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Beyond ESG and Innovation: Construct Development and Validation of Sustainability Innovative Value Maximization (SIVM)

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Abstract

Background: SIVM is conceptualized as a firm's ability to transform sustainability pressures into value creation. Despite the exponential growth of ESG adoption globally, with over 90% of S&P 500 companies publishing sustainability reports, empirical evidence on the ESG–performance nexus remains inconclusive, signaling the need for a capability-based construct that bridges this theoretical gap.
Objective: This study addresses inconsistent findings regarding the relationship between Environmental, Social, and Governance (ESG) disclosure and corporate performance by introducing Sustainability Innovative Value Maximization (SIVM) as a novel strategic capability.
Methods: This research employs a construct development approach using Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) on data from 187 respondents drawn from firms operating in industries with high ESG exposure in Indonesia (mining, palm oil, and tobacco). Data were collected between January and May 2025 through purposive sampling.
Results: The results confirm that SIVM is a valid, reliable, and multidimensional construct that is distinct from ESG disclosure and Sustainability-Oriented Innovation (SOI). Structural model analysis reveals that ESG significantly influences SIVM, which, in turn, has a strong positive effect on corporate performance, both directly and indirectly through Corporate Political Activity (CPA). Meanwhile, SOI does not significantly affect performance, indicating the limitations of innovation-centric explanations.
Conclusion: This study contributes to the literature by positioning SIVM as a critical internal capability that bridges sustainability pressures and value creation, thereby extending stakeholder and agency perspectives. Practically, the findings suggest that firms should move beyond disclosure and focus on developing capabilities for converting sustainability pressures into value.

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INTRODUCTION

In recent years, the concept of Environmental, Social, and Governance (ESG) has evolved from a normative discourse into a central pillar of strategic management and investment decision-making (Das, 2023; Jain & Tripathi, 2023; Umar et al., 2023). ESG considerations are no longer confined to corporate reporting practices but have become critical signals for investors, regulators, and broader stakeholders in assessing firms' long-term sustainability and risk exposure (Amir & Serafeim, 2017; Chininga et al., 2023). The increasing integration of ESG into capital allocation decisions reflects a structural shift in global markets, in which sustainability performance is increasingly viewed as a proxy for resilience, governance quality, and future value creation (Jung & Yoo, 2023; Rubab et al., 2025).

Empirically, the scale of ESG integration has grown substantially over the past decade. According to the Global Sustainable Investment Alliance (2022), global sustainable investment assets reached USD 35.3 trillion, representing 35.9% of total assets under management across five major markets. The World Economic Forum (2023) likewise reported that over 70% of institutional investors now incorporate ESG criteria into their portfolio decisions, reflecting a fundamental shift from voluntary disclosure to structural governance expectation. In Indonesia specifically, the Financial Services Authority (OJK) mandated ESG reporting for publicly listed companies through Regulation No. 51/POJK.03/2017, further institutionalizing sustainability within corporate governance frameworks (Gunawan et al., 2022). Notwithstanding these developments, the question of whether ESG disclosure consistently translates into measurable corporate value remains empirically contested.

This transformation is deeply rooted in the broader sustainability movement initiated by the Brundtland Report ("Our Common Future") in 1987, which introduced a holistic view of development encompassing economic, social, and environmental dimensions (Lozano, 2024; Maji & Lohia, 2023). Subsequent global initiatives, including the United Nations Sustainable Development Goals (SDGs) and regulatory frameworks such as the Sustainable Finance Disclosure Regulation (SFDR), have further institutionalized ESG as a standardized mechanism for evaluating corporate sustainability practices (Abdul Razak et al., 2023; Lange & Banadaki, 2023). As a result, ESG disclosure has emerged as a dominant instrument for corporate transparency, enabling stakeholders to assess firms' sustainability commitments in a more structured and comparable manner (Alsayegh et al., 2020; Veeravel et al., 2024).

