

The Impact of Corporate Social Responsibility, Environmental, Social, and Governance (ESG), and Sustainability on Financial Performance in Manufacturing Companies for the Period 2020-2024

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Abstrak

Tujuan dari penelitian ini adalah untuk mengukur dampak Sustainability, Environmental, Social, and Governance (ESG), serta Corporate Social Responsibility (CSR) terhadap Financial Performance. Dengan menggunakan pendekatan partial least squares-structural equation modeling (PLS-SEM), penelitian ini menawarkan analisis mendalam mengenai korelasi timbal balik di antara variabel-variabel tersebut. Temuan empiris menunjukkan bahwa Financial Performance dipengaruhi secara positif dan signifikan oleh Corporate Social Responsibility. Hal ini menunjukkan bahwa pengungkapan terbuka mengenai kegiatan sosial dapat meningkatkan nilai perusahaan dengan memperbaiki reputasinya, memperoleh legitimasi di mata publik, dan membina hubungan yang lebih harmonis dengan pemangku kepentingan. Penerapan prinsip-prinsip ESG juga terbukti memiliki dampak yang positif signifikan terhadap Financial Performance, dimana pengelolaan lingkungan yang bertanggung jawab, tanggung jawab sosial, dan tata kelola yang baik merupakan elemen strategis yang dapat meningkatkan profitabilitas bisnis. Namun, ditemukan bahwa faktor-faktor Sustainability tidak secara signifikan memengaruhi kesuksesan Financial Performance jangka pendek. Hal ini menunjukkan bahwa manfaat dari langkah-langkah berkelanjutan belum sepenuhnya tercermin dalam metrik akuntansi konvensional karena manfaat ekonominya cenderung terakumulasi seiring waktu. Berdasarkan hasil ini, penelitian ini menyarankan agar perusahaan meningkatkan kualitas dan cakupan penerapan prinsip-prinsip ESG dan CSR dalam semua pengambilan keputusan manajemen. Perusahaan harus terus menerapkan praktik-praktik berkelanjutan ini sebagai investasi strategis jangka panjang guna menjamin daya saing, nilai perusahaan, dan ketahanan perusahaan, meskipun dampak dari keberlanjutan tersebut belum langsung terlihat.

Kata Kunci: Tanggung Jawab Sosial Perusahaan; Lingkungan; Sosial dan Tata Kelola; Keberlanjutan; Kinerja Keuangan.

Abstract

The purpose of this study was to assess the impact of Sustainability, Environmental, Social, and Governance (ESG), and Corporate Social Responsibility (CSR) on Financial Performance. Using the partial least squares-structural equation modeling (PLS-SEM) approach, this study offers a thorough examination of the reciprocal correlations between these variables. The empirical findings show that Financial Performance is positively and significantly impacted by Corporate Social Responsibility. This suggests that open disclosure of social activities may increase the value of a company by improving its reputation, acquiring legitimacy in the eyes of the public, and cultivating more amicable relationships with stakeholders. The use of ESG principles was also shown to have a favorable and significant positive impact on Financial Performance, where responsible environmental management, social responsibility, and good governance are strategic elements that can increase business profitability. However, it was discovered that Sustainability factors do not significantly affect short-term Financial Performance success. This suggests that the advantages of sustainable measures are not yet completely represented in conventional accounting metrics since their economic benefits tend to accumulate over time. Based on these results, the research suggests that businesses are enhancing the caliber and scope of their application of ESG principles and CSR in all management decision-making processes and operational activities. Companies must continue these sustainable practices as a long-term strategic investment to guarantee competitiveness, corporate value, and company resilience even when the effects of sustainability are not immediately apparent.

Keyword: Corporate Social Responsibility; Environmental; Social and Governance; Sustainability; Financial Performance.

