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Entrepreneurship and ESG Convergence: Improving Business Performance in Emerging Markets

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ABSTRACT

Objectives: This study aims to examine the relationship between entrepreneurial orientation (EO), environmental, social and governance (ESG), and corporate business performance (CBP) in multinational companies operating in Indonesia.

Methodology: The research method used is quantitative. This data was obtained from 50 managers who completed the survey through Google Forms. The collected data is analyzed using PLS to verify the relationships between variables.

Findings: Results show that EO and ESG investments increase GST positively and significantly. In addition, ESG investments can also act as intermediaries that reinforce the positive effects of executive orders on GST.

Conclusion: This study shows that multinational companies in developing countries increase profits while supporting sustainability goals. This can be achieved by aligning the company's innovation strategy with ESG principles. Businesses must not only have profits but also the ability to create sustainable long-term growth. In addition, the results of this study can also serve as practical guidance for business leaders and policymakers in encouraging sustainable development and strengthening entrepreneurship.

Keywords: Entrepreneurial Orientation; ESG Investments; Company Performance.

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INTRODUCTION

Over the past decade, the global business environment has undergone significant changes. ESG issues are now one of the key factors in investment decisions (Shin & Tucker, 2024; Tian & Chen, 2024; Xie et al., 2024). The traditional view that a company's primary goal is simply to maximize profits is increasingly questioned. ESG-based investing underscores that social and environmental responsibility is not just an ethical choice but a strategic factor that influences a company's long-term success (Eccles & Klimenko, 2019).

This shift can be traced back to the socially responsible investment (SRI) movement in the 1960s and 1970s (Moskowitz, 1972). In the early stages, SRI is mainly focused on avoiding certain industries for ethical reasons. However, today's ESG approach is becoming more aggressive. Modern investors are actively looking for companies that demonstrate a strong commitment to sustainable business practices. This view is an indicator of the quality of good management and long-term value creation (Friede et al., 2015 annual).

In recent years, ESG investments have prompted companies to act more responsibly towards their communities and stakeholders. ESG refers to three main aspects used to evaluate how a company conducts its business operations (Rogers, 2023). The first is the environmental aspect (E), which focuses on how a company manages its environmental impact, such as reducing carbon emissions, using renewable energy, and controlling pollution. The second is the "social" aspect, which looks at how companies treat their employees and suppliers, fair wages, inclusive hiring practices, diversity in leadership, and support for women, minorities, and other underrepresented groups. The third is the governance aspect (G), which involves the company's guidance and oversight, including whether executive compensation supports long-term sustainability goals and whether stakeholder interests are adequately protected.

Many studies show that ESG performance contribute to the corporate value creation and provide an outlook on future research directions. ESG practices play a role in avoiding harm and creating value for companies directly or indirectly. Mohammad and Wasiuzzaman (2021) show that companies implement ESG initiatives actively gain a stronger competitive advantage. These findings show that companies with good ESG practices improve their performance (Aydoğmuş Dia, 2022).

EO is widely recognized as an important factor in helping businesses compete in a dynamic market. EO reflects a company's ability to innovate, take calculated risks, and respond proactively to market opportunities (Lumpkin & Dess, 1996). Companies can identify new opportunities and adapting to market changes which must adjust and create strategies with strong EOs. This ability leads to improved business performance (Soares & Perrin, 2019). However, previous research has had mixed results on the relationship between EO and CBP (Andriani et al., 2024). Some studies reported positive effects, while others reported little or no effect (Cho & Lee, 2018; Frank et al., 2010). These inconsistent results may depend on other factors that affect how entrepreneurial strategies translate into real-world results.

One explanation is the role of mediators and regulators. ESG investing could be one of the factors explaining this relationship. By combining entrepreneurial strategies with strong ESG practices, companies can strengthen their reputations and improve long-term operational efficiency. A well-known example is Tesla, which integrates innovation and risk-taking with a strong commitment to environmental sustainability. This combination has

positioned the company to lead the electric vehicle market and achieve business success. (Khan etc., 2016)

Emerging markets such as Indonesia have their own institutional and regulatory environment. Compared to developed countries, which generally have established ESG regulations and strong enforcement mechanisms, companies in emerging markets often operate under regulatory uncertainty. This situation can affect EO and ESG investments. Therefore, the results obtained from developed countries may not be directly applicable to emerging markets such as Indonesia.

