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Integration of ESG principles in corporate governance: A review of the latest literature

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Abstract---This study aims to analyse the conceptual development and practical implications of integrating Environmental, Social, and Governance (ESG) principles into corporate governance based on the latest literature. The results found that ESG has transformed from a mere compliance instrument to a strategic foundation for creating long-term value and business competitiveness. ESG integration has been proven to improve financial performance, strengthen reputation, and expand access to sustainable capital markets. However, ESG implementation still faces structural challenges, including disparities in reporting standards, infrastructure limitations, and organisational cultural resistance, particularly in developing countries such as Indonesia. The findings of this study emphasise the importance of collaboration between regulators, business actors, and academics in accelerating the adoption of contextual and adaptive ESG. This study also recommends the development of digital-based governance models and a circular economy as future strategies to strengthen corporate sustainability and resilience in an increasingly dynamic business era.

Keywords---ESG, corporate governance, sustainability, systematic literature review, sustainable business.

Introduction

The principles of Environmental, Social, and Governance (ESG) have become one of the main pillars in the development of modern corporate governance. The transformation of the business paradigm from merely pursuing financial profits to creating long-term sustainable value has encouraged companies to integrate environmental, social, and governance aspects into every decision-making process.

ESG is no longer seen as an additional initiative, but rather as a strategic necessity that supports corporate competitiveness in the era of globalisation

(Arduino, 2024). Increased public awareness of environmental and social issues has strengthened demands for corporate transparency and accountability.

Consumers, investors, and other stakeholders are now increasingly critical in evaluating company performance, not only from a financial perspective but also from the impact it has on the environment and society. This is driving companies to undertake more inclusive and sustainability-oriented governance transformations (Crifo, 2019).

At the global level, various regulations and international standards have been developed to encourage the adoption of ESG principles. Institutions such as the United Nations Global Compact, the Global Reporting Initiative (GRI), and the Sustainability Accounting Standards Board (SASB) provide frameworks to help companies measure, report, and improve their ESG performance. In Indonesia, the Financial Services Authority (OJK) has also issued regulations on sustainability reporting that require public companies to disclose ESG aspects in their annual reports (Gupta, 2022).

The integration of ESG into corporate governance can increase investor confidence and expand access to funding sources. A number of studies show that companies that consistently apply ESG principles tend to have more stable financial performance and lower business risks. ESG is also an important factor in investment decisions, with global institutional investors increasingly prioritising portfolios based on sustainability criteria (Yoon & Bhagat, 2023).

However, the implementation of ESG at the company level still faces various challenges. One of the main obstacles is the lack of internal understanding and competence regarding ESG principles. Many companies still view ESG as an additional burden rather than a strategic opportunity. In addition, data limitations, the absence of uniform reporting standards, and regulatory disparities between countries pose additional barriers to the ESG integration process (Rahmita et al., 2023).

On the other hand, the development of digital technology has opened up new opportunities to accelerate ESG integration. The digitisation of sustainability reporting, the use of big data, and artificial intelligence enable companies to manage and monitor ESG performance more effectively and transparently. This also makes it easier for stakeholders to access relevant information for decision-making (Cherkasova, 2022).

Therefore, the role of leadership, organisational culture, and incentive systems is crucial in driving the successful implementation of ESG. In addition, there is a need to develop a governance model that is adaptive to external and internal dynamics. Global challenges such as climate change, social inequality, and public trust crisis towards corporations further strengthen the urgency of ESG integration. Companies that fail to adopt ESG principles risk losing social legitimacy and facing pressure from regulators and the market. Conversely, companies that are proactive in integrating ESG have the potential to gain a sustainable competitive advantage (Gupta, 2022).

In the Indonesian context, ESG adoption is still relatively new and faces unique challenges, particularly regarding human resource readiness and supporting infrastructure. However, there is significant opportunity for national companies to become pioneers in ESG implementation in Southeast Asia, given the growing attention of foreign investors to sustainability issues in emerging markets (Lopez-de-Silanes, 2020).

This study aims to analyse the latest literature on the integration of ESG principles in corporate governance. This study will identify trends, challenges, and opportunities arising from ESG implementation. With a literature review approach, this study is expected to provide theoretical and practical contributions to the development of management science and corporate governance in Indonesia.