1. Introduction

Growing worldwide awareness of environmental, social, and corporate governance (ESG) challenges has coincided with an increase in company attention to sustainable practices. According to (Singhal *et al.*, 2024) Policymakers, businesses, and the general public have debated and discussed corporate social responsibility (CSR) extensively over the course of its lengthy history. Using study contributions from all across the world, economists and financial specialists have emphasized several facets of CSR. These changes are driven not only by regulatory pressures and public demands but also by a shift in investor paradigms, as investors now view sustainability as a critical component of long-term growth strategies. Amid increasingly competitive global economic dynamics, financial performance serves as the primary metric used to assess the effectiveness and efficiency of management in allocating corporate resources to achieve profitability and sustainability goals. According to (Zahrazova *et al.*, 2025), financial performance reflects management's ability to optimize capital utilization to generate consistent and sustainable profits, thereby serving as a critical indicator for investors in determining a company's suitability as an investment destination. Additionally, a company's capacity to adjust to shifts in the economic environment, governmental regulations, and rising social expectations for corporate responsibility is reflected in its financial success in addition to its operational outcomes. Building a good reputation, preserving financial stability, and boosting stakeholder and public confidence all depend on sustainable practices through ESG, CSR, and sustainability reporting. PT. Unilever Indonesia Tbk is one of the companies that actively implements ESG principles; however, in practice, it still faces ESG risks related to social and reputational aspects. A notable phenomenon is the emergence of consumer pressure and boycotts stemming from public perceptions of the company's global affiliations and international geopolitical issues. This situation indicates that even though the company has comprehensive ESG policies and reporting, social risks stemming from stakeholder perceptions and expectations can still impact the company's image and potentially affect its financial performance. Meanwhile, PT. Nestlé, a global company, also faces significant ESG risks in environmental and social aspects, particularly regarding its palm oil supply chain. International media reports and environmental groups have highlighted allegations that some of Nestlé's palm oil supply originates from areas at risk of deforestation or illegal land clearing, prompting the company to conduct supplier reviews and investigations. Additionally, criticism regarding plastic waste management and changes to sustainability targets has raised perceptions of greenwashing risks. This phenomenon underscores that formal ESG commitments do not automatically eliminate operational and legitimacy risks for companies with complex global supply chains.

Cases involving multinational corporations such as Unilever and Nestlé illustrate a disconnect between formally stated sustainability commitments and the economic and financial implications faced by these companies. Although both companies are known for having comprehensive ESG policies and sustainability reporting, they still face various ESG risks, such as criticism regarding their supply chains, environmental issues, and global reputational pressures, which have the potential to influence stakeholder perceptions and financial performance. In a global economy increasingly oriented toward sustainability, many companies are competing to project a sustainable image through sustainability reports that emphasize social and environmental responsibility. However, the effectiveness of these CSR and ESG practices still requires deeper analysis, as the implementation of sustainability does not always lead to direct or consistent improvements in financial performance. This situation indicates that sustainability practices are not necessarily the primary component in achieving strong financial performance; rather, they depend heavily on the company's capabilities, the quality of implementation, and the consistency of long-term sustainability strategies. As a result, the PT. Unilever and Nestlé instances highlight how urgent it is to conduct further study on the connection between corporate financial performance and ESG, CSR, and sustainability strategies, especially in the context of major, international corporations. Previous studies on the relationship between CSR, ESG, sustainability, and financial performance continue to show inconsistent results. Several studies found that CSR and ESG have a positive effect on financial performance (Ahmad *et al.*, 2025; Lemana *et al.*, 2025; Minggu *et al.*, 2023; Mu'min *et al.*, 2025; Zhang, 2025), while other studies reported insignificant effects (Afridayani & Putren, 2025; Firdaus *et al.*, 2025;