In this environment, EO alone does not automatically lead to improved performance. Its effectiveness depends on how this strategic orientation is implemented and aligned with stakeholder expectations. In this context, ESG investing serves as an organizational mechanism that connects entrepreneurial behavior with institutional legitimacy and stakeholder trust. By incorporating sustainability practices into business strategies, ESG initiatives help companies transform their entrepreneurial mindset into more sustainable corporate performance. This perspective suggests that ESG investments can act as intermediaries in the relationship between executive orders and CBP.

Based on this background, this study aims to investigate whether environmental, social, and governance (ESG) investing influences the relationship between entrepreneurship and business behavior. It also seeks to address key gaps in previous research and provide a clearer understanding of how entrepreneurial strategies can be integrated with sustainable practices to achieve broader business success and greater social value.

Research Gaps

Scholars have extensively researched the relationship between EO and CBP (Andriani et al., 2024; Soares & Perrin, 2019). While many studies have shown positive effects on GST (Cho & Lee, 2018; Frank et al., 2010), others have also shown negative effects. Some scholars also point to a non-linear pattern in which excessive risk-taking ultimately hurts performance (Cho & Lee, 2018; Yoon & Solomon, 2017). These mixed results suggest that the relationship between EO and CBP is more complex than previously thought. This can vary depending on additional contextual or strategic factors.

ESG investing may be a key factor explaining these inconsistent results. ESG is increasingly recognized not only as an ethical responsibility but also as a strategic approach to support long-term value creation (Friede et al., 2015 annual; Khan etc., 2016). However, the role of linking entrepreneurial strategy to company performance has not been explored extensively. Companies with strong EO are willing to take risks to pursue innovation and take advantage of new opportunities. ESG investing serves as a channel to align this entrepreneurial strategy with stakeholder expectations. Entrepreneurial efforts are positioned not only for rapid growth but also for responsible business behavior that strengthens credibility and long-term sustainability.

Despite this potential role, relatively few studies consider ESG investing as an intermediary mechanism linking EO and GST. This gap suggests the need for further research to better understand how ESG practices link entrepreneurial strategies to performance improvement.

Most ESG research is conducted from developed countries with well-established ESG regulatory systems and frameworks. Therefore, these findings may not always apply to developing countries with different institutional and regulatory enforcement conditions. Therefore, it is important to verify the relationship between EO, ESG, and GST in Indonesia. This research aims to bridge the empirical gap and better understand the implementation of sustainable entrepreneurship strategies in developing countries.

Purpose

1. To clarify the impact of the EO on CBP.
2. To clarify the role of ESG investing in mediating the relationship between EO and CBP.
3. Understand the relationship between EO, ESG, and CBP in emerging markets.
4. Advising decision-makers on EO and ESG for GST acquisitions.

Significance of the research

1. Academic Significance

1. This study explains how EO can improve GST by positioning ESG investments as a mediating variable.
2. This study provides evidence that EO and ESG can mutually support and contribute to improving GST.
3. The study focuses on multinational companies in Indonesia and highlights the importance of developing countries in understanding the relationship between EO, ESG, and corporate performance.

2. Practical significance

1. We provide advice on how to combine EO and ESG investments to earn GST.
2. This research is also relevant for multinational companies in developing countries.
3. Research shows that aligning EO with ESG principles can support long-term business performance.

3. Policy Implications

This study can serve as a reference for policymakers to use EO and ESG to drive economic growth in Indonesia.

4. Impact on Management

This study offers practical insights for executives and decision-makers on integrating entrepreneurial and environmental, social, and governance (ESG) principles. This approach enables companies to improve their operational performance while supporting sustainable, long-term economic growth.

