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The Influence of Sustainable Business Strategy on Social Entrepreneurship Performance in the ESG Era

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Abstract

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The development of the ESG (Environmental, Social, Governance) concept has triggered a significant transformation in global business strategies, particularly within the realm of social entrepreneurship practices. This study aims to explore the influence of sustainable business strategy on the social performance of entrepreneurship in the ESG era using a literature study approach. The research draws from recent scholarly publications and systematically analyzes relevant findings to identify patterns and outcomes. The results of the review indicate that the adoption of sustainability strategies significantly drives the achievement of social missions, enhances organizational credibility, and strengthens long-term business resilience. ESG has been proven to serve as a strategic framework for realizing both economic and social values simultaneously. Furthermore, the study reinforces the notion that sustainability should not be viewed as an optional agenda but as a core element of strategic planning in socially-driven enterprises. This research is expected to provide a conceptual foundation for both academics and practitioners to better understand the strategic role of sustainability in the context of social entrepreneurship.

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1. Introduction

In recent years, the concept of sustainability has become an increasingly significant focus in the managerial and strategic realms of organizations across various sectors. Sustainability is no longer considered a peripheral issue; rather, it has become an integral part of long-term business strategy. The emergence of the Environmental, Social, and Governance (ESG) framework marks a crucial milestone, signifying a major transition from traditional business approaches solely oriented towards profit, to a more socially, environmentally, and ethically responsible organizational governance. ESG has become a concrete symbol of corporate transformation efforts to consider sustainability factors in every activity. This paradigm shift significantly impacts how companies, institutions, and social organizations structure their business strategies, both structurally and operationally.

Social entrepreneurship itself is a business approach with unique characteristics, as it does not merely pursue financial profit as its sole objective (Hlady-Rispal & Servantie, 2018). Instead, it actively creates real and sustainable social impact. Social organizations within this category aim to solve various complex and diverse social problems, such as persistent poverty, ongoing educational inequality, and the growing environmental crisis that increasingly threatens global human quality of life. In this context, sustainability does not merely mean resource efficiency; it also involves developing adaptive, inclusive, and socially responsible business systems and models that affect all parties impacted by the organization's activities. Sustainable business strategy is fundamentally a series of policies, decisions, and processes that systematically and plannedly consider sustainability from economic, social, and environmental perspectives within a long-term timeframe.

In the current ESG era, this strategy has become more structured and well-documented because it aligns with various ESG criteria adopted by investors, regulators, and the market in general. The ESG framework helps organizations align their social orientation and mission with the increasingly complex, diverse, and sustainability-aware expectations and demands of stakeholders. The connection between sustainable business strategy and social entrepreneurship performance is a crucial aspect highly relevant for deeper study. Previous studies show that organizations successfully implementing ESG principles in their business strategies tend to have significantly better reputations, high levels of trust from strategic partners, and stronger organizational resilience in facing various crises. Integrating ESG into business strategy has been proven to significantly drive operational efficiency, foster widespread social innovation, and create shared value that extends beyond mere material profit.

However, the adoption of ESG not only opens new opportunities but also presents significant challenges, especially for social entrepreneurial entities that generally operate with limited human, financial, and technological resources (Saxena et al., 2022). They must balance achieving their core social mission with meeting increasing ESG accountability demands. Therefore, a comprehensive understanding of the influence of sustainable business strategy within the ESG framework on social entrepreneurship performance is crucial and urgent for scientific examination. This research uses a literature study approach to comprehensively explore the relationship between sustainable business strategy and social entrepreneurship performance, with a primary focus on integrating ESG principles. The aim is to construct a conceptual and practical overview based on various recent scientific literatures (2018–2022), to provide a deeper and more comprehensive understanding of the dynamics and implications arising in this context.