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Husada & Handayani, 2021; Wati & Werastuti, 2025). These inconsistencies indicate that the relationship between sustainability practices and financial performance still requires further investigation. In addition, there remains a research gap regarding the extent to which CSR, ESG, and sustainability individually influence financial performance, as most previous studies combined these aspects into a single general concept, making it difficult to identify the specific contribution of each variable to net profit. Furthermore, observable phenomena in large companies suggest that the implementation of sustainability principles does not always align with the financial performance achieved, highlighting the need for deeper analysis of the effectiveness of sustainability practices. To address the existing research gap, this study objectively examines the effects of Corporate Social Responsibility (CSR), Environmental, Social, and Governance (ESG), and sustainability practices on the financial performance of manufacturing companies. The study focuses on whether CSR, ESG, and sustainability individually influence corporate financial performance, while also evaluating how sustainability strategies are implemented within manufacturing firms. By separating CSR, ESG, and sustainability as independent variables, this research is expected to strengthen Stakeholder Theory (Zahrazova *et al.*, 2025) by providing more comprehensive empirical evidence regarding the relationship between sustainable practices, stakeholder interests, and financial performance. Practically, the findings are expected to assist company management in designing sustainability strategies that enhance financial performance and corporate reputation, support investors in making sustainability-oriented investment decisions, and provide regulators such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) with insights to evaluate and improve sustainability reporting regulations and ESG implementation in Indonesia, thereby strengthening more transparent, responsible, and sustainable corporate practices.

2. Literature Review

Stakeholder Theory, as put out by (Freeman *et al.*, 1984), serves as the foundation for this investigation. According to this theory, a company's success and sustainability are assessed based on how well it satisfies the needs and expectations of different stakeholder groups, such as employees, customers, the government, creditors, and the general public, in addition to its capacity to make profits for shareholders. Metrics like sustainability, ESG (environmental, social, and governance), and corporate social responsibility (CSR) are important in this regard because they show how a firm puts sustainability and social responsibility into practice. Meanwhile, financial performance reflects the outcomes of applying these principles in the form of managerial efficiency and profit generation.

2.1 Corporate Social Responsibility (CSR)

The Corporate Social Responsibility (CSR) variable in this study is grounded in Stakeholder Theory proposed by (Freeman *et al.*, 1984). This theory explains that a company is not only responsible for maximizing profits for shareholders, but also has ethical, social, and strategic responsibilities toward all stakeholders, including employees, customers, suppliers, local communities, governments, investors, and the surrounding environment. Stakeholder Theory emphasizes that business sustainability depends on the company's ability to maintain harmonious relationships with various parties affected by its operations. Therefore, every corporate policy and decision should consider not only economic outcomes but also social welfare and environmental sustainability. In the modern business environment, companies are increasingly expected to demonstrate accountability and transparency in addressing social and environmental issues as part of their long-term sustainability strategy. According to (Cahyaningrum *et al.*, 2022), CSR refers to corporate activities that prioritize social welfare and environmental sustainability in addition to achieving profit objectives. This indicates that companies are expected to balance economic interests with social and environmental responsibilities in conducting business operations. Furthermore, (Mali & Amin, 2021) explain that CSR supports sustainable corporate growth through the integration of social, economic, and environmental aspects into business strategies and operational activities. CSR implementation may include community development programs, environmental conservation initiatives,

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employee welfare improvements, educational support, and sustainable resource management. In addition, (Ahmad *et al.*, 2025) emphasize that CSR disclosure serves as a form of transparency that provides stakeholders with information regarding the company's social and environmental policies, programs, and achievements. Meanwhile, (Lemana *et al.*, 2025) state that CSR reflects a company's commitment to business ethics, responsible corporate behavior, and sustainable business practices, which are increasingly important in maintaining corporate legitimacy and stakeholder trust in the competitive global market. Within the framework of Stakeholder Theory, CSR explains how a company's efforts to fulfill its social and environmental responsibilities can positively influence financial performance (Y). Companies that actively implement CSR are more likely to gain public trust, strengthen customer loyalty, improve corporate image, and build stronger relationships with stakeholders. These conditions can contribute directly to increased sales, improved market competitiveness, easier access to investment, and stronger long-term financial stability. In addition, effective CSR implementation may reduce reputational risks, minimize conflicts with communities or regulators, and enhance employee satisfaction and productivity. As a result, CSR is not only viewed as a social obligation or ethical commitment, but also as a strategic investment capable of creating long-term corporate value and supporting sustainable financial performance growth.