Research novelty

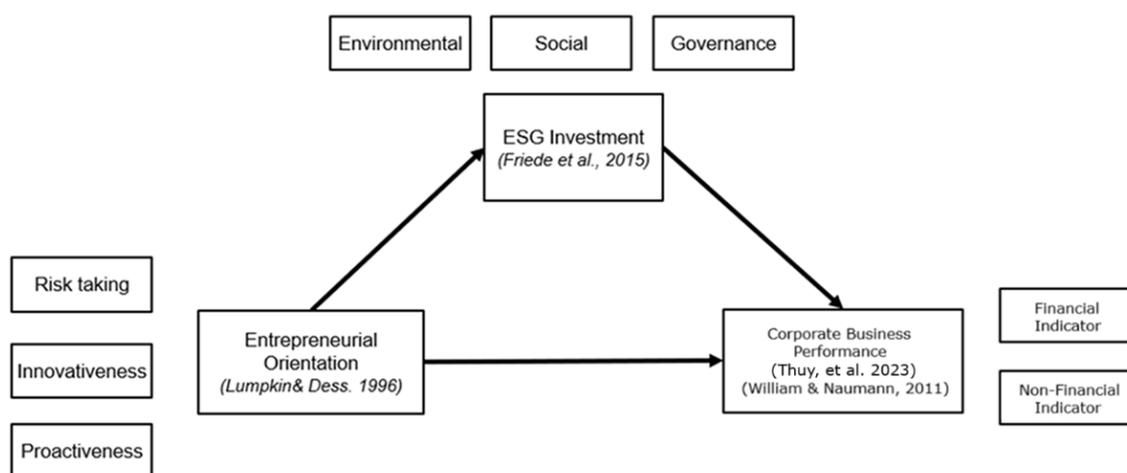
The novelty of this research lies in the integration of EO, ESG investing, and GST into one integrated framework. Previous studies are usually studied separately. As a result, understanding of how entrepreneurial strategies actually lead to sustainable business performance through ESG investments is still limited. This study further explains the relationship between EO and CBP by positioning ESG investments as a mediating factor. In addition, the study focuses on multinational companies in emerging markets and expands the discussion beyond developed countries.

METHOD

Conceptual model

The conceptual model of this research is based on the theory of dynamic capabilities. In this model, EO is the main driver, and ESG investments act as a bridge between EO and CBP. This model shows that companies with strong EO can achieve better performance by integrating ESG practices into their business strategies.

Figure 1. Conceptual framework



Population and sample

1. Population

The research objects consist of multinational companies operating in Indonesia, demonstrating strong EO, and actively investing in ESG initiatives.

2. Sample:

Objective sampling is used in the sample selection process to ensure that only companies meet the requirements included. Here are the requirements:

1. Companies that publish sustainability reports with clear and open ESG disclosures.
2. a. Companies that demonstrate EO characteristics in official publications and annual reports.

The survey involved about 50 managers of multinational companies with strategic roles and direct involvement in decision-making. Although the sample size is relatively small, their expertise ensures that the data remains meaningfully reliable.

Data collection

This study used a survey methodology to collect data. Primary data were obtained through a structured questionnaire based on specific criteria related to entrepreneurship, environmental, social, and governance (ESG) investment, and Goods and Services Tax (VAT). The questionnaire was distributed electronically to eligible participants using Google Forms.

Participants were informed of the purpose of the study, and their responses were guaranteed confidentiality and anonymity. They were also encouraged to answer honestly based on their professional experience. All questionnaire items were scored using a five-point Likert scale. The collected data were reviewed for completeness before statistical analysis.

Data Analysis

The data was analyzed using **Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS software**. This method was chosen because it is suitable for exploratory research and works well with relatively small samples. The analysis was carried out in two stages. First, the **measurement model (external model)** is evaluated to ensure the validity and reliability of the equipment. Next, **we verified the structural model (internal model) and verified the relationships between variables by analyzing the path coefficient and R-squared value using the bootstrap method.**

The mediated effect of ESG investments on the relationship between entrepreneurial orientation and CBP was examined by assessing the importance of indirect pathways. The results of this analysis were used to test the research hypothesis and explain the structural relationships between the variables investigated.

