

## STRATEGIC MANAGEMENT FOR SUSTAINABILITY: ESG IMPLEMENTATION IN MODERN BUSINESS

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Volume: 7  
Number: 2  
Page: 538 - 543

### Article History:

Received: 2026-01-14

Revised: 2026-02-24

Accepted: 2026-03-24

### Abstract:

This research aims to understand how ESG (Environmental, Social, and Governance) implementation strategies can be optimized to improve the company's financial performance and long-term value. In addition, this research identifies the main obstacles that companies face in adopting and integrating ESG principles into their business strategies, especially in the current context of globalization and market complexity. This paper uses a literature review to explore and analyze the implementation of Environmental, Social, and Governance (ESG) within the context of modern business sustainability strategy management. This research also analyzes the influence of ESG implementation on a company's reputation and image in the eyes of stakeholders, including investors, consumers and the wider community. The research results show that effective ESG implementation can reduce operational risks, increase efficiency, and attract sustainable investment, ultimately strengthening a company's competitiveness. However, challenges such as measurement difficulties, implementation costs, and pressure from stakeholders remain obstacles that need to be overcome. Overall, successful ESG integration can create long-term, sustainable value for a company and all its stakeholders.

**Keywords:** ESG, Sustainability, Modern Business

## INTRODUCTION

The background to strategic management for sustainability through the implementation of ESG (Environmental, Social, and Governance) in modern business reflects the increasingly pressing global paradigm shift towards social and environmental responsibility. In this era of Industry 4.0, companies are not only expected to create economic value but also to consider the social and environmental impacts of their operations. The ESG concept highlights three crucial dimensions that must be considered in strategic decision-making: environmental, social, and corporate governance.

Environmentally, companies must address challenges such as climate change, natural resource sustainability, and waste management. Strategies to reduce their carbon footprint, implement environmentally friendly technologies, and promote energy efficiency are key to their efforts to contribute to environmental preservation.

The social aspect of ESG encompasses a company's responsibility to employees, customers, and the wider community. Initiatives that support gender equality, diversity, employee well-being, and positive contributions to local communities are becoming increasingly important in building a sustainable corporate reputation.

Corporate governance is a crucial foundation for ensuring that a company operates with transparency, accountability, and integrity. Good governance practices not only ensure compliance with regulations and high ethical standards but also enhance the trust of a company's stakeholders, including investors and consumers.

ESG implementation is no longer simply a corporate social responsibility; it is also key to managing risk, improving operational efficiency, and identifying new growth opportunities. In



today's increasingly connected and transparent business world, companies that adopt a sustainable approach have a significant competitive advantage. They can not only attract long-term, sustainable investment but also position themselves as leaders in innovation and building a more sustainable future.

Therefore, strategic management for sustainability through ESG implementation is not simply about complying with regulations or meeting societal expectations, but rather a foundation for creating sustainable long-term value for the company, its stakeholders, and the global environment as a whole. Therefore, based on the background presented, three problem formulations can be formulated:

1. How can ESG implementation strategies be optimized to improve financial performance and long-term value for companies?
2. What are the main obstacles companies face in adopting and integrating ESG principles into their business strategies, especially in the context of globalization and current market complexity?
3. How does ESG implementation impact a company's reputation and image among stakeholders, including investors, consumers, and the wider community?

The purpose of this study is to determine how ESG implementation strategies can be optimized to improve financial performance and long-term value for companies. Furthermore, this study also aims to identify the main obstacles companies face in adopting and integrating ESG principles into their business strategies, especially in the context of globalization and current market complexity. Finally, this study aims to analyze the impact of ESG implementation on a company's reputation and image among stakeholders, including investors, consumers, and the wider community.

ESG (Environmental, Social, and Governance) is a company's investment standard, comprising three concepts or criteria:

**Environmental.** This criterion addresses the conservation of natural resources and the impact of the company's operations on the surrounding environment.

**Social.** This criterion addresses the company's relationship with external parties, such as the community, customers, and employees, as well as the impact of the company's operations on society.

**Governance.** This criterion addresses the principles of sustainability in the company's operations, including the implementation of good corporate governance (GCG), which upholds the principles of "people, planet, and profit."

ESG is important because it positively impacts investors' image in the capital market and enhances the company's reputation. The use of the term ESG is currently being widely discussed around the world, especially following the COVID-19 pandemic that has spread worldwide and impacted the capital market.

