

THE ROLE OF COMPANY BUSINESS STRATEGY ON SUSTAINABILITY PERFORMANCE

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ABSTRAK

This research investigates the influence of business strategy as a fundamental aspect of the company on the company's involvement in non-financial performance. In general, research wants to know the role of business strategy on a company's sustainability performance. Researchers conducted separate tests on environmental, social and governance performance as aspects that build sustainability performance. The analysis was conducted on non-financial companies in the ASEAN region in 2015-2019. Research data was obtained from the Thomson Reuters Refinitiv Eikon database, and data analysis was carried out using STATA software. The test results show that business strategy has a significant positive relationship with environmental performance and social performance but has no effect on governance performance and sustainability performance.

Keywords: Business strategy, environmental performance, social performance, governance performance, sustainability performance

INTRODUCTION

This study investigates the correlation between a company's sustainability performance and its business strategy. The sustainability aspect has received much attention, both from the side of companies and investors. The triple bottom line framework states that companies must fulfil three crucial points, namely people, planet, and profit, in their operations (Elkington, 1997). Countries in ASEAN have a reasonably progressive ESG development trend. Korwatanasakul (2020) stated that the ESG investment trend in ASEAN countries shows a positive direction. It aligns with the progress of the ASEAN stock exchange in global rankings for the dimensions of disclosure and awareness of the level of ESG investment and implementation, which has increased substantially in recent years (Korwatanasakul, 2020). More specifically, several countries in ASEAN have demonstrated their progress by preparing sustainability reporting guides as accepted guidelines for sustainable disclosure. Six countries already have a sustainability reporting guide: Indonesia, Malaysia, the Philippines, Thailand, Vietnam and Singapore (Securities and Exchange Commission, 2019).

In the literature, most research builds corporate strategy as a company's CSR activities (Galbreath, 2010; Kiran & Sharma, 2011; Lahtinen et al., 2018). However, Miles et al. (1978) have built a typology of business strategies and described them as prospectors, defenders, analyzers and reactors. It is based on the organization's response to market segmentation and product preference movements. According to the study conducted by Peng (2020), organizations embracing a prospector strategic approach equip their CEOs with a more comprehensive insight into the strategies essential for effective engagement with a diverse set of stakeholders. Meanwhile, companies with a defender orientation tend to provide the best performance within a particular time (Miles et al., 1978). An analyzer is a strategic orientation with defender and prospector characteristics (Galbreath, 2010), while a reactor tends not to be considered a strategy because it

needs a consistent response mechanism in responding to the environment (Miles et al., 1978).

Research regarding the relationship between a company's business strategy and ESG performance is still limited. To date, prior studies have explore the correlation between business strategy and CSR (Galbreath, 2010; Peng, 2020; Yuan et al., 2020). Peng (2020) and Yuan et al. (2020) found that business strategy positively affects corporate social responsibility. At the same time, Yuan et al. (2020) prove that defender orientation tends to limit involvement in CSR activities because it is considered a risky long-term investment. In general, the ESG concept is more comprehensive and more representative of aspects of corporate sustainability, so it is essential to test it further. It is in line with stakeholder theory, positing that companies are responsible not only for the interests of shareholders regarding profitability aspects but also for various other non-profit stakeholders (Freeman, 1994). Hambrick (1983) stated that business strategy is an important element in the sustainability of a company's business, especially in decision-making. So, this research will examine the influence of business strategy on company involvement in each non-financial activity, including environmental, social and governance. Specifically, this research will also examine the correlation between business strategy and overall sustainability performance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Companies are expected to prioritize the interests of shareholders by maximizing profits and to consider their responsibilities towards the interests of stakeholders in general (Freeman, 2015; Kacperczyk, 2009), such as employees, suppliers, consumers, policymakers, the general public, and others. It aligns with the core concept of ESG, which pays attention to various indicators on three main pillars: environment, social and governance. The company's ESG activities will increase the company's long-term value in connection with fulfilling social responsibilities, environmental responsibilities, and maintaining the company's reputation (Rezaee, 2016). The implementation of social responsibility forms an effort to maintain the trust of social stakeholders (Setiawati et al., 2023). Stakeholder theory shows that a company's sustainable performance is important in managing various stakeholders (Freeman, 2015). It is in line with the statement by An et al. (2011) that if a company establishes good communication with stakeholders, it will be easier for the company to develop and manage intangible assets that are valuable both internally and externally to the company so that it is hoped that it can improve the company's sustainable performance.