Research hypothesis

H1: EO has a positive and important impact on GST.

H2: EO has a positive and important impact on ESG investments.

H3: ESG investments have a positive and important impact on GST.

H4: ESG investing mediates the relationship between EO and GST.

RESULTS AND DISCUSSION

Results

Table 1. Descriptive statistics

	N	Minimum	Max	Average	Age aberration
EO -> CBP	51	34	75	57.82	8.599
ESG_Investment	51	29	75	58.63	9.567
CBP	51	18	50	40.06	5.416
A valid N (per list)	51				

The average EO is 57.82, the standard deviation is 8.599, the minimum is 34, the maximum is 75, the observations are 51. The average ESG Investment has an average of 58.63, a standard deviation of 9.567, a minimum of 29, a maximum of 75, and 51 observations. The average GST is 40.06, the standard deviation is 5.416, the minimum is 18, the maximum is 50, and the observation is 51.

Table 2. Outer Loading

	Outer Loadings	Standard	Valid/Not Valid
P01	0.631	0.5	VALID
P02	0.794	0.5	VALID
P03	0.665	0.5	VALID
P04	0.759	0.5	VALID
P05	0.737	0.5	VALID
P06	0.598	0.5	VALID
P07	0.772	0.5	VALID
P08	0.636	0.5	VALID
P09	0.659	0.5	VALID
P10	0.851	0.5	VALID
P11	0.692	0.5	VALID
P12	0.696	0.5	VALID
P13	0.526	0.5	VALID
P14	0.734	0.5	VALID
P15	0.5	0.5	VALID
P16	0.796	0.5	VALID
P17	0.651	0.5	VALID
P18	0.824	0.5	VALID
P19	0.757	0.5	VALID
P20	0.855	0.5	VALID
P21	0.735	0.5	VALID
P22	0.753	0.5	VALID
P23	0.69	0.5	VALID
P24	0.58	0.5	VALID
P25	0.802	0.5	VALID
P26	0.774	0.5	VALID
P27	0.76	0.5	VALID
P28	0.843	0.5	VALID
P29	0.697	0.5	VALID
P30	0.833	0.5	VALID
P31	0.591	0.5	VALID
P32	0.686	0.5	VALID
P33	0.749	0.5	VALID
P34	0.712	0.5	VALID
P35	0.796	0.5	VALID
P36	0.74	0.5	VALID
P37	0.67	0.5	VALID
P38	0.8	0.5	VALID
P39	0.792	0.5	VALID
P40	0.79	0.5	VALID

Based on the load factor results for each item in Table 2 (which consists of 40 sentences), all 40 sentences in the table are valid, and each question has a load factor value greater than 0.50 and can be used for further analysis.

Table 3. Component validity and reliability

	Cronbach's Alfa	Composite reliability	AVE
CBP	0.904	0.921	0.541
EO	0.919	0.930	0.476
ESG Investing	0.947	0.953	0.578

Each variable in Table 3, from the mean variance extraction (EVA), it is suggested that entrepreneurial orientation is invalid because the AVE value of the variable is less than 0.5, while ESG investments apply because the AVE value is higher than 0.5. Cronbach's alpha score indicates that all variables used in this study are reliable. This is because the Cronbach Alpha value for each variable is greater than 0.5. The composite reliability score also showed that all the variables used in the study were also reliable. This is because the composite reliability value of each variable is greater than 0.5. Although the EO component has an AVE value of less than 0.5, the high confidence value suggests that the metric consistently measures the intended construct, making it suitable for further analysis. Following Fornell and Larcker (1981), even if the reliability of the composite exceeds 0.7, this configuration can still be considered acceptable due to its adequate internal consistency. In these conditions, it has strong internal reliability that can compensate for the low AVE value.

