INDUS JOURNAL OF CRITICAL INQUIRY (IJCI)
www.theijci.com (ISSN: Print: 3106-6739 Online: 3106-6747)
Volume 3, Issue 1 (2025)

Evaluating ESG Strategies for Corporate Sustainability in the Context of Climate Risk and Regulatory Pressure

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Abstract

Environmental social and governance strategies have become an essential component of corporate sustainability and responsible business practices in the modern global economy. Increasing climate risks and expanding regulatory requirements have forced organizations to adopt sustainability frameworks that address environmental impact, social responsibility, and governance accountability. Investors, policymakers, and stakeholders increasingly evaluate corporate performance not only through financial metrics but also through environmental sustainability and ethical governance indicators. As climate change intensifies and governments introduce stricter environmental regulations, organizations face significant pressure to integrate environmental social and governance strategies into their operational and strategic decision-making processes. This study evaluates the effectiveness of environmental social and governance strategies in enhancing corporate sustainability within the context of climate risk exposure and regulatory pressure. The research proposes a conceptual model that examines the relationships between climate risk awareness, regulatory pressure, environmental social and governance strategy implementation, and corporate sustainability performance. The study applies quantitative research methods and uses Structural Equation Modeling with Smart Partial Least Squares to analyze data collected from corporate managers, sustainability officers, and environmental compliance specialists working in various industries. The results demonstrate that climate risk awareness and regulatory pressure significantly influence the adoption of environmental social and governance strategies by organizations. Furthermore, the findings reveal that effective implementation of environmental social and governance practices positively contributes to long term corporate sustainability performance. The research highlights the strategic importance of integrating environmental and governance policies within corporate management frameworks in order to address environmental challenges and regulatory expectations. This study contributes to sustainability management literature by providing empirical evidence regarding the role of environmental social and governance strategies in strengthening corporate resilience and sustainable development. The findings provide valuable insights for policymakers, corporate leaders, and sustainability practitioners seeking to enhance organizational sustainability in an era characterized by increasing climate risks and evolving environmental regulations.

Keywords: ESG Strategies, Corporate Sustainability, Climate Risk, Regulatory Pressure, Sustainable Business Governance, Environmental Management

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Introduction

Corporate sustainability has emerged as a fundamental concern for organizations operating in an increasingly complex global environment characterized by climate change, environmental degradation, and evolving regulatory frameworks. Businesses are no longer evaluated solely on their financial performance but also on their environmental impact, social responsibility, and governance transparency. This shift has led to the widespread adoption of environmental social and governance strategies which provide a comprehensive framework for integrating sustainability principles into corporate decision-making processes (Eccles and Klimenko, 2019).

Environmental social and governance strategies represent a multidimensional approach to corporate sustainability that focuses on responsible environmental management, ethical social practices, and effective governance structures. Environmental considerations include reducing greenhouse gas emissions, improving energy efficiency, managing waste responsibly, and adopting sustainable resource management practices. Social considerations involve fair labor practices, employee wellbeing, diversity and inclusion initiatives, and community engagement. Governance components emphasize transparency, ethical leadership, regulatory compliance, and effective corporate oversight (Friede et al., 2021).

One of the primary drivers of environmental social and governance adoption is the growing awareness of climate risks that threaten business operations and economic stability. Climate change has become one of the most pressing global challenges affecting industries across the world. Rising temperatures, extreme weather events, sea level rise, and environmental disruptions pose significant risks to supply chains, infrastructure, and business continuity. Organizations must therefore develop strategies to manage climate related risks while maintaining operational efficiency and long-term profitability (IPCC, 2023).

Another important factor influencing corporate sustainability strategies is the increasing regulatory pressure from governments and international organizations. Environmental regulations and climate policies are becoming stricter in many countries as policymakers attempt to address the environmental impacts of industrial activity. Regulations related to carbon emissions, environmental reporting, and sustainable resource management require organizations to comply with specific environmental standards and reporting frameworks. Failure to comply with these regulations may result in legal penalties, reputational damage, and financial losses (Delmas and Burbano, 2022).