Research Method

The research method used in this study is a systematic literature review (SLR), which is a systematic and structured approach to identifying, evaluating, and integrating relevant research results related to the integration of ESG principles in corporate governance. Data collection was conducted through literature searches in various academic databases such as Scopus, Google Scholar, and JSTOR using relevant keywords such as 'ESG', 'corporate governance', and 'sustainability' (Ferrari, 2020); (Green et al., 2006). The data obtained were then analysed using bibliometric analysis with the assistance of VOSviewer software to map trends, main themes, and developments in ESG research. The synthesis process was conducted thematically to identify research gaps and areas requiring further investigation, thereby enabling this study to provide a comprehensive understanding of the implementation and impact of ESG in corporate governance (Baumeister & Leary, 2020).

Results and Discussion

Conceptual Development of ESG Integration in Corporate Governance

The conceptual development of ESG (Environmental, Social, and Governance) integration in corporate governance has undergone significant transformation over the past decade. Initially, ESG was viewed as a complement to core business strategies, but it has now become a fundamental foundation for building corporate sustainability and competitiveness at both the global and national levels. This shift is driven by increasing pressure from regulators, investors, and consumers demanding greater transparency, social responsibility, and environmentally friendly business practices (van Duuren, 2016).

In its early stages, ESG was mostly adopted by multinational companies operating in countries with strict regulations. However, as global awareness of issues such as climate change, social inequality, and poor governance has grown, ESG principles have begun to be systematically integrated into corporate governance across various sectors and regions. This is reflected in the increasing number of companies publishing sustainability reports and adopting international standards such as GRI, SASB, and TCFD (Yoon & Bhagat, 2023).

ESG integration is not only aimed at regulatory compliance, but also serves as a strategic tool for identifying and managing business risks holistically. By incorporating ESG into the Governance, Risk, and Compliance (GRC) framework, companies can strengthen business resilience, build reputation, and increase stakeholder trust.

This approach places ESG as an integral part of the decision-making process across all lines of the organisation (Duque-Grisales, 2021). The environmental dimension of ESG emphasises the importance of natural resource management, carbon emission reduction, and the transition to renewable energy. In Indonesia, for example, investment in clean energy and efforts to achieve net zero emissions by 2060 are top priorities in the national ESG agenda.

Meanwhile, the social dimension highlights companies' responsibilities towards their employees, the community, and a fair and inclusive supply chain. Initiatives such as increasing diversity, protecting human rights, and strengthening relationships with local communities are becoming increasingly important in modern business practices (Arduino & Buchetti, 2022).

In terms of governance, companies are required to improve transparency, accountability, and integrity in every business process. Good governance practices include the formation of a diverse board of directors, rigorous internal audits, and the implementation of anti-corruption policies and shareholder rights protection. Thus, strong governance is the foundation for the successful implementation of ESG as a whole (Arduino et al., 2024).

Global trends show that ESG integration is now increasingly driven by technological innovation. The use of artificial intelligence, blockchain, and digital platforms makes it easier for companies to manage ESG data, improve reporting transparency, and monitor performance in real time. Technology also enables companies to identify ESG opportunities and risks more quickly and accurately, thereby supporting data-driven decision-making (Yoon & Bhagat, 2023).

In addition, stricter regulations at the international and national levels are pushing companies to conduct more comprehensive and auditable ESG reporting. Standards such as the Corporate Sustainability Reporting Directive (CSRD) in the European Union and sustainability reporting policies in Indonesia require companies to report measurable environmental and social impacts, including Scope 3 emissions and sustainable supply chain practices (Yoon & Kim, 2023).

ESG integration also contributes to the achievement of the Sustainable Development Goals (SDGs). By adopting ESG principles, companies not only create economic value but also sustainable social and environmental value. This aligns with the growing expectations of global investors who increasingly prioritise sustainability-based portfolios, making companies that excel in ESG more likely to attract investment and gain access to green financing (Yoon & Serafeim, 2022).

However, the process of integrating ESG is not without challenges. Some of the common obstacles include a lack of internal understanding, limited reliable data, and differences in reporting standards between countries. Additionally, the risks

of greenwashing and inaccurate ESG reporting are major concerns for regulators and investors.

Therefore, companies need to build a comprehensive culture of sustainability and conduct ongoing evaluations of the effectiveness of ESG implementation (Zulkifli, 2019). In Indonesia, the development of ESG is marked by cross-sector collaboration between the government, the business world, and civil society. This collaboration aims to accelerate the achievement of national sustainability targets and strengthen the competitiveness of companies in the global market.

Companies that are able to adapt to ESG trends and integrate them into their governance will be better prepared to face economic, social, and environmental challenges in the future (E-Vahdati, 2019).