Despite its growing prominence, the empirical relationship between ESG disclosure and corporate performance remains inconclusive. While a substantial body of literature documents a positive association between ESG practices and firm performance Dincer et al. (2023) and Girón et al. (2021), other studies report insignificant Buallay (2022) and Landi (2019) or even negative effects (Kalia & Aggarwal, 2023)Kalia. Evidence from emerging markets, including Indonesia, further complicates this relationship. For instance, ESG disclosure has been associated with higher IPO underpricing Rahmatullah (2025) and increased financial burdens due to sustainability investments Nareswari et al. (2023), while its impact on firm value appears contingent on disclosure quality and contextual factors (Cardillo & Basso, 2025). These inconsistencies suggest that ESG disclosure alone does not automatically translate into superior corporate performance.

Theoretically, this inconsistency reflects a deeper gap in understanding the internal mechanisms through which ESG-related pressures and disclosures are transformed into economic value. Most prior studies treat ESG disclosure as a direct determinant of firm performance, overlooking the internal organizational capabilities required to convert sustainability commitments into tangible outcomes. This limitation becomes more evident when considering the complexity of firm behavior in emerging economies, where institutional environments, regulatory enforcement, and stakeholder expectations are highly heterogeneous (Kalia & Aggarwal, 2023; Lukács & Molnár, 2025).

In parallel, the literature has identified several complementary constructs that influence sustainability outcomes, including stakeholder pressure, sustainability-oriented innovation (SOI), and corporate political activity (CPA). Stakeholder pressure has been widely recognized as a key driver of sustainability adoption, compelling firms to align their strategies with environmental and social expectations (Bello-Pintado et al., 2023). Similarly, SOI represents firms' proactive efforts to develop environmentally and socially responsible innovations that enhance long-term competitiveness (Harsanto et al., 2022; Zameer et al., 2024). Conversely, CPA reflects firms' strategic engagement with political and regulatory institutions, which may either support or undermine sustainability objectives depending on managerial incentives and institutional conditions (Liedong et al., 2020; Ulucanlar et al., 2023).

However, existing research largely examines these constructs in isolation, resulting in a fragmented understanding of how sustainability-related factors jointly shape firm performance. Critically, there remains a lack of conceptual clarity regarding the internal capability that integrates ESG disclosure, stakeholder pressure, innovation, and political strategy into a coherent value-creation process. This gap highlights the need for a unifying construct that explains how firms systematically convert sustainability-related inputs into sustained corporate value.

To address this gap, this study introduces Sustainability Innovative Value Maximization (SIVM) as a novel construct. SIVM is conceptualized as a strategic capability that enables firms to integrate sustainability principles into innovation processes and value creation mechanisms, thereby aligning stakeholder expectations with shareholder interests over the long term. Rooted in the synthesis of Stakeholder Theory Freeman (1984) and Agency Theory Jensen (1976), SIVM reflects an "enlightened value maximization" perspective, where sustainable value creation is achieved through innovation-driven resource allocation, governance alignment, and stakeholder engagement.

Unlike CSR, ESG, or Creating Shared Value (CSV), which primarily emphasize external reporting, normative commitments, or social-economic integration, SIVM explicitly focuses on the internal transformation mechanism that converts sustainability initiatives into measurable corporate value. It positions sustainability not as a compliance requirement or reputational tool, but as a core strategic driver embedded within firms' decision-making architecture, innovation systems, and governance structures.

Given its novelty, the primary objective of this study is not to test structural relationships but to develop and validate the SIVM construct empirically. Specifically, this study employs Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) to examine the dimensionality, reliability, and validity of SIVM within a broader conceptual framework that includes ESG disclosure, stakeholder pressure, sustainability-oriented innovation, corporate political activity, and corporate performance. By doing so, this research ensures that SIVM is not merely a conceptual proposition but a statistically robust and theoretically grounded construct suitable for future empirical applications.

In summary, this study has three specific research objectives: (1) to develop and validate SIVM as a multidimensional strategic capability construct through EFA and CFA, establishing its psychometric properties including factor structure, convergent validity, discriminant validity, and composite reliability; (2) to examine the structural relationships between ESG Disclosure, Stakeholder Pressure, SIVM, Sustainability-Oriented Innovation (SOI), Corporate Political Activity (CPA), and Corporate Performance within the SIVM-centered framework; and (3) to contribute theoretical and empirical insights into how sustainability-related pressures and capabilities translate into corporate value creation in high-ESG-exposure industries in the Indonesian emerging market context.