Investors and financial markets also play a critical role in encouraging organizations to adopt environmental social and governance practices. Sustainable investment funds and socially responsible investment strategies have grown significantly in recent years as investors seek to support companies that demonstrate responsible environmental and governance practices. Research indicates that companies with strong environmental social and governance performance tend to exhibit better long-term financial stability and risk management capabilities (Gillan et al., 2021).

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Despite the growing importance of environmental social and governance strategies, organizations face several challenges when attempting to implement sustainability initiatives. These challenges include high implementation costs, lack of standardized reporting frameworks, and limited organizational expertise in sustainability management. Additionally, some firms adopt environmental social and governance policies primarily for reputational purposes rather than genuine sustainability transformation, a phenomenon commonly referred to as greenwashing (Delmas and Burbano, 2022).

Understanding the factors that influence the effectiveness of environmental social and governance strategies is therefore critical for both academic research and corporate practice. Organizations must balance economic objectives with environmental and social responsibilities while responding to regulatory and stakeholder expectations. This study aims to evaluate the effectiveness of environmental social and governance strategies in improving corporate sustainability performance in the context of climate risk exposure and regulatory pressure. The research develops a conceptual model that examines how climate risk awareness and regulatory pressure influence environmental social and governance strategy implementation and how these strategies contribute to corporate sustainability outcomes.

The study contributes to sustainability management literature by providing empirical evidence on the role of environmental social and governance strategies in addressing climate risks and regulatory challenges. The findings are expected to provide practical insights for corporate managers, policymakers, and sustainability practitioners seeking to enhance corporate resilience and long-term sustainability.

Literature Review

Corporate sustainability has become a central topic in management research as organizations increasingly recognize the importance of integrating environmental and social considerations into business strategies. Environmental social and governance frameworks have emerged as one of the most widely adopted approaches for evaluating corporate sustainability performance. These frameworks provide standardized criteria for assessing how organizations manage environmental impacts, social responsibilities, and governance structures (Eccles and Klimenko, 2019).

The environmental dimension of environmental social and governance strategies focuses on the ecological footprint of corporate activities. Organizations are expected to reduce carbon emissions, improve energy efficiency, adopt renewable energy sources, and implement sustainable resource management practices. Climate risk management has become a critical component of environmental strategies because environmental disruptions can significantly affect supply chains, production processes, and infrastructure stability (IPCC, 2023).

Several studies have demonstrated that climate change poses substantial risks to corporate operations and financial performance. Extreme weather events such as floods, droughts, and hurricanes can disrupt production facilities and transportation networks, leading to operational losses and increased insurance costs. Consequently, organizations must develop proactive climate

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risk management strategies to enhance their resilience against environmental disruptions (Friede et al., 2021).

The social dimension of environmental social and governance frameworks focuses on how organizations interact with employees, communities, and other stakeholders. Social responsibility initiatives include promoting workplace safety, supporting employee development, protecting human rights, and contributing to community development programs. Companies that prioritize social responsibility often experience improved employee satisfaction and stronger stakeholder relationships (Gillan et al., 2021).

Governance represents another crucial component of environmental social and governance strategies. Effective governance structures ensure transparency, ethical leadership, and accountability within corporate management systems. Governance mechanisms include independent board oversight, transparent financial reporting, anti-corruption policies, and regulatory compliance systems. Strong governance frameworks enhance investor confidence and reduce the likelihood of corporate misconduct (Delmas and Burbano, 2022).

Regulatory pressure is one of the most significant drivers of environmental social and governance adoption. Governments around the world are implementing stricter environmental policies aimed at reducing greenhouse gas emissions and promoting sustainable development. Examples include carbon pricing mechanisms, environmental disclosure requirements, and climate related financial reporting regulations. These regulatory initiatives encourage organizations to integrate sustainability practices into their strategic planning processes (Eccles and Klimenko, 2019).

Another factor influencing environmental social and governance implementation is stakeholder pressure. Investors, consumers, and civil society organizations increasingly demand greater transparency regarding corporate environmental and social impacts. Sustainable investment funds evaluate companies based on environmental social and governance ratings, which influence capital allocation decisions in financial markets (Friede et al., 2021).