2.2 Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) variables in this study are also based on Stakeholder Theory proposed by (Freeman *et al.*, 1984). This theory explains that companies are required to create value not only for shareholders but also for all stakeholders affected by business activities, including employees, customers, communities, governments, investors, and the environment. Stakeholder Theory emphasizes the importance of balancing economic objectives with social responsibility and environmental sustainability in order to maintain long-term business continuity. In line with the increasing global focus on sustainability issues, the concept of Corporate Social Responsibility (CSR) has gradually evolved into Environmental, Social, and Governance (ESG), which is considered more measurable, structured, and integrated into corporate governance and management systems. ESG provides a broader framework that enables companies to evaluate and report sustainability performance through standardized indicators related to environmental protection, social responsibility, and governance quality. Consequently, ESG has become an important strategic approach used by companies to respond to stakeholder expectations, strengthen corporate legitimacy, and achieve sustainable growth in a highly competitive business environment. According to (Koh *et al.*, 2022), ESG explains how companies interact with environmental conditions, social communities, and internal governance structures in conducting business operations. The environmental aspect includes issues such as carbon emissions, energy efficiency, waste management, climate change mitigation, and natural resource conservation. The social aspect covers employee welfare, diversity and inclusion, labor rights, customer protection, community engagement, and corporate social responsibility programs. Meanwhile, the governance aspect relates to transparency, accountability, ethical leadership, board effectiveness, anti-corruption policies, and shareholder rights protection. Furthermore, (Zervoudi *et al.*, 2025) describe ESG as a transformation from traditional philanthropic activities into a systematic and strategic business framework in which environmental, social, and governance considerations are fully integrated into corporate strategies and operational decision-making processes. In addition, (Agustina, 2025) emphasizes that long-term sustainability is a central component of ESG because companies with strong ESG practices are generally perceived more positively by investors, consumers, and the public. Strong ESG implementation can increase investor confidence, improve corporate reputation, and enhance the company's ability to adapt to evolving regulatory, social, and environmental challenges in the global market. Within the framework of Stakeholder Theory, Environmental, Social, and Governance (ESG) practices are believed to positively influence financial performance (Y) because companies that implement environmentally sustainable, socially responsible, and transparently governed policies tend to gain stronger stakeholder support and long-term business advantages. Effective environmental management can reduce operational costs through energy efficiency, waste reduction, and sustainable resource utilization, while also minimizing environmental risks and

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regulatory sanctions. Social responsibility practices can strengthen relationships with employees, customers, suppliers, and communities, thereby increasing customer loyalty, employee productivity, and public trust. At the same time, strong governance practices improve transparency, accountability, and risk management, which can reduce agency conflicts and enhance investor confidence. These combined benefits may contribute to improved corporate reputation in capital markets, easier access to investment and financing, stronger market competitiveness, and more stable long-term profitability. Therefore, ESG is not only viewed as a compliance mechanism or ethical commitment but also as a strategic business approach capable of supporting sustainable financial performance and increasing corporate value over time.

2.3 Sustainability

The sustainability variable in this study is closely related to Stakeholder Theory proposed by (Freeman *et al.*, 1984), which emphasizes that companies must balance economic objectives with social and environmental responsibilities in order to maintain long-term business sustainability. According to this theory, companies are not solely responsible for generating profits for shareholders, but also for creating value and maintaining harmonious relationships with all stakeholders, including employees, customers, suppliers, communities, governments, investors, and the environment. In the modern business environment, stakeholders increasingly expect companies to operate responsibly, transparently, and sustainably. Therefore, sustainability has become an essential strategic approach for companies to ensure long-term survival, competitiveness, and legitimacy. Sustainability also reflects a company's ability to adapt to environmental changes, social expectations, and evolving regulatory requirements while maintaining stable operational and financial performance over time. According to (Lestari & Irma, 2021), sustainability reports serve as a form of accountability through which companies communicate their economic, social, and environmental performance to stakeholders. These reports provide information regarding how companies manage sustainability-related issues, including environmental impacts, social contributions, corporate governance, and long-term business strategies. Furthermore, (Putra & Subroto, 2022) explain that sustainability reports demonstrate the relationship between corporate strategies and commitments to supporting a sustainable global economy, particularly in addressing climate change, social inequality, and responsible resource management. In addition, (Nabila & Wahyuningtyas, 2023) state that sustainability reporting, as regulated under POJK No. 51/2017, functions as a transparency instrument that allows stakeholders to evaluate a company's financial, social, and environmental performance comprehensively. Sustainability reporting also helps companies strengthen accountability and credibility in the eyes of investors, regulators, and the public. Moreover, (Azwar *et al.*, 2023; Ramhat, 2022) emphasize that sustainable business practices involve balancing economic efficiency, social responsibility, and environmental conservation to ensure business continuity and stakeholder welfare in the long term. Within the framework of Stakeholder Theory, sustainability explains how the implementation of sustainability practices and sustainability reporting can positively influence financial performance (Y) through increased credibility, stronger risk management, and improved long-term operational efficiency. Companies that consistently implement sustainability principles are more likely to gain stakeholder trust, strengthen corporate reputation, and improve relationships with investors, customers, and communities. Sustainability practices can also reduce operational and environmental risks, increase resource efficiency, and support innovation in products and business processes, ultimately contributing to cost savings and long-term profitability. In addition, transparent sustainability reporting can improve investor confidence because it demonstrates the company's commitment to responsible and sustainable business operations. As a result, sustainability is not only viewed as an ethical obligation or regulatory compliance mechanism, but also as a strategic factor that can enhance competitiveness, create long-term corporate value, and support stable and sustainable financial performance growth.

