org/10.1108/ARLA-07-2024-0135.

Askarany, D., & Xin, Y. (2024). ESG ratings and stock price volatility: An empirical analysis amidst the COVID-19 pandemic. *Corporate Ownership and Control*, *21*(2), 132–150. https://doi.org/10.22495/cocv21i2art11.

Aydoğmuş, M., Gülay, G., & Ergun, K. (2022). Impact of ESG performance on firm value and profitability. In *Borsa Istanbul Review* (Vol. 22, pp. S119–S127). Borsa Istanbul Anonim Sirketi. https://doi.org/10.1016/j.bir.2022.11.006.

Bassen, A., & Kovács, A. M. (2008). Environmental, Social and Governance Key Performance Indicators from a Capital Market Perspective. *Zeitschrift Für Wirtschafts- Und Unternehmensethik*, *9*(2), 182–192. https://doi.org/10.5771/1439-880x-2008-2-182.

Bilivogui, P., & Iqbal, M. A. (2025). Do ESG scores matter? An empirical analysis of corporate financial performance in BRICS economies. *Environmental Research Communications*, *7*(6). https://doi.org/10.1088/2515-7620/ade36e.

Bodhanwala, S., & Bodhanwala, R. (2023). Environmental, social and governance performance: influence on market value in the COVID-19 crisis. *Management Decision*, *61*(8), 2442–2466. https://doi.org/10.1108/MD-08-2022-1084.

Brighi, P., Della Bina, A. C. F., & Venturelli, V. (2025). Firm value and risk: how relevant are ESG factors and ESG controversies? *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-12-2024-0953

Bui, T. N., Nguyen, X. H., & Pham, K. T. (2023). The Effect of Capital Structure on Firm Value: A Study of Companies Listed on the Vietnamese Stock Market. *International Journal of Financial Studies*, *11*(3). https://doi.org/10.3390/ijfs11030100.

Chau, L., Anh, L., & Duc, V. (2025). Valuing ESG: How financial markets respond to corporate sustainability. *International Business Review*, *34*(3). https://doi.org/10.1016/j.ibusrev.2025.102418.

Chen, S., & Fan, M. (2024). ESG ratings and corporate success: analyzing the environmental governance impact on Chinese companies' performance. *Frontiers in Energy Research*, *12*. https://doi.org/10.3389/fenrg.2024.1371616.

Chouaibi, J., Benmansour, H., Ben Fatma, H., & Zouari-Hadiji, R. (2024). Does environmental, social, and governance performance affect financial risk disclosure? Evidence from European ESG companies. *Competitiveness Review*, *34*(6), 1057–1076. https://doi.org/10.1108/CR-07-2023-0181.

Christine, A. F., Hakam, D. F., Nainggolan, Y. A., Wiryono, S. K., & Hakam, L. I. (2025). Environmental, social, and governance (ESG) impact on corporate financial strategy of energy and utilities companies worldwide. *Energy Strategy Reviews*, *62*, 101916. https://doi.org/10.1016/j.esr.2025.101916.

Fan, Y., Anwar, S., & Long, R. (2025). Navigating Economic Policy Uncertainty: The Role of ESG Performance in Mitigating the Risk of Nonfinancial Firms in China. *Economics and Politics*, *37*(3), 958–977. https://doi.org/10.1111/ecpo.12352.

Galbreath, J. (2013). ESG in Focus: The Australian Evidence. *Journal of Business Ethics*, *118*(3), 529–541. https://doi.org/10.1007/s10551-012-1607-9.

Gupta, S., & Aggarwal, D. (2024). Shrinking the capital costs and beta risk impediments through ESG: study of an emerging market. *Asian Review of Accounting*, *32*(2), 249–277. https://doi.org/10.1108/ARA-05-2023-0130.

Hamsyi, N. F., Rakhman, F., & Wijayana, S. (2025). The combined impact of ESG and Sharia compliance in mitigating stock price crash risk. *Pacific Accounting Review*. https://doi.org/10.1108/PAR-10-2024-0266.

Hyusein, A., & Cek, K. (2025). ESG strategies and corporate financial performance: a comparison of the US energy and renewable energy industries. *International Journal of Energy Sector Management*, *19*(4), 977–999. https://doi.org/10.1108/IJESM-07-2024-0023.

Inderst, G. (2021). *Financing Development: Private Capital Mobilization and Institutional Investors*. https://ssrn.com/abstract=3806742.

Kim, S., & Li, Z. (2021). Understanding the impact of esg practices in corporate finance. *Sustainability (Switzerland)*, *13*(7). https://doi.org/10.3390/su13073746.

Kong, N., Bao, Y., Sun, Y., & Wang, Y. (2023). Corporations' ESG for Sustainable Investment in China: The Moderating Role of Regional Marketization. *Sustainability (Switzerland)*, *15*(4). https://doi.org/10.3390/su15042905.

Kunaifi, A., Oktari, V., & Soewarno, N. (2025). ESG disclosure and firm sustainable growth nexus in Indonesia's emerging markets: does working capital management matter? *Asian Review of Accounting*. https://doi.org/10.1108/ARA-03-2025-0068.