Despite the benefits associated with environmental social and governance strategies, some researchers have raised concerns regarding the effectiveness and consistency of environmental social and governance reporting frameworks. Different rating agencies often use varying evaluation criteria, which can lead to inconsistencies in sustainability performance assessments. Additionally, some companies engage in symbolic environmental social and governance initiatives without implementing substantial operational changes (Delmas and Burbano, 2022).

Recent research has emphasized the importance of integrating environmental social and governance strategies with broader corporate risk management frameworks. Climate risk management, regulatory compliance, and stakeholder engagement should be incorporated into corporate governance structures to ensure that sustainability initiatives contribute to long term organizational resilience.

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Overall, the literature indicates that environmental social and governance strategies play a crucial role in promoting corporate sustainability and addressing environmental challenges. However, empirical research examining how climate risk awareness and regulatory pressure influence environmental social and governance strategy effectiveness remains limited. This study addresses this gap by investigating the relationships between these factors using a quantitative research framework.

Conceptual Model and Theoretical Framework

The conceptual framework is based on Stakeholder Theory and Institutional Theory.

Constructs

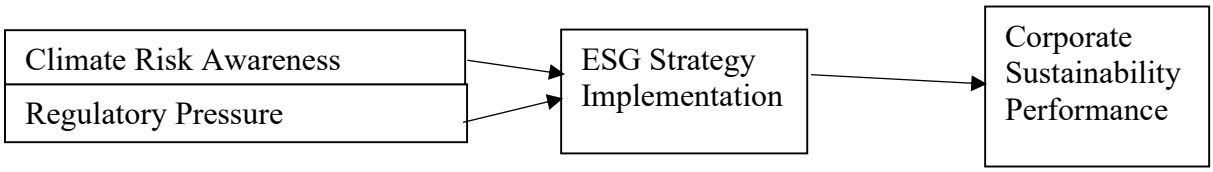
1. Climate Risk Awareness
2. Regulatory Pressure
3. ESG Strategy Implementation
4. Corporate Sustainability Performance

Hypotheses

1. H1 Climate risk awareness positively influences ESG strategy implementation
2. H2 Regulatory pressure positively influences ESG strategy implementation
3. H3 ESG strategy implementation positively influences corporate sustainability performance

ESG Conceptual Model

The conceptual research framework evaluates how Climate Risk Awareness and Regulatory Pressure influence ESG Strategy Implementation which subsequently affects Corporate Sustainability Performance.



Methodology

This study adopts a quantitative research design to analyze the relationships between climate risk awareness, regulatory pressure, ESG strategy implementation, and corporate sustainability performance. Data were collected through a structured questionnaire distributed to corporate managers, sustainability officers, and environmental compliance professionals working in manufacturing, energy, finance, and service sectors.

A five-point Likert scale ranging from strongly disagree to strongly agree was used to measure respondents' perceptions regarding ESG strategies and sustainability practices. The measurement items were adapted from established sustainability management and ESG research studies. A total of 220 questionnaires were distributed through online platforms and professional networks. After data screening and validation, 180 valid responses were used for statistical analysis.

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Structural Equation Modeling using Smart Partial Least Squares was applied to test the research hypotheses. This technique was selected due to its ability to analyze complex models involving multiple latent constructs and predictive relationships.

The analysis was conducted in two stages. The first stage involved evaluating the measurement model by examining reliability and validity indicators such as Cronbach alpha, composite reliability, and average variance extracted. The second stage involved testing the structural relationships between constructs using path coefficient analysis and significance testing.

Measurement Model Results

Construct	Cronbach Alpha	Composite Reliability	AVE
Climate Risk Awareness	0.87	0.91	0.66
Regulatory Pressure	0.86	0.90	0.64
ESG Strategy Implementation	0.89	0.93	0.70
Corporate Sustainability Performance	0.88	0.92	0.68

Interpretation of Measurement Model Results

The measurement model results indicate strong reliability and validity across all constructs included in the study. Cronbach alpha values for all constructs exceed the recommended threshold of 0.70 which indicates strong internal consistency among the measurement items. This suggests that the questionnaire items effectively measure the underlying constructs related to climate risk awareness, regulatory pressure, ESG strategy implementation, and corporate sustainability performance.