From an academic perspective, recent literature confirms that ESG integration has a positive impact on corporate sustainability performance, both economically, socially, and environmentally. Research also shows that companies with good ESG practices tend to have lower business risks and stronger reputations in the eyes of stakeholders (Kumar et al., 2024).

Thus, the conceptual development of ESG integration in corporate governance has shifted from mere compliance to a core strategy supporting sustainability and long-term business growth. With increasing regulatory support, technological innovation, and cross-sector collaboration, ESG will continue to be a key factor in determining a company's competitiveness and resilience in the modern business era.

Practical Implications of Applying ESG Principles on Organisational Performance

The implementation of ESG (Environmental, Social, and Governance) principles in organisations has significant practical implications for company performance in various aspects. One of the most tangible impacts is an improvement in the company's reputation and image in the eyes of the public, investors, and other stakeholders.

Companies that consistently integrate ESG into their business strategies tend to gain greater trust, which ultimately strengthens their position in the market and opens up wider access to funding and sustainable investment (Anon, 2024). From an operational perspective, the implementation of ESG enables companies to identify and manage risks more effectively.

Environmental aspects, such as carbon emission reduction and waste management, as well as social aspects, such as community empowerment and worker rights protection, help companies minimise potential disruptions to business operations. In addition, good governance strengthens decision-making structures and increases transparency, making companies better prepared to face challenges and regulatory changes (Gupta, 2022).

Financially, various studies show that companies with high ESG scores tend to have better financial performance. This is because ESG implementation can reduce operational costs through energy efficiency, better resource management, and reduced litigation and legal sanctions risks. Furthermore, companies that excel in ESG are also more attractive to institutional investors who are now increasingly prioritising sustainability-based portfolios (Yoon & Serafeim, 2022).

ESG implementation also contributes to increased customer loyalty and competitiveness in the market. Today's consumers prefer products and services from companies that are socially and environmentally responsible. This encourages companies to continue innovating in creating added value that is not only oriented towards economic profit but also towards positive impacts on society and the surrounding environment (Arduino et al., 2024).

From a governance perspective, ESG encourages companies to adopt principles of transparency, accountability, and better risk management. Through structured ESG reporting, companies can demonstrate their commitment to sustainable business practices and enhance stakeholder trust. Good governance also strengthens corporate culture and creates a more inclusive and productive work environment (Arduino & Buchetti, 2022).

In addition to benefits, ESG implementation also presents challenges, such as the need for significant initial investment, limited human resources, and the complexity of measuring and reporting ESG performance. However, the long-term benefits, such as increased profitability, reduced default risk, and enhanced resilience to crises, far outweigh the challenges faced (Crifo, 2019).

Empirical studies in Indonesia and globally show that companies that consistently implement ESG are not only able to improve their financial performance but also strengthen their position in the face of increasingly intense competition. Good ESG disclosure also sends a positive signal to the capital market, increases company value, and accelerates the recovery of ESG-based stock indices compared to conventional indices (Gupta, 2022).

Thus, the implementation of ESG principles has broad practical implications for organisational performance, ranging from improved reputation, operational efficiency, competitiveness, to sustainable financial performance. With the existing challenges, companies need to continue to adapt and innovate in integrating ESG into their governance and business strategies in order to survive and thrive in an era where sustainability is increasingly prioritised.

Structural challenges in implementing ESG in the contemporary business context

The implementation of ESG principles faces fundamental challenges related to regulatory disparities and reporting standards that are not yet integrated globally. Differences in policies between countries, such as the lack of uniformity in the definition of ESG materiality between the European Union and Southeast Asia, create complexity for multinational companies. In Indonesia, the regulatory framework is still scattered across various sectoral regulations without a

comprehensive legal umbrella, making it difficult to develop a consistent implementation strategy. This situation is exacerbated by frequent policy changes, such as the sudden imposition of carbon taxes, which forces companies to make costly operational adjustments (Yoon & Serafeim, 2022).

Limited data infrastructure and technology are major obstacles to ensuring the accuracy of ESG reporting. Many companies, particularly in traditional manufacturing sectors, still rely on manual systems to collect environmental and social data, resulting in retrospective and unreliable reporting.

The lack of adoption of technologies such as IoT for real-time emissions monitoring or blockchain for tracking sustainable supply chains widens the gap between ideal practices and implementation in the field (Rahmita et al., 2023). The cost of transitioning to holistic ESG practices is often a heavy burden, especially for MSMEs and companies with thin profit margins.