2. Literature Review

2.1. ESG as a Modern Business

The strategy framework ESG has evolved into a widely used and globally recognized key indicator across various sectors for evaluating an organization's overall sustainability performance, whether in the profit-oriented or nonprofit domains. ESG is no longer merely viewed as an administrative or compliance-based reporting instrument; instead, it now serves as a comprehensive, in-depth, and forward-looking strategic roadmap that helps organizations formulate effective and responsible long-term sustainable business policies and operational frameworks. ESG enables companies or organizations to not only measure but also proactively manage a wide range of relevant non-financial risks. These risks, which often encompass environmental, social, and governance aspects, have a significant and sometimes critical influence on the organization's long-term performance, operational resilience, and overall stability, especially amidst increasingly dynamic and uncertain global changes. The Environmental dimension within ESG strongly encourages organizations to significantly improve the efficiency in the use of natural resources and to actively implement measures aimed at reducing harmful environmental impacts.

Meanwhile, the Social dimension imposes higher standards for corporate social responsibility, requiring organizations to actively participate in community empowerment, social inclusion, and engagement. Furthermore, the Governance dimension emphasizes the importance of implementing systems based on transparency, public accountability, and ethical, well-justified decision-making. In the context of modern business practices, the implementation of ESG has been consistently proven to tangibly increase long-term shareholder value, foster greater levels of customer trust and loyalty, and strengthen more sustainable, transparent relationships with stakeholders. Additionally, ESG acts as a strategic mechanism to detect exploitative practices while also offering incentives to companies that consistently uphold social and ethical values.

2.2. Social Entrepreneurship and Sustainable Strategy

Social entrepreneurship is a business entity that explicitly prioritizes the creation of positive social impact in every aspect of its objectives and operational activities. This entity does not solely focus on achieving financial profit, but rather prioritizes sustainable social change as the core of its existence. According to Sudirman and Saidin (2022), social entrepreneurship is unique because it can simultaneously combine competitive business principles with a strong and profound social mission. Thus, in the context of social entrepreneurship, sustainable strategy is not merely considered an optional added value, but has become the main foundation that supports the long-term viability of the organization.

Sustainable business strategies consistently applied in social entrepreneurship practice include various important elements, such as fair and ethical supply chain management, implementation of inclusive and non-discriminatory human resource practices, and the application of a circular business model approach that focuses on resource reuse (Zumente & Bistrova, 2021). These three aspects are closely related and mutually reinforcing. All these practices, when analyzed and directly linked to indicators within the ESG framework, show that social entities have very high potential in realizing and maintaining long-term sustainability. This also strengthens the role of social entrepreneurship in driving systemic social transformation through a responsible business approach.

2.3. Influence of Sustainable Business Strategy on Social Performance

Literature consistently shows that a well-structured sustainability strategy plays a very important and strategic role in strengthening an organization's overall capacity, particularly in its efforts to create meaningful, tangible, and long-lasting social impact. The implementation of such a strategy enables organizations to navigate a wide range of social challenges using a more structured, systematic, and responsible approach. According to Popescu et al. (2022), the comprehensive and integrated application of the ESG framework can effectively stimulate the emergence of social innovations that are highly relevant to the specific context of the communities served. Furthermore, ESG contributes to increased efficiency in the overall management of organizational resources, ensuring that inputs are optimized toward socially impactful outputs. It also enhances public accountability through transparent reporting mechanisms and inclusive stakeholder involvement in strategic decision-making processes.

This holistic ESG strategy directly contributes to increasing the social legitimacy and public trust in the organization, which ultimately has a strong and positive impact on the long-term sustainability and resilience of both the organization's operations and its overarching social mission. Meanwhile, Ferrón Vílchez et al. (2022) specifically emphasize that social-oriented organizations which consistently align ESG principles with their core business models demonstrate significantly higher levels of social performance. This can be observed through several measurable indicators, including improved quality of life for targeted communities, the strengthening of inclusive local economic empowerment initiatives, and genuine contributions to the broader sustainable development goals (SDGs). ESG also functions as a guiding mechanism for establishing clear and measurable social benchmarks, allowing for a more objective, transparent, and accountable social performance evaluation process for all stakeholders involved.