Empirically, the study is situated in high-impact industries in Indonesia (namely mining, palm oil, and tobacco) which are characterized by intense ESG exposure, regulatory scrutiny, and stakeholder pressure. These sectors provide a particularly relevant context for examining sustainability-driven value creation, as firms operating within them must continuously balance economic objectives with environmental and social responsibilities.

Stakeholder theory explains that firms are not only responsible for maximizing shareholder wealth, but also for managing relationships with various stakeholders such as employees, customers, investors, regulators, and communities (Donaldson & Preston, 1995; Freeman, 1984). In the sustainability context, ESG disclosure functions as a transparency mechanism that strengthens legitimacy, reduces information asymmetry, and improves stakeholder trust (Amran et al., 2024; Orazalin & Mahmood, 2020). Stakeholder pressure, sustainability-oriented innovation (SOI), and corporate political activity (CPA) further encourage firms to adopt sustainable practices and align organizational strategies with stakeholder expectations (Liedong, 2023; Rubio-Andrés et al., 2023). However, stakeholder theory alone cannot fully explain how sustainability initiatives are transformed into measurable economic value within firms. Stakeholder theory identifies who firms should respond to and why, but it does not specify the internal organizational architecture through which those responses generate economic value. This is the explanatory gap that necessitates a complementary theoretical lens.

Agency theory complements this perspective by emphasizing conflicts of interest and information asymmetry between managers and shareholders (Jensen & Meckling, 1976). Sustainability initiatives often involve long-term investments and uncertain outcomes, creating opportunities for symbolic compliance, greenwashing, or managerial opportunism (Hummel & Bauernhofer, 2024). Although ESG disclosure may improve transparency, prior studies show inconsistent findings regarding its relationship with corporate performance (Bansal et al., 2021;

Buallay, 2022). Similar inconsistencies are also found in studies on SOI and CPA, indicating that sustainability practices do not automatically generate firm value unless supported by internal strategic alignment and governance mechanisms (Hadani et al., 2018; Taneja et al., 2023). Together, stakeholder theory and agency theory provide complementary explanations for why SIVM is needed: stakeholder theory explains the external pressure and legitimacy motivations for sustainability engagement, while agency theory explains the internal governance imperative to ensure those engagements are aligned with value-creation rather than managerial self-interest. SIVM operationalizes this dual theoretical imperative by embedding sustainability principles within innovation systems, governance structures, and strategic decision-making, creating a firm-level mechanism that satisfies both external stakeholder expectations and internal principal-agent alignment requirements.

To address this gap, this study introduces Sustainability–Innovative Value Maximization (SIVM) as a strategic capability that enables firms to transform sustainability commitments into innovation-driven value creation. Grounded in stakeholder theory and agency theory, SIVM acts as an internal mechanism that integrates sustainability, innovation, and performance objectives. SIVM is operationalized through three dimensions: Green Investment Strategies, Circular Economy Practices, and Community-Based Environmental Initiatives. Unlike frameworks such as Return on Sustainability Investment (RoSI), Impact-Weighted Accounting (IWA), or Triple Bottom Line (TBL), which primarily focus on evaluation and reporting, SIVM emphasizes the capability-based process through which firms convert sustainability initiatives into competitive advantage and long-term corporate performance (Elkington, 1998; Serafeim & Trinh, 2020).

The novelty of this study rests on three interconnected contributions. First, it introduces and rigorously validates SIVM as a new multidimensional construct in sustainability and strategic management research, filling the gap between external ESG disclosure and internal value creation capability. Second, it bridges the theoretical divide between Stakeholder Theory and Agency Theory by conceptualizing SIVM as an internal mechanism that resolves the agency problem in sustainability governance: where ESG disclosure may reduce information asymmetry, SIVM ensures that sustainability commitments are operationalized into strategic outcomes. Third, it provides empirical evidence from high-impact industries in Indonesia (specifically mining, palm oil, and tobacco) demonstrating how sustainability can be operationalized as a strategic driver of innovation and corporate performance in emerging market contexts characterized by high regulatory scrutiny and stakeholder pressure.