Table 4. Complete Collinearity Test Results

	VIVID
CBP	2.145
EO	2.378
ESG Investing	2.564

The results of the collinearity test based on Table 4 show that all variables have a VIF value below the critical threshold of 3.3, with GST at 2,145, EO at 2,378, and ESG investments at 2,564. These values indicate that the study model does not have multicollinearity problems and is free from possible general method bias (CMB).

Table 5. Hypothesis test results

	Original Sample (O)	P-Value
Executive Order - > GST	0.351	0.016
EO -> ESG Investing	0.836	0.000
ESG Investing - > CBP	0.503	0.001

1. *EO Affects GST*

The path coefficient is 0.351. This means that EO has a positive impact on CBP, and the better the EO the leader, the better the CBP. EO has a significant impact on GST, with a t-test p-value (0.016) below the significance level. The results show that it is acceptable that Hypothesis 1, EO, has a positive and significant impact on CBP.

2. *The Impact of EO on ESG Investing*

The path coefficient is 0.836. This shows that EO has a positive impact on ESG investments, meaning that the better the EO the leader, the better the ESG investment. EO has a significant impact on ESG investments, with a t-test p-value (0.000) below the significance level. The results show that Hypothesis 2, EO, is acceptable to have a positive and significant impact on ESG investments.

3. *The impact of ESG investment on company performance*

The path coefficient is 0.503. This shows that ESG investments have a positive impact on GST, and the better the ESG investment, the better the GST. ESG investments have had a significant impact on GST, with a p-value of 0.001 on the t-test below the significance level. The results show that Hypothesis 3 "ESG investments have a positive and significant impact on GST" is acceptable.

Table 6. Indirect effects

	Original Sample (O)	P-Value
EO > ESG Investing - > CBP	0.451	0.001

Table 6 shows that ESG investments have a mediating effect on the impact of GST EO (P-value = 0.001). These results are also consistent with Barron and Kenny's mediation methods, which look for the significance of independent variables for mediator variables and the significance of mediator variables for dependent variables. The results show that ESG investments, i.e. hypothesis 4, can be accepted as mediating the relationship between EO and CBP.

Discussion

The results show that **EO** and ESG investments work together to impact **GST**. The analysis showed that EO had a positive and significant effect on CBP (developmental coefficient = 0.373; p-value = 0.008). This means that companies led by managers who are innovative, proactive, and risk-taking tend to have a better competitive position.

It also shows a very strong relationship between EO and ESG investing (path coefficient = 0.836; p-value = 0.000). This shows that entrepreneurial leaders are actively promoting sustainability initiatives as well as growth. Companies with strong EOs tend to be more likely to invest in ESG.

ESG investments themselves have a positive and important impact on GST (path coefficient = 0.503; p-value = 0.001). ESG-focused companies tend to have more stable long-term financial performance.

Mediation analysis shows that ESG investments act as a bridge between EO and CBP. Entrepreneurial strategies are more effective when they are supported by sustainable practices. This shows that combining entrepreneurship with a commitment to ESG can create long-term business value.

CONCLUSION

This study shows that **EO and ESG investments** are interconnected in increasing GST **in multinational companies operating in emerging markets**. As a result, EOs not only directly increase GST, but also encourage companies to invest more in ESG initiatives. ESG investing transforms entrepreneurial ideas into more sustainable and practical outcomes.

According to the mediation analysis, ESG investments play an important role in connecting EO and CBP. When companies combine entrepreneurship with sustainability-focused investments, they are more likely to achieve better performance while meeting their ESG responsibilities. These findings suggest that sustainability should not be seen as a barrier to entrepreneurial ambition, but rather as a strategy that underpins long-term business success.

However, this study has some limitations. Quantitative methods and relatively small sample sizes are used. You may not fully understand the complex processes involved in implementing EO and ESG investing. It can also limit the generalization of results. Future research is encouraged to use mixed methods or qualitative approaches to explore these strategies more deeply. By expanding the sample size and including additional elements such as organizational culture and digital transformation, you can better understand the relationship between EO, ESG, and CBP in different contexts.

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