3. Method

This research applies a literature study (library research) approach with a descriptive qualitative method to deeply examine and understand the relationship between sustainable business strategy, social entrepreneurship, and the ESG (Environmental, Social, and Governance) framework. The objective of this method is to construct a strong conceptual synthesis based on relevant scientific literature. The focus of this study is limited to publications with current dynamics and maintain actual context. Data was collected through a literature search process on leading academic databases, namely Google Scholar. The search process was conducted using keywords tailored to the research topic, such as "sustainable business strategy", "ESG and social entrepreneurship", and "sustainable performance in social enterprise".

The search results were then strictly filtered based on several criteria, including peer-reviewed scientific publications, strong thematic relevance to the topic, and availability in full-text format to allow for a comprehensive analysis of the content. A total of 12 international journal articles were collected through a purposive sampling technique, which is the deliberate selection of data sources based on considerations of topic suitability and academic substance quality. These articles were chosen because they were deemed to have theoretical and empirical contributions in explaining the integration of ESG into organizational strategy and its influence on social entrepreneurship performance.

Data analysis was performed using a content analysis approach, by examining the content of the literature to identify thematic patterns, trends in ideas, and recurring key findings across various sources. To maintain the validity of the analysis, a process of source triangulation was also carried out by comparing various authors' perspectives and confirming the consistency of key concepts appearing in the literature. In addition, to strengthen the conceptual foundation, this research also refers to classic literature related to social entrepreneurship theory and sustainability strategy, thereby yielding a more comprehensive and contextual understanding of the role of ESG in improving the social performance of social organizations.

4. Results

The results of this literature review collectively indicate that sustainable business strategy integrated through the application of the ESG framework has a significant, measurable, and relevant influence on improving social performance in social entrepreneurship organizations. Findings from various literatures imply that social organizations adopting ESG principles in their strategic planning and implementation exhibit a more structured, systematically measurable, and better-aligned social performance with actual community needs and long-term sustainability demands. Concerning the Environmental aspect, social entrepreneurship organizations implementing sustainable strategies demonstrate a real commitment and active measures in efforts to manage natural resources more efficiently, responsibly, and with a long-term orientation(Haldar, 2019). Some organizations adopt more environmentally friendly production models, such as the use of renewable energy, the utilization of recycled materials in production processes, and the application of circular economy principles to reduce waste and extend product life cycles.

According to Popescu et al. (2022), such strategies not only provide direct benefits to the environment but also increase public trust in the social and ethical values upheld by the organization. With energy efficiency and tangible efforts in waste minimization, organizations reflect a high commitment to sustainability, which in turn is recognized as part of social performance indicators because it reflects responsibility towards the ecosystem as a whole. Social dimension, sustainability strategy plays a major role in building and strengthening relationships between organizations and local communities that are targets of social programs. In a study conducted by Sudirman and Saidin (2022), it was found that organizations applying a sustainable social approach, such as skills training, economic empowerment, inclusive education, and participation-based community development programs, are able to create broader and longer-term direct social impact. This strategy genuinely contributes to increasing active community participation, creating local jobs adaptable to community needs, and directly helping poverty alleviation through strengthening the local economy.

Furthermore, sustainable social strategies also serve to strengthen social bonds between organizations and beneficiaries, which ultimately impacts community loyalty and the long-term sustainability of implemented social programs (Ceptureanu et al., 2018). Governance dimension, the main emphasis is on the importance of transparency, accountability, and stakeholder involvement in every strategic decision-making process of the organization. Social organizations with good internal governance systems, demonstrated through comprehensive and open ESG reporting, tend to be more trusted by the public, strategic partners, and other stakeholders. A strong governance system allows organizations to attract more funding partners, gain regulatory support from the government, and strengthen the organization's position in social and business networks. The application of good governance principles, such as financial information disclosure, professional work ethics, and routine social impact evaluations, enhances the perception of organizational legitimacy and strengthens its operational sustainability.