## METHODS

This paper uses a literature review to explore and analyze the implementation of Environmental, Social, and Governance (ESG) within the context of modern business sustainability strategy management. Data collection involved identifying, evaluating, and integrating relevant research and literature from various academic sources, journals, books, industry reports, and online publications related to ESG and strategic management. The methodology involved a literature search using specific keywords, screening articles based on relevance and quality, and critically analyzing existing research findings. The primary focus of this literature review is to understand how ESG principles are applied in business practices, the challenges faced, and their impact on



sustainability and company performance. This approach is expected to provide a comprehensive overview of the role of ESG in supporting sustainability strategies in modern business.

## RESULT AND DISCUSSION

**ESG implementation strategies can be optimized to improve financial performance and long-term value for companies.** The implementation of ESG (Environmental, Social, and Governance) in business strategy has become increasingly important in a changing global context, where companies are judged not only on their financial performance but also on their social and environmental impacts. Substantially, ESG implementation strategies are not only about complying with regulations and ethical demands, but also about creating sustainable long-term value for the company.

One key way in which ESG implementation can optimize a company's financial performance is through improved risk management. In this context, environmental aspects of ESG, such as waste management and energy efficiency, can reduce long-term operational costs. For example, companies that reduce carbon emissions or adopt green technologies often experience significant reductions in energy and waste costs. Furthermore, properly managing environmental risks can also reduce potential fines and legal costs that can arise from environmental violations.

The social aspects of ESG can also provide financial benefits for companies. Investments in employee well-being, gender equality, and community development can increase workforce productivity, reduce absenteeism, and improve employee retention. Furthermore, companies that maintain strong relationships with local communities and implement socially responsible practices often have a more loyal customer base, which in turn increases revenue and profitability.

Beyond operational and social benefits, ESG implementation can also generate long-term value for companies through improved access to capital. Investors are increasingly demanding transparency and accountability from companies regarding their ESG practices. Companies that demonstrate a strong commitment to ESG and build a strong track record in this regard are generally more attractive to sustainability-conscious investors. It can increase a company's access to capital from institutional investors, pension funds, and private investors who prioritize responsible investing.

In addition to improving capital access, ESG implementation can also reduce the cost of capital. Companies that manage ESG risks well tend to face lower long-term risks, which can reduce borrowing costs and increase company valuations. Financial institutions are also increasingly inclined to provide more favorable lending conditions to companies with a low ESG risk profile.

Overall, an ESG implementation strategy is not simply about complying with regulations or maintaining reputation; it is a holistic approach that can optimize a company's financial performance and long-term value. By thoughtfully considering environmental, social, and governance risks, companies can create significant added value, strengthen their competitiveness, and build a solid foundation for future sustainable growth.

**Key Barriers Companies Face in Adopting and Integrating ESG Principles into Their Business Strategy, Especially in the Current Globalization and Market Complexity.** Adopting and integrating ESG (Environmental, Social, and Governance) principles into their business strategy is no easy task for companies, especially in the current globalization and market complexity. Here are some of the key barriers companies often face in this process:

1. **Difficulties in Measurement and Reporting:** One key barrier is the difficulty in consistently and transparently measuring and reporting a company's environmental, social, and governance impacts. Companies often face challenges in determining relevant indicators and accurately



- measurable metrics to assess their ESG performance. Varying reporting standards across countries and industries can also confuse and complicate efforts to prepare credible ESG reports.
2. **Lack of Internal Skills and Capacity:** Many companies face challenges in having sufficient skills and capacity to manage and implement ESG strategies effectively. It includes a shortage of staff trained in ESG aspects, such as environmental risk management, social analysis, and an understanding of good governance. Human resource training and development in ESG is often necessary but can be time-consuming and costly.
  3. **Stakeholder Pressure:** Despite pressure from various stakeholders, including investors, consumers, regulators, and civil society, not all companies have the full support of all these parties to implement ESG principles. Companies may face a conflict between short-term investor expectations for maximum returns and long-term demands for sustainability, which can hinder strategic ESG decisions.
  4. **Implementation Costs:** Implementing ESG strategies often requires significant upfront investment, whether in green technology, sustainable product development, or compliance with new regulations. These additional costs can be prohibitive for companies, especially amidst pressures to optimize returns on investment and increase profits.
  5. **Supply Chain Challenges:** Companies often face challenges integrating ESG principles into their supply chains. Ensuring that suppliers and business partners also comply with ESG standards can be complex, especially if the supply chain is global and involves many different parties.
  6. **Fluctuating Regulations:** Companies must navigate a changing regulatory environment related to ESG issues across multiple jurisdictions. Regulatory uncertainty can complicate long-term planning and increase unnecessary compliance risks.
  7. **Difficulty Measuring Long-Term Impact:** The long-term benefits of ESG implementation are often difficult to quantify clearly and directly. It can complicate internal persuasion efforts to adopt a sustainable approach if the financial benefits cannot be clearly demonstrated or experienced within a short timeframe.