2.4 Financial Performance

The financial performance variable in this study is based on Stakeholder Theory proposed by (Freeman *et al.*, 1984), which explains that a company's long-term success depends on its ability to

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balance the interests of shareholders with those of other stakeholders, including employees, customers, suppliers, governments, communities, and the environment. According to this theory, companies that are able to maintain good relationships with stakeholders are more likely to achieve sustainable growth and stronger financial outcomes. Financial performance is therefore not only influenced by operational efficiency and profitability strategies, but also by how effectively a company responds to stakeholder expectations regarding social responsibility, environmental sustainability, and corporate governance. In the modern business environment, financial performance has become an important indicator used to assess a company's competitiveness, sustainability, and ability to create long-term value. Consequently, companies are increasingly expected to integrate sustainability principles into their business strategies to maintain stakeholder trust and ensure stable financial performance over time. According to (Rosdiana, 2023), financial performance reflects management's ability to effectively manage corporate assets and resources in order to generate profits and maintain business continuity. Good financial performance indicates that management has successfully utilized company resources efficiently and productively to achieve organizational objectives. Furthermore, (Zahrazova *et al.*, 2025) explain that financial performance serves as a primary measure of managerial effectiveness and corporate attractiveness to investors because it demonstrates the company's ability to generate returns, manage risks, and sustain profitability. Investors often use financial performance indicators as a basis for evaluating the financial health and future prospects of a company before making investment decisions. In addition, (Susanti *et al.*, 2021) define financial performance as the extent to which company assets, sales, and equity are capable of generating profits and increasing shareholder value. Meanwhile, (Ramadana *et al.*, 2023) describe financial performance as the result of managerial actions measured both quantitatively and qualitatively, including profitability, operational efficiency, market growth, and financial stability. Therefore, financial performance is considered a comprehensive indicator that reflects the effectiveness of corporate management in achieving strategic and financial objectives. As a result, financial performance is positioned as the dependent variable (Y) in this study because it reflects the extent to which companies successfully implement sustainability practices, Environmental, Social, and Governance (ESG) principles, and Corporate Social Responsibility (CSR) initiatives within their business strategies. Companies that effectively integrate sustainability, ESG, and CSR into their operations are expected to strengthen stakeholder trust, improve corporate reputation, reduce operational and reputational risks, and enhance long-term competitiveness. These advantages can contribute to increased profitability, stronger market performance, and improved financial stability. In addition, the implementation of sustainability-oriented strategies may improve resource efficiency, attract socially responsible investors, and support long-term business continuity in an increasingly competitive and sustainability-focused global market. Therefore, financial performance serves as an important indicator for evaluating whether sustainability-related initiatives provide positive economic value and contribute to the overall success and sustainability of the company.