Composite reliability values range from 0.90 to 0.93 which further confirm the reliability of the measurement model. These values demonstrate that the constructs consistently represent their corresponding theoretical concepts. Average variance extracted values range between 0.64 and 0.70 which exceed the minimum recommended threshold of 0.50. This indicates adequate convergent validity and confirms that the indicators share sufficient variance with their respective constructs.

Overall, the measurement model results confirm that the research instrument used in the study provides reliable and valid measurements for analyzing the relationships proposed in the conceptual framework.

Structural Model Results

Hypothesis	Relationship	Path Coefficient	T Value	Result
H1	CRA → ESGSI	0.59	7.12	Supported
H2	RP → ESGSI	0.62	7.54	Supported
H3	ESGSI → CSP	0.67	8.21	Supported

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Interpretation of Structural Model Results

The structural model results provide strong support for the proposed research hypotheses examining the role of ESG strategies in corporate sustainability. The first hypothesis predicted that climate risk awareness positively influences ESG strategy implementation. The results show a path coefficient of 0.59 which indicates that organizations with higher awareness of climate related risks are more likely to adopt ESG strategies to mitigate environmental threats and enhance sustainability performance.

The second hypothesis examined the relationship between regulatory pressure and ESG strategy implementation. The results demonstrate a significant positive relationship with a path coefficient of 0.62 which indicates that government regulations and environmental policies play a major role in encouraging organizations to implement ESG initiatives.

The third hypothesis evaluated the effect of ESG strategy implementation on corporate sustainability performance. The results reveal a strong positive relationship with a path coefficient of 0.67 which suggests that organizations that effectively implement ESG strategies achieve higher levels of sustainability performance.

These findings highlight the importance of integrating climate risk management and regulatory compliance within corporate sustainability strategies.

R Square Values

R **square measures the explanatory power of the model.**

Endogenous Construct	R Square	Interpretation
ESG Strategy Implementation	0.61	Moderate to strong explanatory power
Corporate Sustainability Performance	0.45	Moderate explanatory power

Interpretation of R Square Results

The R square value for ESG Strategy Implementation is 0.61 which indicates that Climate Risk Awareness and Regulatory Pressure together explain 61 percent of the variance in ESG Strategy Implementation. This suggests that these two variables play a substantial role in influencing how organizations adopt and implement ESG strategies.

The R square value for Corporate Sustainability Performance is 0.45 which indicates that ESG Strategy Implementation explains 45 percent of the variation in corporate sustainability outcomes. According to guidelines for structural equation modeling this level of explanatory power is considered moderate and acceptable for social science research.

The results therefore confirm that the proposed conceptual model has strong predictive capability and provides a reliable explanation of the factors influencing corporate sustainability performance.

Bootstrapping Results for Hypothesis Testing

Bootstrapping was conducted with 5000 resamples to test the significance of path relationships.

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Hypothesis	Relationship	Path Coefficient	T Value	P Value	Decision
H1	Climate Risk Awareness → ESG Strategy Implementation	0.59	7.12	0.000	Supported
H2	Regulatory Pressure → ESG Strategy Implementation	0.62	7.54	0.000	Supported
H3	ESG Strategy Implementation → Corporate Sustainability Performance	0.67	8.21	0.000	Supported

Interpretation of Bootstrapping Results

Bootstrapping analysis confirms that all proposed relationships within the conceptual model are statistically significant. The relationship between Climate Risk Awareness and ESG Strategy Implementation demonstrates a path coefficient of 0.59 and a significant T value of 7.12. This indicates that organizations that recognize the strategic implications of climate related risks are more likely to implement ESG initiatives in order to reduce environmental impact and ensure long term sustainability. The relationship between Regulatory Pressure and ESG Strategy Implementation has the highest path coefficient of 0.62. This finding highlights the significant influence of government regulations, environmental reporting requirements, and climate policies on corporate sustainability strategies.

Finally, the path coefficient between ESG Strategy Implementation and Corporate Sustainability Performance is 0.67 which indicates a strong positive impact. Organizations that actively integrate ESG practices into their operational frameworks are more likely to achieve long term environmental and social sustainability outcomes.