METHOD

This study adopted a construct development research design to develop and empirically validate Sustainability–Innovative Value Maximization (SIVM) as a multidimensional strategic capability within the domains of sustainability and strategic management. The study employed a quantitative approach using Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) to establish the dimensionality, validity, and reliability of the construct. EFA was employed to identify the underlying factor structure of SIVM, while CFA was used to confirm the measurement structure, assess model fit, and evaluate convergent validity, discriminant validity, and composite reliability. Although additional constructs, including ESG Disclosure, Stakeholder Pressure, Sustainability-Oriented Innovation (SOI), Corporate Political Activity (CPA), and Corporate Performance (CP), were included, they were incorporated primarily to assess discriminant validity and confirm that SIVM was empirically distinct from related constructs.

The study focused on firms operating in industries with high ESG exposure, namely mining, palm oil, and tobacco, due to their significant environmental and social impacts, high levels of regulatory scrutiny, and strong stakeholder pressure. From the perspectives of stakeholder and agency theories, these industries provided an appropriate context for examining sustainability-related pressures, information asymmetry, and the risk of symbolic compliance or greenwashing (Freeman, 1984; Jensen & Meckling, 1976). The unit of analysis was the firm, with data collected from senior managers, sustainability officers, and executives involved in sustainability and strategic decision-making. Data were gathered through structured questionnaires using purposive sampling, targeting firms actively engaged in sustainability initiatives. A total of 187 respondents participated in the study, comprising senior managers,

sustainability officers, and board-level executives from 63 companies across the three target industries. Data collection was conducted between January and May 2025. The sample size was determined based on the rule of thumb for structural equation modeling (SEM), which recommends a minimum of five to ten observations per estimated parameter (Hair et al., 2019). The inclusion criteria required respondents to have held their current positions for a minimum of two years and to have been directly involved in sustainability planning or reporting activities. Purposive sampling was employed to ensure that the selected respondents possessed the strategic knowledge required to evaluate SIVM-related items. Prior to the main survey, the instrument was pretested with 30 participants comprising academics and sustainability practitioners to ensure content validity, clarity, and conceptual alignment. The data were analyzed using SPSS 26.0 for Exploratory Factor Analysis (EFA) and AMOS 24.0 for Confirmatory Factor Analysis (CFA) and structural equation modeling (SEM).

The measurement development process followed a theory-driven approach grounded in stakeholder theory Freeman (1984) and agency theory (Jensen & Meckling, 1976). SIVM was operationalized as a multidimensional construct consisting of Green Investment Strategies, Circular Economy Practices, and Community-Based Environmental Initiatives. Unlike generic ESG indicators, the measurement items were deductively developed from the conceptual framework to capture SIVM as a strategic capability for transforming sustainability commitments into value creation. Additional constructs, including ESG Disclosure, Stakeholder Pressure, SOI, CPA, and CP, were adapted from established scales in prior studies to support discriminant validity testing. All items were measured using a seven-point Likert scale ranging from strongly disagree to strongly agree, and pretesting with academics and practitioners was conducted to refine the wording and ensure conceptual alignment.

Exploratory Factor Analysis (EFA) was conducted using principal axis factoring with varimax rotation to examine whether the empirical data supported the theoretically proposed three-dimensional structure of SIVM. The suitability of the data was assessed using the Kaiser–Meyer–Olkin (KMO) measure and Bartlett's test of sphericity, while factor retention was based on eigenvalues greater than one and scree plot analysis. Items with factor loadings above 0.50 were retained, whereas items with high cross-loadings or low communalities were removed to preserve construct clarity. The EFA results provided preliminary evidence that SIVM possessed a stable and interpretable multidimensional structure aligned with its conceptual domains.

Subsequently, Confirmatory Factor Analysis (CFA) was conducted using covariance-based structural equation modeling (CB-SEM) with maximum likelihood estimation to validate the measurement model. SIVM was specified as a second-order reflective construct represented by Green Investment Strategies, Circular Economy Practices, and Community-Based Environmental Initiatives. Model adequacy was evaluated using multiple goodness-of-fit indices, including the Comparative Fit Index (CFI), Tucker–Lewis Index (TLI), root mean square error of approximation (RMSEA), and standardized root mean square residual (SRMR). Convergent validity and reliability were assessed using standardized factor loadings, Average Variance Extracted (AVE), and Composite Reliability (CR), while discriminant validity was evaluated using the Fornell–Larcker criterion and the heterotrait–monotrait (HTMT) ratio, where appropriate. The inclusion of ESG Disclosure, Stakeholder Pressure, SOI, CPA, and CP in the CFA model served to confirm that SIVM represented a conceptually unique and empirically distinct strategic capability construct.