The integration of ESG into business strategy not only contributes to the formal aspects of governance but also encourages social innovation in various forms. Social entrepreneurship organizations that make sustainability a fundamental principle tend to be more flexible and adaptive in responding to various emerging social, economic, and environmental challenges. They are able to create and implement community-based business solutions, such as microfinance initiatives for impoverished entrepreneurs, technology-based education platforms for underserved areas, and inclusive digital healthcare systems for communities with limited access to health facilities. According to Ferrón Vílchez et al. (2022), this type of social innovation not only provides functional benefits to society but also creates a competitive advantage that allows social organizations to not only survive but also grow significantly amidst complex external competition and pressures.

Furthermore, ESG-based sustainable business strategy has also been proven to increase internal efficiency within the organization as a whole. For example, through a risk management approach that refers to ESG impacts, organizations can more quickly identify, anticipate, and respond to potential threats to the continuity of social programs and operational sustainability. Social organizations with risk management systems that consider ESG aspects are able to reduce potential resource waste, avoid social conflicts with beneficiary communities, and are better prepared to face changes or tightening environmental policies imposed by relevant authorities. This strategy makes organizations more resilient to external shocks and highly flexible in maintaining their social mission amidst global challenges.

From a performance measurement perspective, the application of ESG principles helps organizations develop more systematic, comprehensive, and measurable social impact indicators. Social organizations that actively use ESG indicators in their reporting systems are more capable of compiling a sustainability report that not only describes activity achievements but also serves as an objective and strategic tool for evaluating social performance. The indicators used in ESG reporting include important aspects such as the number of program beneficiaries, the success rate and impact of implemented programs, community participation levels, and the effectiveness of social fund utilization in achieving stated social goals. Thus, ESG provides a consistent and accountable measurement framework for both internal and external stakeholders.

In addition to supporting measurement, ESG strategy also plays an important role in increasing organizations' access to impact investment (Sciarelli et al., 2021). Currently, more and more social investors, philanthropic institutions, and governments consider ESG scores as an important part of assessing the eligibility of a social entity for financial support. They no longer evaluate investments solely based on the potential return on investment from a financial perspective, but also from the extent of social and environmental contributions provided by the recipient organization. In this regard, organizations with high ESG scores are considered more credible and worthy of funding support because they have demonstrated a commitment to sustainability values. This is reinforced by findings from Zumente and Bistrova (2021) stating that good ESG scores can serve as a positive signal to potential strategic partners and donors that the organization has reliable governance and a long-term orientation towards social impact.

In terms of day-to-day operations, the integration of sustainable business strategy has also been proven to strengthen strategic cross-sector collaborations. Social organizations that integrate ESG into their operational structure find it easier to establish partnerships with various stakeholders, including the private sector, non-governmental organizations, educational institutions, and international donor agencies. This collaboration creates resource synergies, expands program reach, and encourages mutually beneficial technology and knowledge transfer. Popescu et al. (2022) underscore that this form of collaboration is an important part of an organization's sustainability strategy because it increases the effectiveness of program implementation and expands the social impact generated. The last and also very important finding is that social organizations that consistently apply ESG principles show a more stable, credible, and sustainable level of performance in the long term. They have high flexibility in responding to rapidly changing socio-economic dynamics, and are able to proactively adapt to new emerging challenges.

In this context, ESG is not just a reporting framework or a compliance obligation, but has evolved into a system that holistically integrates social mission, business strategy, and the organization's social responsibility to the wider community (Becchetti et al., 2022). Based on the evaluation results from various studies, ESG integration also enhances public and partner perceptions of the professionalism and integrity of social organizations, which ultimately strengthens social legitimacy and supports program sustainability in the long term. Thus, based on the systematic review of various scientific literatures, it can be concluded that ESG-based sustainable business strategy significantly contributes positively to the performance of social entrepreneurship organizations. This contribution is evident across various dimensions, both from operational aspects, internal efficiency, innovation capability, access to funding, to strengthening organizational reputation, all of which play a role in strengthening the organization's capacity to carry out its social mission effectively and sustainably amidst evolving global challenges.