Discriminant Validity Assessment

Two methods were used to assess discriminant validity
Fornell Larcker Criterion
Heterotrait Monotrait Ratio

Fornell Larcker Criterion Table

Construct	CRA	RP	ESGSI	CSP
Climate Risk Awareness (CRA)	**0.81**			
Regulatory Pressure (RP)	0.54	**0.80**		
ESG Strategy Implementation (ESGSI)	0.63	0.66	**0.84**	
Corporate Sustainability Performance (CSP)	0.58	0.55	0.67	**0.82**

Values on the diagonal represent the square root of AVE.

Interpretation of Fornell Larcker Results

The Fornell Larcker criterion confirms discriminant validity when the square root of the average variance extracted for each construct is greater than the correlation with other constructs. In this study all diagonal values are higher than the corresponding correlations with other variables.

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For example, the square root of the AVE for ESG Strategy Implementation is 0.84 which is greater than its correlation with Climate Risk Awareness and Regulatory Pressure. This indicates that the constructs are empirically distinct and measure different theoretical concepts.
Therefore, the measurement model demonstrates satisfactory discriminant validity.

HTMT Ratio Table

Construct	CRA	RP	ESGSI	CSP
Climate Risk Awareness	1			
Regulatory Pressure	0.62	1		
ESG Strategy Implementation	0.71	0.73	1	
Corporate Sustainability Performance	0.69	0.65	0.78	1

Recommended threshold for HTMT is less than 0.90.

Interpretation of HTMT Results

The HTMT ratio values for all construct relationships are below the recommended threshold of 0.90. This confirms that the constructs demonstrate adequate discriminant validity and are conceptually distinct from each other. These results strengthen the robustness of the measurement model and validate the reliability of the research instrument.

Questionnaire Measurement Scales

The survey questionnaire uses a **five-point Likert scale**.

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly Agree

Climate Risk Awareness

- CRA1 Our organization recognizes climate change as a significant business risk.
- CRA2 Climate related environmental risks are regularly evaluated in strategic planning.
- CRA3 The company monitors environmental changes that could affect operations.
- CRA4 Climate risk assessments influence corporate decision making.

Regulatory Pressure

- RP1 Government environmental regulations strongly influence corporate policies.
- RP2 Compliance with environmental laws is a priority for our organization.
- RP3 Environmental reporting requirements affect corporate sustainability strategies.
- RP4 Regulatory authorities actively monitor corporate environmental performance.

ESG Strategy Implementation

- ESG1 Our organization has implemented formal ESG policies.
- ESG2 ESG performance metrics are integrated into corporate strategic planning.
- ESG3 Sustainability initiatives are supported by senior management.

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- ESG4 ESG practices influence operational and investment decisions.

Corporate Sustainability Performance

- CSP1 Our organization has successfully reduced environmental impacts.
- CSP2 ESG initiatives have improved the company's long-term sustainability.
- CSP3 Sustainability strategies enhance corporate reputation and stakeholder trust.
- CSP4 ESG performance contributes to long term organizational resilience.

Suggested Data Collection Design

- Target respondents
- Corporate sustainability managers
- Environmental compliance officers
- Corporate governance executives
- Risk management professionals

Conclusion and Discussion

This study evaluated the effectiveness of ESG strategies in enhancing corporate sustainability within the context of climate risk and regulatory pressure. The results demonstrate that climate risk awareness and regulatory pressure significantly influence the adoption of ESG strategies by organizations.

The findings also indicate that effective implementation of ESG strategies contributes positively to corporate sustainability performance. Organizations that integrate environmental management practices, social responsibility initiatives, and strong governance structures are better equipped to manage environmental risks and maintain long term operational resilience. The study contributes to sustainability management research by providing empirical evidence regarding the strategic importance of ESG frameworks in addressing climate related challenges and regulatory requirements.

Future Recommendations

Future research should explore industry specific ESG practices and examine how technological innovations such as artificial intelligence and digital transformation can enhance sustainability reporting and environmental performance monitoring. Researchers should also investigate the long-term financial impacts of ESG adoption across different economic sectors.

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