Organizations adopting a prospector strategy embody dynamic principles and possess an awareness of opportunities, allowing them to continually innovate in new product and markets, as outlined by Miles et al. (1978). Peng (2020) shows that by integrating business strategy and sustainability concepts, prospectors will pay more attention to the environmental aspects of the innovations created. Vilanova et al. (2009) also found that innovative companies are committed to paying attention to sustainability aspects, codes of ethics, and governance and environmental policies so that companies with a prospector strategy will value resources more as an important aspect of the company. Companies that intensively invest their funds in research and development (RnD), such as prospector companies, can pay attention to their environmental performance (Alam et al., 2019) and manage environmental externalities well

(Amanati & Arifa, 2022). This new product development project will try to do as little as possible so as not to have a negative impact on the environment.

Hypothesis 1: Business strategy is positively related to company environmental performance

Prospector organizations continuously strive to maintain and develop their capacity to capture changes in environmental trends, so management tends to invest heavily and rely on human resources. Miles et al. (1978) added that prospector organizations create change as an advantage over competitors. Peng (2020) shows that human resources are valuable, rare, inimitable and non-substitutable resources, meaning they have the potential to highlight a company's competitive advantage. Investments in research and development carried out by prospective companies have been proven to improve corporate social performance through product and process innovations related to CSR (Padgett & Galan, 2010). In this way, the company's business strategy encourages management to pay attention to the social aspects of humanity. The concept of social responsibility is considered an important key to achieving sustainable competitive advantage (Sari et al., 2023; Kusumawati et al., 2023), specifically in how companies implement CSR as an effort to provide a better and healthier working atmosphere for employees and provide the best service for society (Kiran & Sharma, 2011).

Hypothesis 2: Business strategy is positively related to corporate social performance

Prospector organizations have diverse work areas, so they must be able to coordinate resources across many decentralized units and projects. To handle this, prospectors need top management with a good understanding of RnD (Research and Development), strategic planning, communication and supervision (Miles et al., 1978). In this way, the prospector organization should have good governance capabilities and cover all management lines to survive with its dynamic business processes.

Hypothesis 3: Business strategy is positively related to corporate governance performance

Peng (2020) proposes that organizations embracing a prospector strategies will enhance their management's comprehension of strategic essential to effectively engage with a wider array of stakeholders. The integration of ESG into a comprehensive business strategy is suggested to improve performance and set a company apart from their competitors (Klemash, 2020). In this way, companies with a prospector business strategy orientation will better understand the aspects to support the company's sustainability.

Hypothesis 4: Business strategy is positively related to the company's sustainability performance

RESEARCH METHOD

This study was carry out on non-financial companies listed on the Stock Exchange in Indonesia, Malaysia, the Philippines, Thailand, Vietnam and Singapore from 2011-2019. The sampling technique uses purposive sampling with the criteria of being listed on the stock exchange and having complete data related to ESG and the company's business strategy construct in the Thomson Reuters Refinitiv Eikon database. Regression analysis was carried out using STATA software. The

dependent variables consist of environmental performance, social performance, governance performance and sustainable performance, measured using scores in the Thomson Reuters Refinitiv Eikon database. Meanwhile, the dependent variable representing business strategy is assessed using metrics derived from Bentley (2013), adaptations from Ittner et al. (1997) and Miles et al. (1978), using several ratios, namely: (a) the ratio of research and development to sales, (b) the ratio of employees to sales, (c) historical growth measure, (d) marketing to sales ratio, (e) standard deviation of total employees, (f) capital intensity measure (net property, plant, and equipment or PPE scaled by total assets). Each ratio is calculated using the previous five years' average and then ranked to form quintiles. The highest quintile is given a score of 5, the second highest quintile is given a score of 4, and so on. Meanwhile, for the capital intensity ratio, the opposite applies. The highest quintile is given a score of 1, and so on. The scores are then added up and categorized as follows: defender (6-12), analyzer (13-23), and prospector (24-30) (Bentley, 2013). The control variables used in this research are profitability as measured by return on assets (ROA), leverage as measured by the ratio of total debt to total assets, liquidity as measured by current assets to current liabilities, and Market to Book Value.