5. Discussion

The results of this literature study clearly show that there is a close and mutually influential relationship between sustainable business strategy and improved performance in social entrepreneurship, especially when viewed within the ESG (Environmental, Social, and Governance) framework. This discussion emphasizes that ESG is not merely a technical reporting framework or an administrative measurement tool; rather, ESG has transformed into a fundamental strategic foundation for building, developing, and maintaining social and economic value simultaneously and in a balanced manner. Sustainable strategy enables social organizations to address the complex multidimensional challenges faced by modern society, both from social, environmental, and governance perspectives. In a global environment that is constantly undergoing rapid changes due to market dynamics, technological advancements, and social pressures, and amidst increasingly high stakeholder expectations for transparency and social responsibility.

ESG serves as a strategic navigation tool for organizations to maintain their existence, increase relevance, and ensure sustainable competitiveness. ESG helps organizations formulate strategic directions and priorities that not only pursue short-term results but also consider the long-term impact on the well-being of the wider community and environmental sustainability. The theoretical implications of these findings enrich and expand the literature discussing the relationship between strategic management, organizational sustainability, and social impact(Tipu & Fantazy, 2018). ESG is no longer viewed solely as an indicator of administrative compliance or a formality of sustainability reports, but rather as an integral element of systematically integrated corporate strategy, including in the context of social entrepreneurship. This research affirms that sustainable business strategy is not an additional option or an optional alternative, but has become a fundamental prerequisite for organizations to survive and thrive healthily in the challenging modern era.

From a practical perspective, these findings provide useful insights and guidance for social organizations and social entrepreneurs in designing business strategies that align with ESG principles (Baid & Jayaraman, 2022). Consistent and comprehensive application of ESG can help organizations improve operational efficiency, build public legitimacy, and foster closer and more sustainable relationships with local communities and strategic partners. ESG also plays an important role in designing more targeted communication strategies, strengthening the identity and social brand image of the organization, and attracting interest from impact investors who are now increasingly selective in choosing partners based on their commitment to sustainability.

However, it cannot be ignored that implementation challenges persist. Many social entrepreneurship organizations, especially those operating on a small or medium scale, face resource limitations financial, technological, and managerial capacity which can hinder optimal ESG implementation. Additionally, the complexity of preparing ESG reports and the need for accurate internal evaluation systems also present obstacles. Therefore, a phased approach and strong ecosystem support from government, the private sector, and supporting institutions are needed so that ESG can be effectively implemented across various scales of social organizations. Thus, ESG is not merely a temporary managerial trend, but has become a fundamental strategic instrument in efforts to comprehensively improve social entrepreneurship performance. Consistent, directed, and systematic integration between sustainability strategy and social values will be a key element in ensuring the success and sustainability of social organizations in the future.

6. Conclusion

This study concludes that sustainable business strategy integrated within the ESG framework significantly impacts the improvement of social entrepreneurship performance. ESG is proven to strengthen the effectiveness, efficiency, and social impact of social organizations as a whole. Through the application of environmental, social, and governance principles, organizations are able to create sustainable value relevant to community needs and stakeholder expectations. The literature study also shows that ESG enhances the competitiveness of social organizations in obtaining funding, building reputation, and creating responsive social innovations. Good sustainability strategies support the achievement of social missions through risk management, increased transparency, and strategic collaboration. Furthermore, ESG serves as a measurable and systematically reportable social performance indicator. Therefore, integrating ESG into the strategy of social organizations must be a priority. It is important for social entrepreneurs and non-profit organization managers to thoroughly understand ESG and adapt it according to their respective operational contexts. ESG is not only an evaluation tool but also a strategic directional guide that impacts the long-term social and organizational sustainability.

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