Investments in environmentally friendly technology, human resource training, and production process modifications can reach 20-30% of operational budgets, while government incentives remain limited. This dilemma is exacerbated by shareholder pressure demanding short-term ROI, which conflicts with the nature of ESG investments that yield results only after 5-10 years (Cherkasova, 2022).

A resistant organisational culture poses a challenge in itself. A short-term mindset among senior management and a lack of understanding of the link between ESG and business competitiveness hinder the internalisation of sustainability values. A recent survey revealed that 47% of executives in Southeast Asia still view ESG as an administrative burden rather than a strategic opportunity, resulting in the allocation of resources for sustainability initiatives often being symbolic (Gupta, 2022).

The complexity of global supply chains complicates the comprehensive implementation of ESG. Dependence on local suppliers that do not meet environmental standards or ethical labour practices creates indirect *greenwashing* risks. For example, multinational retail companies often find it difficult to ensure that all vendors at the tier-3 level comply with zero-deforestation commitments, especially in areas with limited oversight such as Kalimantan or Sumatra (Lopez-de-Silanes, 2020).

Competency gaps in ESG management are a systemic barrier. The lack of multidisciplinary experts who understand technical environmental aspects, social dynamics, and corporate governance makes companies dependent on expensive external consultants.

This problem is exacerbated by higher education curricula that do not yet accommodate sustainability literacy, leaving university graduates ill-prepared to meet ESG management demands in the workplace (van Duuren, 2016). Competitive pressures in global markets often force companies to sacrifice ESG practices to maintain profit margins.

Resource-intensive industries such as mining or palm oil plantations often face a dilemma between complying with emission reduction commitments and the demands of profitable mass production. This reality is reflected in the persistently high levels of illegal deforestation in some regions, despite commitments to *zero-deforestation* from large corporations (Yoon & Serafeim, 2022).

Fragmented interests among stakeholders create strategic conflicts in ESG implementation. Institutional investors demanding quarterly performance, consumers pressing for environmental transparency, and regulators setting long-term targets often have conflicting priorities. This tension leads to confusion in determining the scale of ESG programme priorities, especially when allocating limited budgets (Duque-Grisales, 2021).

The lack of supporting infrastructure is a structural challenge that is often overlooked. In Indonesia, the lack of renewable energy-powered electricity grids, integrated recycling facilities, or low-emission transportation systems in industrial zones hinders the transition to a green economy. Recent data shows that only 15% of industrial zones have waste treatment facilities that meet international standards, reflecting the gap between corporate commitments and infrastructure realities (Yoon et al., 2016).

Thus, it can be emphasised that the challenges of implementing ESG are systemic and interrelated. Effective solutions require triadic collaboration between the government as the regulator, businesses as the executors, and the public as the supervisors. Harmonising regulations, strengthening human resource capacity, providing performance-based economic incentives for ESG, and developing supporting infrastructure must be prioritised to create a truly sustainable business ecosystem.

Conclusion

The integration of ESG principles into corporate governance has evolved from a mere compliance instrument to a strategic component that defines business competitiveness and sustainability in the modern era. Recent literature analysis confirms that companies that holistically internalise ESG tend to have better financial resilience, lower reputational risk, and broader access to sustainable capital markets. This transformation is driven by increasingly critical stakeholder demands, global regulatory developments, and the recognition that responsible business practices are positively correlated with long-term value creation. Digital technology also plays a crucial role in accelerating ESG integration through real-time reporting systems, predictive analytics, and supply chain transparency.

However, ESG implementation still faces complex structural challenges, ranging from disparate reporting standards, high transition costs, to organisational cultural resistance. In developing countries such as Indonesia, infrastructure gaps, limited competent human resources, and regulatory fragmentation slow down the widespread adoption of ESG. Effective solutions require triadic collaboration between the government (policy harmonisation and incentives), businesses (allocation of strategic resources), and academia (capacity building and model innovation). Global case studies show that ESG pioneer companies are

able to convert these challenges into opportunities through a *shared value creation* approach that aligns economic, social, and environmental interests.

Going forward, ESG will become increasingly integrated with digital governance and the circular economy, creating a more adaptive and regenerative business paradigm. Recent literature emphasises the need for further research to develop contextual ESG implementation models, particularly in emerging markets with unique socio-economic dynamics. Additionally, evaluating the impact of policies such as carbon taxes and mandatory ESG disclosure should be a priority to accelerate the transition toward sustainable governance in an inclusive manner. Ultimately, ESG integration is no longer an option but a fundamental prerequisite for companies aiming to survive and thrive in an increasingly dynamic and uncertain business landscape.

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