Le, L. T. (2024). Impact of environmental, social and governance practices on financial performance: evidence from listed companies in Southeast Asia. *Cogent Business and Management*, *11*(1). https://doi.org/10.1080/23311975.2024.2379568.

Li, K., Wen, J., Zhou, Z., Xiao, Z., Shi, W., & Huang, Z. (2025). Can ESG advantages mitigate corporate financial risk? New empirical evidence from Chinese listed companies. *Energy Sources, Part B: Economics, Planning and Policy*, *20*(1). https://doi.org/10.1080/15567249.2025.2531207.

Li, M., & Rasiah, R. (2024). Can ESG Disclosure Stimulate Corporations' Sustainable Green Innovation Efforts? Evidence from China. *Sustainability (Switzerland)*, *16*(21). https://doi.org/10.3390/su16219390.

Liao, Y., Marquez, R., Cheng, Z., & Li, Y. (2025). Can ESG Performance Sustainably Reduce Corporate Financing Constraints Based on Sustainability Value Proposition? *Sustainability (Switzerland)*, *17*(17). https://doi.org/10.3390/su17177758.

López-Toro, A., Sánchez-Teba, E. M., Benítez-Márquez, M. D., & Rodríguez-Fernández, M. (2021). Influence of ESGC indicators on financial performance of listed pharmaceutical companies alberto. *International Journal of Environmental Research and Public Health*, *18*(9). https://doi.org/10.3390/ijerph18094556.

Lunawat, R. M., Elmarzouky, M., & Shohaieb, D. (2025). Integrating Environmental, Social, and Governance (ESG) Factors into the Investment Returns of American Companies. *Sustainability*, *17*(19), 8522. https://doi.org/10.3390/su17198522.

Ma, S., & Ma, T. (2025). ESG Controversies and Firm Value: Evidence from A-Share Companies in China. *Sustainability (Switzerland)*, *17*(6). https://doi.org/10.3390/su17062750.

Malik, N., & Kashiramka, S. (2024). Impact of ESG disclosure on firm performance and cost of debt: Empirical evidence from India. *Journal of Cleaner Production*, *448*. https://doi.org/10.1016/j.jclepro.2024.141582.

Mandas, M., Lahmar, O., Piras, L., & De Lisa, R. (2024). ESG reputational risk and market valuation: Evidence from the European banking industry. *Research in International Business and Finance*, *69*. https://doi.org/10.1016/j.ribaf.2024.102286.

Meles, A., Salerno, D., Sampagnaro, G., Verdoliva, V., & Zhang, J. (2023). The influence of green innovation on default risk: Evidence from Europe. *International Review of Economics & Finance*, *84*, 692–710. https://doi.org/https://doi.org/10.1016/j.iref.2022.11.036.

Meng-tao, C., Da-peng, Y., Wei-qi, Z., & Qi-jun, W. (2023). How does ESG disclosure improve stock liquidity for enterprises — Empirical evidence from China. *Environmental Impact Assessment Review*, *98*, 106926. https://doi.org/https://doi.org/10.1016/j.eiar.2022.106926.

Muneer, S., Singh, A., Choudhary, M. H., Alshammari, A. S., & Butt, N. A. (2025). Does Environmental Disclosure and Corporate Governance Ensure the Financial Sustainability of Islamic Banks? *Administrative Sciences*, *15*(2). https://doi.org/10.3390/admsci15020054.

Nareswari, N., Tarczyńska-Łuniewska, M., & Hashfi, R. U. Al. (2023). Analysis of Environmental, Social, and Governance Performance in Indonesia: Role of ESG on Corporate Performance. *Procedia Computer Science*, *225*, 1748–1756. https://doi.org/https://doi.org/10.1016/j.procs.2023.10.164.

Naseer, M. M., Guo, Y., & Zhu, X. (2024). ESG trade-off with risk and return in Chinese energy companies. *International Journal of Energy Sector Management*, *18*(5), 1109–1126. https://doi.org/10.1108/IJESM-07-2023-0027.

Nguyen, H. H., & Nguyen, H. T. (2025). Do the ESG factors truly enhance real estate companies' valuation and performance in uncertain times. *Journal of Property Investment and Finance*, *43*(2), 190–221. https://doi.org/10.1108/JPIF-03-2024-0036.

Niblock, S. J. (2024). ESG and the performance of energy and utility portfolios: evidence from Australia. *Studies in Economics and Finance*, *41*(3), 502–521. https://doi.org/10.1108/SEF-06-2023-0366.

Ozata Canli, S. N., & Sercemeli, M. (2025). The impact of environmental, social and governance (ESG) disclosures on corporate financial performance in the energy sector. *International Journal of Energy Sector Management*. https://doi.org/10.1108/IJESM-09-2024-0039.