RESULTS AND DISCUSSION

Results

Data Screening and Assumption Testing

Prior to model estimation, several diagnostic procedures were conducted to ensure the adequacy of the data for structural equation modeling. The assessment of normality indicates that most observed variables exhibit mild negative skewness, suggesting a tendency toward higher response categories. Although several indicators show kurtosis values exceeding the ideal threshold, the multivariate critical ratio (CR = 7.868) suggests a deviation from strict normality. Nevertheless, this condition is considered acceptable given the relatively large sample size and the robustness of maximum likelihood estimation (MLE) employed in this study.

Outlier detection using Mahalanobis distance further confirms the absence of extreme

observations. The maximum Mahalanobis distance (123.927) remains below the chi-square threshold (126.083; df = 81; p < 0.001), indicating that no multivariate outliers are present. Consequently, all observations were retained for subsequent analysis.

In addition, multicollinearity diagnostics based on eigenvalues indicate no critical issues, despite the determinant of the covariance matrix approaching zero. This condition is commonly observed in models with a large number of indicators and does not compromise the validity of the estimation results.

Table 1
Summary of Data Screening and Assumption Testing Results

Test	Statistic	Threshold	Conclusion
Normality (Multivariate CR)	CR = 7.868 (mild negative skewness)	|CR| < 1.96 (strict)	Acceptable under MLE (large N)
Outlier Detection (Mahalanobis D^2)	D^2max = 123.927	χ^2 = 126.083 (df=81, p<.001)	No multivariate outliers
Multicollinearity (Covariance Matrix Det.)	Determinant ≈ 0 (near-singular)	Common in large-indicator models	No critical multicollinearity

Source: Primary data processed (2025)

Measurement Model Evaluation

Confirmatory factor analysis (CFA) was conducted to assess the validity of the measurement model. Overall, the results indicate that all constructs demonstrate acceptable levels of indicator reliability and convergent validity.

The ESG construct exhibits standardized loadings ranging from 0.654 to 0.909, indicating a generally strong measurement structure. Similarly, Stakeholder Pressure (SP) shows consistently high loadings of 0.717–0.922, indicating a robust representation of external pressures.

The focal construct of this study, Sustainability Innovative Value Maximization (SIVM), demonstrates standardized loadings ranging from 0.535 to 0.936. While most indicators exceed the recommended threshold of 0.70, several items fall within the moderate range. Rather than indicating measurement weakness, this variation reflects the multidimensional nature of SIVM, which captures diverse strategic domains including green investment, circular practices, and community-based environmental initiatives. All indicators were therefore retained to preserve the construct's conceptual richness.

Sustainability-Oriented Innovation (SOI) exhibits excellent measurement properties, with loadings ranging from 0.751 to 0.949. Corporate Political Activity (CPA) also demonstrates strong validity, with most indicators above 0.70, despite one marginal loading (0.584). Meanwhile, Corporate Performance (CP) shows moderate loadings (0.539–0.847), which remain acceptable given its nature as an outcome construct.

Table 2
Measurement Model: Factor Loadings, AVE, and Composite Reliability

Construct	Indicator Loading Range	AVE	CR	Convergent Validity
ESG Disclosure	0.654–0.909	0.628	0.921	Acceptable
Stakeholder Pressure (SP)	0.717–0.922	0.681	0.937	Acceptable
SIVM (focal construct)	0.535–0.936	0.583	0.914	Acceptable*
Sustainability-Oriented Innovation (SOI)	0.751–0.949	0.712	0.944	Acceptable
Corporate Political	0.584–0.891	0.598	0.877	Acceptable

Activity (CPA)				
Corporate Performance (CP)	0.539–0.847	0.524	0.841	Acceptable

*Note: *AVE for SIVM is 0.583 reflecting multidimensional breadth (green investment, circular economy, community-based initiatives). CR = Composite Reliability; AVE = Average Variance Extracted. Threshold: AVE > 0.50, CR > 0.70 (Hair et al., 2019).*

Model Fit Assessment

The overall model fit indicates a strong correspondence between the hypothesized model and the observed data. The chi-square to degrees of freedom ratio (CMIN/DF = 1.038) falls well below the recommended threshold, suggesting an excellent fit. This is further supported by a very low RMSEA value (0.010), indicating minimal approximation error.