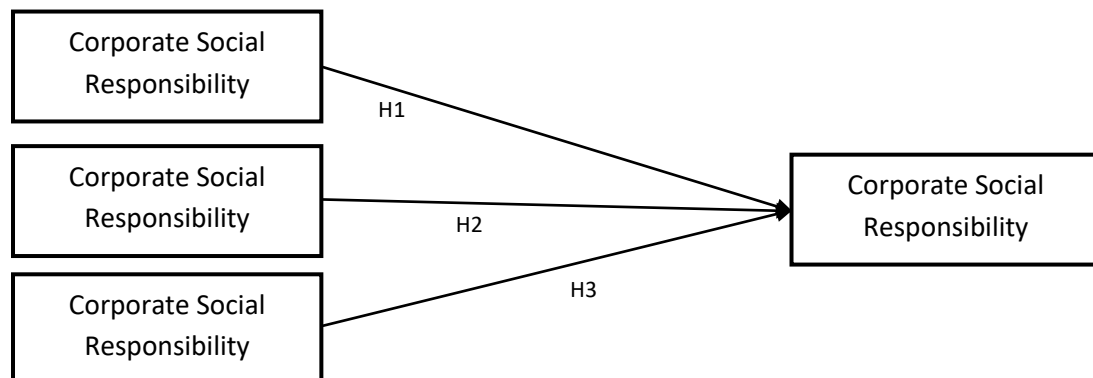


Figure 1. Conceptual Frameworks

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Based on current theoretical research and conceptual frameworks, we provide a number of hypotheses in this study about how sustainable practices affect business financial performance. The first hypothesis asserts that CSR has a favorable and significant impact on business financial performance given the benefits that CSR adoption may have on stakeholder trust, operational effectiveness, and corporate reputation. The second premise is that environmental, social, and governance (ESG) has a positive and significant impact on financial performance because well-executed ESG principles can improve corporate governance, lower risk, and increase long-term value. According to the third hypothesis, a company's financial performance is predicted to be positively and significantly impacted by sustainability, suggesting that a company's dedication to sustainability can result in a competitive edge and more stable performance.

3. Research Methodology

3.1 Research Design

This study uses an associative quantitative technique to evaluate the causal link between the dependent variable (financial performance) and the independent variables (corporate social responsibility, social and environmental governance, and sustainability). This approach was used since the main goal of the study is to use numerical data that can be statistically analyzed to determine the influence and correlations among the variables. According to (Freeman *et al.*, 1984) in Stakeholder Theory, these variables are interrelated in a company's efforts to create value for its stakeholders. Thus, the purpose of this study is to investigate how social responsibility and sustainability policies affect a business's financial performance.

3.2 Instrument

For this study, data was gathered through indirect observation and documentary research. Secondary data sources for the documentary investigation include financial records, sustainability reports, and publicly accessible company information. In the meantime, we employed indirect observation to find corporate social responsibility (CSR), ESG, and sustainability disclosures in company information and sustainability reports

Table 1. Variable Indicators

Variabel	Indikator	Referensi
Corporate Social Responsibility	GRI Indeks 91 item indikator 2020-2023 GRI Indeks 117 item indikator 2023-2024 $CSR_i = \frac{\sum x_{yi}}{ni}$	(Mu'min <i>et al.</i> , 2025; Mura <i>et al.</i> , 2019)
Environmental Social and Governance	Environmental: EP1:Energy Efficiency EP 2: Carbon Footprint EP3:Biodiversity Conversation EP 4: Eco-friendly packaging EP 5: Waste Management Social: SP 1: Community Engagement SP 2: Human Right SP 3: Labor Practice SP 4: Social Influence Investment Governance:	(Bukari <i>et al.</i> , 2024)(Bukari <i>et al.</i> , 2024)

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	GP 1: Anti Corruption Practices	
	GP 2: Ethics and Transparency	
	GP 3: Diversity and Independence on the Board	
	GP4: Executive Compensation Fairness	
	Penentuan skor pada indeks kinerja ESG	
	ditentukan oleh:	
	$ESG = \frac{\text{Nilai Pengungkapan ESG}}{\text{Total Pengungkapan Maksimal}}$	
Sustainability	32 indikator	(Papoutsis & Sodhi, 2020)
Financial Performance	$ROA = \frac{\text{Profit after Tax}}{\text{Asset Total}}$	(Mu'min <i>et al.</i> , 2025)