$$ENV_{it} = \alpha_0 + \alpha_1 STB_{it} + \alpha_2 ROA_{it} + \alpha_3 LEV_{it} + \alpha_4 LIQ_{it} + \alpha_5 MTBV_{it}$$

$$SOC_{it} = \alpha_0 + \alpha_1 STB_{it} + \alpha_2 ROA_{it} + \alpha_3 LEV_{it} + \alpha_4 LIQ_{it} + \alpha_5 MTBV_{it}$$

$$CG_{it} = \alpha_0 + \alpha_1 STB_{it} + \alpha_2 ROA_{it} + \alpha_3 LEV_{it} + \alpha_4 LIQ_{it} + \alpha_5 MTBV_{it}$$

$$ESG_{it} = \alpha_0 + \alpha_1 STB_{it} + \alpha_2 ROA_{it} + \alpha_3 LEV_{it} + \alpha_4 LIQ_{it} + \alpha_5 MTBV_{it}$$

Information :

- ENV : Environmental score
- SOC : Social score
- CG : Governance score
- ESG : Sustainability score
- STB : Business strategy
- ROA : Return on Assets
- LEV : Leverage
- LIQ : Liquidity
- MTBV : Market to Book Value

RESULT AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistics

Variable	Number of Observations	Average	Standard Deviation	Minimum	Maximum
ENV	36	41,051	18,603	0	74,21
SOC	36	46,306	19,638	2,74	93,37
GOV	36	45,071	26,506	8,69	91,06
ESG	36	44,070	17,056	3,51	85,04
STB	36	17,472	4,178	9	26
ROA	36	0,067	0,052	-0,060	0,16
LEV	36	0,382	0,210	0,124	0,83
LIQ	36	2,417	1,346	0,799	4,89
MTBV	36	1,758	1,298	0,097	4,81

Source : Processed data, 2023

Table 1 presents the descriptive statistics for the variables under investigation in this study, including environmental performance (ENV), governance performance (GOV), social performance (SOC), business strategy (STB), profitability (ROA),

leverage (LEV), liquidity (LIQ), and market-to-book value (MTBV). For the environmental performance variable (ENV), there are 36 observations with an average score of 41.05 and a standard deviation of 18.60. The highest environmental score recorded is 74.21, while the lowest is 0. On average, the social performance (SOC) is 46.31, with a standard deviation of 19.64. The range for social performance spans from a minimum of 2.74 to a maximum of 93.37. In the case of governance performance, the average score is 45.07, with a standard deviation of 26.51. The governance scores vary from a minimum of 8.69 to a maximum of 91.06. Sustainability performance has an average value of 44.07, with a standard deviation of 17.06, and it ranges from a minimum of 3.51 to a maximum of 85.04. The average business strategy score is 17.47, with a standard deviation of 17.47. The lowest business strategy score observed is 9, and the highest is 26. Profits, as measured by the profitability variable (ROA), have an average value of 0.07, with a standard deviation of 0.05. Profitability ranges from a minimum of -0.06 to a maximum of 0.16. The leverage variable (LEV) has an average value of 0.38 and a standard deviation of 0.21, with the minimum and maximum values being 0.12 and 0.72, respectively. Liquidity (LIQ) has an average value of 2.42 and a standard deviation of 1.35, with a range from a minimum of 0.79 to a maximum of 4.89. Finally, the market-to-book value variable (MTBV) has an average value of 1.76, with a standard deviation of 1.30, and it varies from a minimum of 0.10 to a maximum of 4.81.