Incremental fit indices also demonstrate superior model fit, with CFI, TLI, and IFI all reaching 0.997. These values significantly exceed the commonly accepted threshold of 0.90, indicating that the proposed model substantially improves upon the null model.

Although GFI (0.851) and AGFI (0.842) fall slightly below the conventional cutoff, such deviations are frequently observed in complex models with a large number of indicators. Taken together, the overall evidence strongly supports the adequacy of the model.

Table 3
Model Fit Indices for the Confirmatory Factor Analysis (CFA)

Fit Index	Value	Threshold	Interpretation
CMIN/DF	1.038	≤ 3.00	Excellent fit
RMSEA	0.010	≤ 0.08	Excellent fit
CFI	0.997	≥ 0.90	Excellent fit
TLI	0.997	≥ 0.90	Excellent fit
IFI	0.997	≥ 0.90	Excellent fit
GFI	0.851	≥ 0.90 (conventional)	Acceptable (complex model)
AGFI	0.842	≥ 0.90 (conventional)	Acceptable (complex model)

Source: Primary data processed via AMOS 24.0 (2025)

Structural Model Results

The structural model was evaluated using both maximum likelihood estimation and bootstrapping procedures. The results reveal several significant relationships that provide strong empirical support for the proposed framework.

The effect of ESG on SIVM is positive and highly significant ($\beta = 0.868$; $p < 0.01$), indicating that sustainability disclosure is a critical driver of the firm's ability to convert sustainability pressures into value. Similarly, Stakeholder Pressure significantly influences Sustainability-Oriented Innovation ($\beta = 1.032$; $p < 0.01$), confirming its role as an external driver of innovation.

SIVM demonstrates a strong and significant effect on Corporate Political Activity ($\beta = 1.009$; $p < 0.01$) as well as on Corporate Performance ($\beta = 0.462$; $p < 0.01$). In contrast, the relationship between SIVM and SOI is not significant ($\beta = 0.037$; $p > 0.05$), suggesting that value-maximization capability does not necessarily translate into innovation outcomes.

Furthermore, SOI does not exhibit a significant effect on corporate performance ($\beta = 0.023$; $p > 0.05$), whereas Corporate Political Activity significantly enhances performance ($\beta = 0.310$; $p < 0.01$). These findings indicate that institutional and strategic mechanisms play a more critical role in value realization than innovation alone.

Effect Decomposition

An analysis of direct and indirect effects provides additional insight into the structural relationships. ESG exerts a substantial indirect effect on corporate performance (0.765), primarily through SIVM and CPA. This highlights the mediating role of strategic capability in translating sustainability-related initiatives into tangible outcomes. Notably, SIVM demonstrates the strongest total effect on corporate performance (0.915), underscoring its central role within the

model. These findings indicate that the pathway ESG → SIVM → CPA → Corporate Performance constitutes the primary value creation chain in this model, wherein strategic capability (SIVM) serves as the primary mediating mechanism through which ESG disclosure achieves economic impact. The near-complete mediation by SIVM (indirect effect = 0.765, direct effect not significant without SIVM) suggests that ESG disclosure without the internal capability to convert sustainability pressures is insufficient to produce measurable corporate value. This is consistent with the capability-based view of the firm Teece (2007) and reinforces the argument that sustainability governance requires both external signal quality and internal resource conversion mechanisms.

Table 4
Structural Path Coefficients and Effect Decomposition

Path	β	p-value	Direct Effect	Indirect Effect	Total Effect
ESG → SIVM	0.868	<0.01**	0.868	—	0.868
SP → SOI	1.032	<0.01**	1.032	—	1.032
SIVM → CPA	1.009	<0.01**	1.009	—	1.009
SIVM → CP	0.462	<0.01**	0.462	0.453	0.915
SOI → CP	0.023	n.s.	0.023	—	0.023
CPA → CP	0.310	<0.01**	0.310	—	0.310
ESG → CP (total via SIVM+CPA)	—	—	—	0.765	0.765

*Note: ** p < 0.01; n.s. = not significant; β = standardized path coefficient; SP = Stakeholder Pressure; CP = Corporate Performance. Source: Primary data processed via AMOS 24.0 (2025).*

Discussion

Reinterpreting the Role of Sustainability in Value Creation

The findings of this study challenge the dominant assumption in the sustainability literature that ESG disclosure and sustainability-oriented innovation directly translate into superior corporate performance. While prior studies often treat ESG as a performance driver, the results here demonstrate that ESG exerts its influence primarily through an intermediate strategic capability—namely, Sustainability Innovative Value Maximization (SIVM).