3.3 Data Analysis

The data analysis technique utilized in this work is SmartPLS, which uses the Partial Least Squares – Structural Equation Modeling (PLS-SEM) methodology. This research aims to investigate the impact of sustainability, ESG, and CSR on financial performance as determined by ROA. The analytical steps include discriminant validity tests using latent variable correlation to guarantee construct differentiation among variables, descriptive statistical tests using minimum, maximum, mean, and standard deviation values to characterize the research data, and inner model tests to look at structural relationships among variables, the strength of influence, and the model's capacity to explain the dependent variable.

4. Results and Discussion

4.1 Results

Descriptive statistical analysis was conducted to describe the values of each indicator, such as the mean, minimum, and maximum values.

Table 2. Descriptive Statistical

Name	Mean	Min	Max	St. Dev
ESGDI	0,548	0,231	0,923	0,188
CSR1	0,530	0,156	1,000	0,208
SDI	0,478	0,156	1,000	0,224
ROA	0,100	0,002	0,349	0,066

The ESG variable, as determined by the ESGDI indicator, has a mean of 0.548, a minimum of 0.231, a maximum of 0.923, and a standard deviation of 0.188, according to Table 2. According to CSR1, the ESG variable has a mean of 0.530, a minimum of 0.156, a maximum of 1.000, and a standard deviation of 0.208. On the other hand, the Sustainability variable, denoted by SDI, has a mean of 0.478, a standard deviation of 0.224, a minimum of 0.156, and a maximum of 1.000. The ROA indicator, which has a mean of 0.100, a minimum of 0.002, a maximum of 0.349, and a standard deviation of 0.066, is used for the dependent variable, FP.

4.1.1 Convergent Validity

Convergent validity tests were conducted to assess the extent to which the indicators accurately represent the construct being measured.

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Table 3. Outer Loading Convergent Validity

	CSR	ESG	FP	SDI
CSR	1,000			
ESG		1,000		
FP			1,000	
SDI				1,000

The correlation between indicator scores (instruments) and their constructions (variables) was used to quantify the outer loading test findings. If an indicator's correlation value is more than 0.70, it is deemed valid. All indicators for the CSR, ESG, Sustainability, and Financial Performance variables have a factor loading value of 1,000, indicating that they are all considered valid, according to the outer loading values displayed in Table 3. The construct validity of the assessments utilized in this study is supported by this test, which shows that all indicators can measure the correlation between indicator scores and their corresponding constructs.

Table 4. Latent Variable Correlation Discriminant Validity

	CSR	ESG	FP	SDI
CSR	1,000	0,861	0,615	0,918
ESG	0,861	1,000	0,604	0,911
FP	0,615	0,604	1,000	0,572
SDI	0,918	0,911	0,572	1,000

The latent variable correlation and discriminant validity values for the CSR, ESG, Sustainability, and Financial Performance variables indicate that the correlation between each indicator (instrument) and its own construct (variable) is stronger than the correlation between any indicator (instrument) and the constructs (variables) of the other variables. Therefore, they are considered valid because each indicator measures a unique aspect of its own latent variable, is not correlated with other variables, and thus does not overlap with them.

4.1.2 R-Square

The R-squared test assesses how well independent factors account for the variance in the dependent variable. The percentage of variation in the exogenous construct inside the structural model is shown by the R-squared value.

Table 5. R-square

	R-square	Keterangan
FP	0,407	Moderat

According to the findings, 40.7% of the variance in the company's financial performance can be traced to the independent variables in this study; the remaining 59.3% may be attributed to external factors that were not part of the research model. The structural model offers a fairly good explanation of the business's financial performance, as indicated by the R-squared value, which is in the moderate range.

Table 6. Path Coefficient Direct Effect

	O	M	STDEV	T	P
CSR -> FP	0,507	0,514	0,191	2,661	0,004
ESG -> FP	0,415	0,413	0,151	2,755	0,003
SDI -> FP	-0,272	-0,275	0,219	1,241	0,107

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Researchers were able to evaluate the statistical significance of each direct effect examined by using the direct effect path coefficient test to ascertain the degree of significance of the link between variables and to establish whether the relationship is positive or negative.