Environmental Performance

Table 2. Business Strategy and Environmental Performance

ENV	Coef	Std. Error	Z	P> z	[95% Conf. Interval]
STB	1,754	0,654	2,68	0,007	0,4732037 3,035616
ROA	215,772	90,346	2,39	0,017	38,696 392,8475
LEV	40,651	19,803	2,05	0,040	1,838778 79,46372
LIQ	8,832	3,226	2,74	0,006	2,510277 15,15415
MTB	-12,855	3,920	-3,28	0,001	-20,53678 -5,173049
Cons	-18,415	19,965	-0,92	0,356	-57,54456 20,71543

Source : Processed data, 2023

Table 2, Model 1, presents the findings regarding the first hypothesis in this study, which asserts that there is a positive influence of business strategy on environmental performance. It reveals a significant and positive correlation between business strategy and the company's environmental performance. This relationship is shown by a coefficient value of 1.754 and a p-value > |z| of 0.007, both of which are statistically significant. These results suggest that as a company leans more towards a prospector strategy, its environmental performance tends to improve. Conversely, when a company leans towards a defender strategy, its environmental performance tends to decline. Consequently, Hypothesis 1a is statistically validated.

The initial hypothesis posits that there exists a positive association between a company's chosen business strategy and its environmental performance. The results from the hypothesis testing, as presented in Table 2, provide statistical confirmation for this hypothesis, indicating a significant and positive correlation between business strategy and a company's environmental performance. This finding is consistent with the research conducted by Magerakis and Habib (2021) and Amanati and Arifa (2022), both of which demonstrated that companies oriented toward a prospector business strategy tend to have a lesser

impact on the environment in terms of chemical releases compared to defender-oriented companies. Furthermore, Amanati and Arifa (2022) highlighted that defender-oriented companies may excel in environmental management but might struggle to mitigate the direct environmental consequences of their operations. Additionally, as noted by Kong et al. (2022), a prospector-oriented strategy encourages companies to proactively reduce their adverse environmental footprint. In this context, companies exhibit heightened awareness of the need to enhance their social and environmental legitimacy (Yuan et al., 2020). This is motivated by the perception that pollution signifies inefficiency, which is detrimental to both the company itself and society as a whole (Padgett & Galan, 2010).

Social Performance

Table 3. Business Strategy and Social Performance

SOC	Coef	Std. Error	z	P> z	[95% Conf. Interval]
STB	0,965	0,538	1,79	0,073	-0,0888447 2,018738
ROA	178,006	74,310	2,40	0,017	32,36075 323,6502
LEV	-26,890	16,288	-1,65	0,099	-58,81361 5,032879
LIQ	9,442	2,653	3,56	0,000	4,242311 14,64189
MTB	-11,792	3,224	-3,66	0,000	-18,11047 -5,473802
Cons	25,641	16,421	1,56	0,118	-6,543521 57,8253

Source : Processed data, 2023

Table 3, Model 2, presents the findings regarding the third hypothesis in this study, which asserts that there is a positive relationship between business strategy and social performance. The results of the tests indicate a statistically significant association between business strategy and corporate social performance, with a significance level of 10%. This relationship is evident through a coefficient value of 0.965 and a p-value>|z| of 0.073. These findings suggest that as a company leans more towards a prospector strategy, its social performance tends to improve. Conversely, when a company leans towards a defender strategy, its social performance tends to decline. Therefore, Hypothesis 2 is statistically supported. The third hypothesis states that the company's business strategy is positively related to the company's social performance. The results of the hypothesis test in table 4.8 show that the third hypothesis in this research is statistically supported, namely that business strategy has a significant positive relationship with corporate social performance. Peng (2020) and Yuan et al. (2020) found that companies with a prospector business strategy orientation tend to perform better in corporate social than companies with a defender business strategy orientation. Companies with a long-term orientation will try to exceed stakeholder expectations by managing their social responsibilities through progressive human resource management (Padgett & Galan, 2010). Meanwhile, defender companies with a tendency to avoid risk and be short-term oriented tend to be less able to maximize their involvement in social responsibility (Deng et al., 2021). That tendency is because the focus is on strategies that can reduce costs to increase efficiency (Singh & Agarwal, 2002).