The strong and significant effect of ESG on SIVM indicates that sustainability disclosure functions as a stimulus rather than a value-generating mechanism. In other words, ESG provides external pressure and a legitimacy signal, but it does not inherently create value unless firms possess the internal capability to transform those pressures into strategic outcomes.

This finding repositions ESG within the value creation process, not as an endpoint, but as an input into a broader capability-driven mechanism. The mediating role of SIVM in the ESG–performance relationship is consistent with prior literature emphasizing internal capabilities as moderators of external sustainability pressures. For instance, Teece (2007) argues that dynamic capabilities, the capacity to sense, seize, and reconfigure resources in response to environmental change, determine whether strategic stimuli translate into competitive advantage. In this study, SIVM operationalizes precisely this dynamic capability within the sustainability domain: it is the firm-level mechanism that determines whether ESG disclosure leads to value creation or remains a symbolic compliance exercise. This interpretation aligns with Hart (2011), whose natural-resource-based view posits that environmental capabilities must be embedded in organizational routines to produce sustainable competitive advantage. The difference between firms with and without such capabilities may explain the widely observed inconsistency in ESG–performance findings across the literature (Bansal et al., 2021; Buallay, 2022; Kalia & Aggarwal, 2023).

SIVM as a Distinct Strategic Capability

The empirical results provide robust support for conceptualizing SIVM as a distinct and multidimensional strategic capability. The construct demonstrates strong measurement properties and substantial explanatory power, particularly in its relationship with corporate performance.

Notably, SIVM exhibits a dominant total effect on corporate performance, exceeding the

influence of other constructs in the model. This indicates that value creation in sustainability contexts is not merely a function of external pressures or innovation outputs, but of the firm's ability to strategically orchestrate sustainability initiatives into economically meaningful outcomes.

The multidimensional structure of SIVM (encompassing green investment strategies, circular economy practices, and community-based environmental initiatives) further reinforces its role as an integrative capability. Rather than representing isolated activities, these dimensions collectively capture the firm's capacity to align environmental, social, and strategic objectives.

Distinction Between SIVM and ESG

A critical contribution of this study lies in empirically distinguishing SIVM from ESG. While ESG is commonly operationalized as a disclosure-based construct reflecting transparency and compliance, SIVM represents an internal capability oriented toward value maximization.

The significant relationship between ESG and SIVM, coupled with their conceptual differences, suggests a sequential rather than overlapping relationship. ESG disclosure alone does not guarantee improved performance; instead, its effectiveness depends on whether firms can internalize and operationalize sustainability pressures through SIVM.

This distinction addresses a major limitation in prior research: ESG is often treated as both a signal and a capability, leading to conceptual ambiguity and inconsistent empirical findings.

Distinction Between SIVM and Sustainability-Oriented Innovation (SOI)

Another important finding is the non-significant relationships between SIVM and SOI, and between SOI and corporate performance. These results suggest that innovation, while important, is not necessarily the primary mechanism through which sustainability creates value.

This challenges the prevailing view that sustainability-oriented innovation is the central pathway linking ESG to performance. Instead, the findings indicate that innovation outcomes may be insufficient without strategic alignment and value conversion mechanisms.

SIVM, in this context, operates at a higher strategic level than SOI. While SOI captures the output of innovation processes, SIVM reflects the firm's ability to integrate, prioritize, and monetize sustainability initiatives. The absence of a significant link between SOI and performance further reinforces the argument that innovation alone does not guarantee value creation. This finding diverges from studies that treat sustainability-oriented innovation as a direct pathway to competitive advantage (Taneja et al., 2023). A plausible explanation lies in the implementation gap: firms may invest in sustainability-oriented innovation activities without possessing the strategic infrastructure to commercialize or leverage those outputs. In the Indonesian context, this may be further compounded by weak institutional complementarities (limited access to green finance, underdeveloped sustainability supply chains, and inconsistent regulatory enforcement) that restrict the performance payoff from innovation investments (Nareswari et al., 2023). The non-significance of SOI–performance link thus does not discredit the value of innovation per se, but rather underscores the necessity of coupling innovation with a broader value-conversion capability such as SIVM to translate innovation inputs into realized corporate performance.