4.2 Discussion

Based on the statistical analysis, Hypothesis 1 confirms that a T-value of 2.661 and a P-value of 0.004 indicate that corporate social responsibility (CSR) has a positive and significant impact on financial performance. The coefficient value of 0.507 suggests that the more actively a company engages in and reports its social activities, the more likely its financial performance will improve. These findings support the hypothesis that increasing CSR implementation and transparency in reporting can enhance profitability by strengthening stakeholder relationships, gaining societal acceptance, and building a positive reputation. Therefore, it is recommended that companies incorporate CSR into their long-term business strategies to maximize financial performance, rather than viewing it solely as regulatory compliance. Previous research by Ahmad *et al.* (2025) and Mu'min *et al.* (2025) also found that CSR significantly improves financial performance, reinforcing the importance of integrating CSR into long-term strategic planning. Hypothesis 2 shows that ESG (Environmental, Social, and Governance) significantly affects financial performance, with a P-value of 0.003 (less than 0.05), a T-statistic of 2.755, and a coefficient of -0.415, leading to the acceptance of this hypothesis. These results suggest that the adoption and disclosure of ESG practices can directly impact a company's financial success. Besides serving as a legitimacy tool, ESG also functions as a strategic component that enhances financial performance. These findings support claims by Cardillo & Basso (2025) and Minggu *et al.* (2023) that ESG considerably boosts a company's financial success. However, these results contrast with those of Zahrazova *et al.* (2025), who concluded that environmental, social, and governance issues have no effect on financial outcomes. The discrepancy indicates that the relationship between ESG and financial performance largely depends on organizational characteristics, effective implementation, and market conditions. When managed consistently and integrated into company strategy, ESG principles can become strategic assets that improve financial outcomes and enhance public legitimacy. Regarding sustainability, Hypothesis 3 indicates that sustainability has no significant impact on financial performance, with a coefficient of -0.027, a T-statistic of 1.241, and a P-value of 0.107 (greater than 0.05). This hypothesis is rejected. These findings suggest that a company's financial performance has not yet been directly influenced by sustainability efforts, as measured by the Sustainable Development Index (SDI). The economic benefits of sustainability are not yet evident in short-term financial results because sustainability focuses more on long-term value creation. Supporting this conclusion, Subakti & Rofiqoh (2025) found that social, environmental, and economic factors do not significantly affect financial performance. Conversely, these findings contradict those of Rosdiana (2023), who argued that sustainability significantly improves financial performance. Overall, this study indicates that sustainable practices need to be implemented consistently over an extended period before their effects on profitability become apparent.

5. Conclusion

The purpose of this study was to investigate the effects of sustainability, environmental, social, and governance (ESG), and corporate social responsibility (CSR) on the financial performance of manufacturing firms in the consumer non-cyclical subsector that are listed on the Indonesia Stock Exchange between 2021 and 2024. These findings imply that increasing a company's corporate social responsibility (CSR) activities and disclosures can improve its reputation, social legitimacy, and relationships with stakeholders. Additionally, the study shows that ESG elements have a substantial impact on financial success, offering more evidence that environmental stewardship and social responsibility may be key considerations in increasing investor trust and business value. On the other hand, the Sustainability Disclosure Index (SDI), which measures sustainability, does not significantly affect financial performance. According to the study, sustainability policies are more likely to produce long-term

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benefits than short-term financial success metrics like return on assets (ROA). The use of Return on Assets (ROA) as the only financial success metric, which does not accurately reflect the company's total performance, is one of the study's remaining flaws. Additionally, the variables used are limited to CSR, ESG, and Sustainability, leaving open the possibility that other factors may influence financial performance. This study also uses secondary data from company reports with a limited research period, so the long-term effects of sustainability are not yet fully apparent. Therefore, future research is advised to use a more diverse range of financial performance indicators, incorporate additional relevant variables, and extend the research period and scope to ensure more comprehensive results.

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