By addressing these barriers, whether by developing internal capabilities, improving reporting and measurement, or gaining greater support from stakeholders, companies can position themselves to more effectively integrate ESG principles into their business strategies, thereby enhancing long-term competitiveness and strengthening their operational sustainability.

**The Impact of ESG Implementation on a Company's Reputation and Image in the Eyes of Stakeholders, Including Investors, Consumers, and the Public at Large.** ESG (Environmental, Social, and Governance) implementation can have a significant impact on a company's reputation and image in the eyes of various stakeholders, including investors, consumers, and the public at large. Here are some key aspects of this impact:

1. **Investors:** For investors, ESG implementation demonstrates that a company considers sustainability factors in its strategic decision-making. Institutional investors and pension funds, which are increasingly considering ESG factors in their investment decisions, tend to place greater value on companies that practice ESG effectively. It can increase a company's access to capital from sustainability-conscious investors and reduce risks from investors demanding greater transparency and accountability.
2. **Consumers:** Modern consumers increasingly prefer to support companies committed to social and environmental responsibility. Strong ESG implementation can enhance a company's image in the eyes of consumers, who are often more likely to purchase products or use services from companies perceived as socially and environmentally responsible. It can foster greater consumer loyalty and increase a company's market share.

3. **Wider Community:** ESG implementation can also impact a company's image in the eyes of the wider community. Companies that address environmental issues, such as carbon emission reduction or responsible waste management, and those committed to social issues, such as gender equality or empowering local communities, tend to gain greater public support. It can mitigate reputational risks arising from controversy or social outcry over irresponsible business practices.
4. **Employees:** ESG implementation can also impact employee motivation and pride in their workplace. Employees often feel more motivated and connected to companies that demonstrate a commitment to ESG values. It can improve employee retention, reduce absenteeism, and increase overall productivity.
5. **Other Stakeholders:** In addition to investors, consumers, and the wider community, ESG implementation can also impact perceptions and relationships with other stakeholders, such as governments, nonprofits, and business partners. Companies perceived as adhering to high ESG standards tend to have better relationships with all of these parties, which can support smoother and more thriving business operations.

Overall, ESG implementation is not just about meeting regulatory requirements or avoiding negative reputational risks, but also about building a strong corporate image and reputation among all stakeholders. Companies that effectively integrate ESG principles into their culture and operations often have a significant long-term competitive advantage, whether in terms of access to capital, customer loyalty, community support, or employee engagement.

## CONCLUSION

Implementing ESG (Environmental, Social, and Governance) in business strategy is no longer simply an option, but a necessity for companies seeking to build a sustainable and profitable future. In an era where various stakeholders increasingly emphasize transparency and social responsibility, companies that seriously adopt ESG principles have a better chance of improving long-term financial performance, strengthening their reputation, and building stronger relationships with investors, consumers, and the wider community.

ESG implementation brings clear benefits across a range of aspects. Financially, companies can reduce long-term operating costs by better managing environmental risks, increasing energy efficiency, and minimizing negative environmental impacts. It not only improves the company's bottom line but also strengthens its position in the face of increasingly stringent regulations regarding environmental sustainability.

Socially and humanly, companies that care about ESG tend to attract and retain more talented employees, reduce labor turnover costs, and increase employee productivity and satisfaction. Furthermore, they are also more likely to gain strong support from consumers who are increasingly aware of environmental and social issues. Modern consumers tend to choose products and services from companies that are perceived as socially and environmentally responsible, creating stable market share and strong loyalty.

Furthermore, ESG implementation also forms a solid foundation for building a positive reputation in the eyes of the wider public. Companies that are transparent in their ESG reporting and have a strong track record of sustainable practices can mitigate the risk of negative reputations that can arise from conflict or controversy. It also generates greater trust from regulators, governments, non-profit organizations, and other business partners, facilitating better relationships and greater collaboration opportunities.



Thus, ESG integration is not simply about complying with regulations or responding to market demands; it is a long-term investment in building robust business sustainability. Companies that overcome existing barriers, such as measurement difficulties, implementation costs, and supply chain challenges, will be able to capitalize on new opportunities, mitigate risks, and solidify their position as leaders in sustainable industries. In doing so, they not only optimize shareholder value but also enhance value for all their stakeholders, while positively contributing to society and the global environment as a whole.

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