The Role of Corporate Political Activity (CPA) as a Value Transmission Mechanism

The results highlight Corporate Political Activity (CPA) as a significant pathway through which SIVM influences corporate performance. The strong relationship between SIVM and CPA suggests that firms leverage institutional and regulatory engagement as part of their value maximization strategy.

This finding implies that sustainability value creation is not confined to internal operations or technological innovation, but extends to the institutional environment. Firms with strong SIVM capabilities are more likely to engage in strategic interactions with regulators, policymakers, and other stakeholders to shape favorable conditions for value realization.

Thus, CPA functions as a transmission mechanism, translating internal strategic capability into external economic outcomes.

Theoretical Contributions

Taken together, these findings yield several important theoretical contributions. First, it extends stakeholder theory by introducing a missing internal layer, strategic capability. While stakeholder theory explains why firms respond to external pressures, it does not adequately address how such pressures are transformed into value. SIVM fills this gap by conceptualizing the internal processes that enable value conversion. Second, the findings contribute to agency theory by clarifying the dual nature of ESG. While ESG disclosure can reduce information asymmetry, it may also introduce agency costs if not managed effectively. SIVM mitigates this risk by ensuring that sustainability initiatives align with value-creation objectives. Third, and most importantly, this study introduces SIVM as a novel construct that bridges the gap between sustainability pressures and performance outcomes. This study demonstrates that SIVM represents a distinct strategic capability that bridges the gap between external sustainability pressures and value creation outcomes.

Conceptual Implications

The results imply a fundamental shift in how sustainability-performance relationships should be understood. Rather than viewing ESG and innovation as direct drivers of performance, the findings suggest a capability-based framework in which value is created through the firm's ability to strategically manage and convert sustainability initiatives. This perspective provides a more nuanced explanation for the inconsistent findings in prior ESG-performance research and offers a clearer conceptual foundation for future studies.

CONCLUSION

This study develops and empirically validates Sustainability–Innovative Value Maximization (SIVM) as a multidimensional strategic capability that bridges sustainability practices and corporate value creation. Using Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA), the findings confirm that SIVM is a valid, reliable, and empirically distinct construct comprising Green Investment Strategies, Circular Economy Practices, and Community-Based Environmental Initiatives. The study demonstrates that sustainability-related factors (including ESG Disclosure, Stakeholder Pressure, Sustainability-Oriented Innovation (SOI), and Corporate Political Activity (CPA)) do not automatically improve corporate performance unless firms possess an internal capability to transform sustainability commitments into measurable value. By distinguishing SIVM from ESG disclosure and other related constructs, this study extends stakeholder theory and agency theory through a capability-based perspective, providing a clearer explanation for the inconsistent ESG–performance relationship reported in previous studies while contributing empirical evidence from high ESG-exposure industries in Indonesia.

The findings also provide important managerial implications by suggesting that firms should move beyond sustainability disclosure as a compliance exercise and instead strengthen internal capabilities that integrate sustainability into strategic decision-making, investment policies, operational processes, and stakeholder engagement to generate long-term value. Boards and sustainability committees should therefore evaluate not only the quality of ESG reporting but also the organization's capacity to convert sustainability initiatives into measurable business outcomes. Future research is encouraged to examine the development of SIVM across different industries and institutional contexts using longitudinal and cross-country designs, investigate potential moderating variables such as board sustainability expertise or ownership structure, and explore the organizational processes underlying SIVM through qualitative approaches to further enhance understanding of sustainability-driven value creation.

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AUTHOR CONTRIBUTION STATEMENT

Author 1 contributed to conceptualization, methodology, instrument development, data collection, formal analysis, visualization, and writing the original draft. Author 2 contributed to conceptualization, methodology, supervision, validation, project administration, and manuscript editing. Both authors have read and approved the final version of the manuscript and agree to be accountable for all aspects of the work.

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