Governance Performance

Tabel 4. Business Strategy and Governance Performance

GOV	Coef	Std. Error	z	P> z	[95% Conf.	Interval]
STB	-0,143	0,840	-0,17	0,865	-1,789014	1,503534
ROA	21,975	116,090	0,19	0,850	-205,5564	249,5074
LEV	10,473	25,445	0,41	0,681	-39,39904	60,34444
LIQ	14,225	4,145	3,43	0,001	6,102023	22,34865
MTB	-0,318	5,036	-0,06	0,950	-10,18916	9,552333
Cons	8,255	25,653	0,32	0,748	-42,02434	58,53514

Source : Processed data, 2023

Table 4, Model 3, presents the outcomes of examining the second hypothesis in this study, which posits that there is a positive connection between business strategy and governance performance. The results of the tests indicate the absence of a statistically significant relationship between business strategy and corporate governance performance. This is evidenced by a coefficient value of -0.143 and a p-value > |z| of 0.865. These findings suggest that business strategy does not exert a significant impact on corporate governance performance. Consequently, Hypothesis 3 is not supported statistically.

The second hypothesis states that the company's business strategy positively affects corporate governance performance. The results of the hypothesis test in table 4.9 show that the second hypothesis in this research is not supported statistically, namely that business strategy is unrelated to corporate governance performance. It is different from research by Vilanova et al. (2009), which shows that prospector-oriented companies that tend to be innovative will pay more attention to aspects of sustainability and governance policies. Prospector companies have a strong drive to become market pioneers, so market analysis and product development become a significant agenda for the company (Miles et al., 1978), thus causing the company to be unable to achieve maximum efficiency in its business processes (Maniora, 2018). This condition illustrates that corporate governance is not optimal when linked to the company's business strategy to create competitive advantages.

Sustainability Performance

Tabel 5. Business Strategy and Sustainability Performance

ESG	Coef	Std. Error	z	P> z	[95% Conf.	Interval]
STB	0,872	0,537	1,62	0,105	-0,1817292	1,925132
ROA	135,687	74,284	1,83	0,068	-9,907604	281,2822
LEV	5,432	16,282	0,33	0,739	-26,48022	37,34441
LIQ	10,410	2,652	3,93	0,000	5,211516	15,60754
MTB	-7,979	3,223	-2,48	0,013	14,29475	-1,662408
Cons	6,491	16,415	0,40	0,693	-25,68276	38,66402

Source : Processed data, 2023

Table 5, Model 4, presents the findings from examining the fourth hypothesis in this study, which suggests that there is a positive influence of business strategy on sustainability performance. The tests' results show no statistically significant relationship between business strategy and the company's sustainability performance. It is shown by the coefficient value of 0.872 and the p value > |z| of 0.105. These results indicate that business strategy does not significantly influence the company's sustainability performance. So, hypothesis 4 is not supported

statistically.

The fourth hypothesis states that the company's business strategy is positively related to the company's sustainability performance. The results of the hypothesis test in table 4.10 show that the fourth hypothesis in this research is not supported statistically, namely that business strategy is not related to the company's sustainability performance. Maniora (2018) proves that there is a tendency for prospector-oriented companies to fail to integrate sustainability issues into their business processes properly. Prospector companies are aware of the urgency of sustainability issues, but managerially, they cannot be mapped and coordinated well in connection with their more dynamic business movements (Miles et al., 1978). In addition, even though there is an orientation towards RnD investment to explore new products, companies still consider financial factors due to other costs as expenses, which can impact the company's short-term financial performance (Lin, 2017).

CONCLUSION

This study investigates the connection between the orientation of corporate business strategies and sustainability performance within ASEAN nations. This research has answered whether business strategy influences environmental, social and governance performance and overall sustainability performance. Based on the results of hypothesis testing, the results show that business strategy orientation has a significant effect on environmental performance and corporate social performance, and does not have a significant effect on governance performance and sustainability performance. These results provide an interesting insight that company involvement in efforts to maintain sustainability is not comprehensive in all three aspects, namely environmental, social and governance, but may still tend to focus on one or several aspects only. However, companies in ASEAN have demonstrated their efforts and commitment to integrating business strategies with sustainability issues within their companies.

This research has several limitations. First, this research only uses data from the Thomson Reuters Refinitiv Eikon database, so future research can use other data collection methods, such as content analysis, to obtain more complete data. Second, this research only discusses business strategies at the extreme continuum, namely prospector and defender. Future research can explore other business strategy orientations. Thirdly, this study excludes non-financial companies from the research sample, assuming that this industry has significantly different regulations than others. So, further research can examine companies, specifically in the financial industry, to see how the sustainability performance achieved by the company is achieved through business strategy.

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