Page, M. J., McKenzie, J. E., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., Shamseer, L., Tetzlaff, J. M., Akl, E. A., Brennan, S. E., Chou, R., Glanville, J., Grimshaw, J. M., Hróbjartsson, A., Lalu, M. M., Li, T., Loder, E. W., Mayo-Wilson, E., McDonald, S., … Moher, D. (2021). The PRISMA 2020 statement: An updated guideline for reporting systematic reviews. In *BMJ* (Vol. 372). BMJ Publishing Group. https://doi.org/10.1136/bmj.n71.

Palmieri, E., Geretto, E. F., Polato, M., & Miani, S. (2025). Alternative finance in bank-firm relationship: how does board structure affect the cost of debt? *Journal of Management and Governance*, *29*(1), 111–143. https://doi.org/10.1007/s10997-024-09700-4.

Paridhi, Ritika, Arora, H., Arora, P., & Saini, N. (2024). Unlocking the Path to Sustainability: A Hierarchical Model for Understanding Corporate Barriers to ESG Reporting Adoption. *Journal of Risk and Financial Management*, *17*(12). https://doi.org/10.3390/jrfm17120527.

Postiglione, M., Carini, C., & Falini, A. (2024). ESG and firm value: A hybrid literature review on cost of capital implications from Scopus database. In *Corporate Social Responsibility and Environmental Management* (Vol. 31, Issue 6, pp. 6457–6480). John Wiley and Sons Ltd. https://doi.org/10.1002/csr.2940.

Rahat, B., & Nguyen, P. (2024). The impact of ESG profile on Firm's valuation in emerging markets. *International Review of Financial Analysis*, *95*. https://doi.org/10.1016/j.irfa.2024.103361.

Randøy, T., Oxelheim, L., & Stonehill, A. (2001). Corporate Financial Strategies for Global Competitiveness. *European Management Journal*, *19*(6), 659–669. https://doi.org/https://doi.org/10.1016/S0263-2373(01)00091-3.

Saci, F., Jasimuddin, S. M., & Zhang, J. Z. (2024). Does ESG performance affect the systemic risk sensitivity? Empirical evidence from Chinese listed companies. *Management of Environmental Quality*, *35*(6), 1274–1294. https://doi.org/10.1108/MEQ-02-2023-0060.

Sandu, & Mihaela, D. (2024). ESG and Stock Return Volatility: Evidence from Industry Analysis in Europe. *The Review of Finance and Banking*, *16*, 121–136. https://doi.org/10.24818/rfb.24.16.01.09.

Sciarelli, M., Landi, G., Turriziani, L., & Prisco, A. (2024). Does corporate sustainability mitigate firm risk? An empirical analysis on S&P 500 controversial companies. *Social Responsibility Journal*, *20*(1), 38–58. https://doi.org/10.1108/SRJ-09-2021-0388.

Shan, X., Song, Y., & Song, P. (2024). How ESG performance impacts corporate financial performance: a DuPont analysis approach. *International Journal of Climate Change Strategies and Management*. https://doi.org/10.1108/IJCCSM-07-2024-0125.

Singh, M., & Kumar, G. (2025). Unveiling climate risk's role in ESG and firm value dynamics: an emerging market perspective. *Studies in Economics and Finance*. https://doi.org/10.1108/SEF-12-2024-0883.

Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research*, *104*, 333–339. https://doi.org/10.1016/j.jbusres.2019.07.039.

Truong, T. H. D. (2025). Environmental, social and governance performance and firm value: does ownership concentration matter? *Management Decision*, *63*(2), 488–511. https://doi.org/10.1108/MD-10-2023-1993.

Useche, A. J., Mart Inez-Ferrero, J., & Reyes, G. E. (2025). Taking ESG strategies for achieving profits: a dynamic panel data analysis. *Finance and Administrative Science*, *30*(59), 2077–1886. https://doi.org/10.13039/501100011033/and.

Verma, R., & Shroff, A. A. (2025). ESG Risks and Market Valuations: Evidence from the Energy Sector. *International Journal of Financial Studies*, *13*(2). https://doi.org/10.3390/ijfs13020113.

Wang, Z., Zhang, C., Wu, R., & Sha, L. (2024). From ethics to efficiency: Understanding the interconnected dynamics of ESG performance, financial efficiency, and cash holdings in China. *Finance Research Letters*, *64*. https://doi.org/10.1016/j.frl.2024.105419.

Wu, S., Li, X., Du, X., & Li, Z. (2022). The Impact of ESG Performance on Firm Value: The Moderating Role of Ownership Structure. *Sustainability (Switzerland)*, *14*(21). https://doi.org/10.3390/su142114507.

Yadav, A. (2025). Financial distress, ESG practices and firm valuation: comparing pre- and post-Paris Agreement periods. *Management Decision*. https://doi.org/10.1108/MD-05-2024-1159.

Zhao, D., Ngan, S. L., & Jamil, A. H. (2025). When ESG Meets Uncertainty: Financing Cost Effects Under Regulatory Fragmentation and Rating Divergence. *Systems*, *13*(6). https://doi.org/10.3390/systems13060465.