

Implementing ESG Strategy for Sustainable Value Creation: Governance, Stakeholder Engagement, and Budgetary Alignment

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DOI: <https://doi.org/10.47772/IJRISS.2026.10100536>

Received: 31 January 2026; Accepted: 05 February 2026; Published: 17 February 2026

ABSTRACT

Implementing Environmental, Social, and Governance (ESG) strategies effectively continues to be a significant challenge for companies despite increasing regulatory and stakeholder demands. This paper outlines a structured framework for implementing ESG, focusing on governance oversight, stakeholder engagement, risk management, and budgetary alignment. The study shows how established practices in ESG implementation and governance theory can turn ESG commitments into tangible results by using policy design, setting measurable targets, documenting transparently, and planning financially. The research findings emphasize governance as the key enabler that combines environmental and social goals into the company's strategic planning process, thereby ensuring accountability, trust, and long-term business sustainability.

Keywords: ESG implementation; corporate governance; stakeholder engagement; sustainable strategy

INTRODUCTION

In recent years, Environmental, Social and Governance (ESG) issues have become a key puzzle piece for corporate planning - whether driven by Government regulation or otherwise, investor expectations or growing societal awareness on sustainability matters. ESG Must-haves Companies from particularly all industries have now realized that the integration of ESG factors is not an option but an imperative for long-term sustainability, legitimacy and value creation. Even where we see increasing awareness, this does not translate into practical application of ESG so anything that can make implementation easier is to be welcomed.

A large gap still exists between ESG commitments as formulated in corporate codes of practice and their actual implementation in daily operations. Companies commonly struggle to translate their overall ESG aspirations into measurable tasks, detailed targets and integrated management systems. Such issues typically arise out of weak governance, limited stakeholder engagement, lack of accountability and misalignment between ESG targets and financial planning. This means ESG programmed risk becoming symbolic and compliance exercises, rather than driving significant organizational change.

It focuses on idiographic factors (including the implementation gap) which are addressed by presenting a framework, integrating governance oversight, stakeholder engagement and budget alignment into an integrated ESG implementation approach. According to the study, a holistic approach to governance could facilitate integrating ESG targets into strategic planning, risk assessment and performance monitoring. The paper contributes to the growing ESG literature by shifting focus from disclosure and performance outcomes on ESG to internal mechanisms for successful/ sustainable ESG practices in firms.

Conceptual Framework For ESG Implementation

This study constructs the ESG implementation as a dynamic and cyclical process that consists of four interrelated stages: appraisal, targets setting, plans and executing, performance monitoring. We consider ESG

integration an iterative process that is evolving in response to internal performance data, stakeholder needs and changes in the external environment and regulatory landscape.

At the core of this model is governance, which provides strategic guidance, holds people to account and aligns activity across the environmental, social and governance spectra. Good governance ensures that ESG goals support the company's vision, are reflected in policy, and are driven by leadership. Senior Management and Boards of Directors are critical in setting ESG priorities, allocating resources, and monitoring the results realized from adopting ESG to avoid uncoordinated or conflicting ESG measures.

The assessment phase consists of identifying material ESG risks and opportunities for the company's industry, operating context, and stakeholder profile. This rating impacts the setting of targets, where companies establish concrete, measurable and time-bound ESG targets that are tied to key strategic priorities. These objectives are translated into actionable efforts by Execution, reinforced by proper organizational structures, incentives and budgets. Accountability Organizations remain accountable as they keep reporting to stakeholders, ensuring transparency and tracking their progress through performance measurement and documentation.

The framework illustrates that through rigorous oversight and stakeholder engagement and with governance as the binding tie, ESG commitments can produce tangible and measurable outcomes. It is not simply ambition that will make an ESG programmed work, but disciplined governance processes that hard-wire sustainability into the operational and financial decision-making of a company.

Figure 1: Visualization of conceptual framework.



How To Implement An Esg Strategy?

The implementation strategy of ESG (Environmental, Social, and Governance) embeds sustainable developments and responsible business practices into the business structure. The implementation strategy requires a structural process comprising evaluation, target setting, implementation, and performance tracking.

Implement fundamental elements of structure:

- **Policy Design.** Setting up a concrete announcement of motive regarding ecological protection, labor conditions and ethical standards (**Directory, 2025**).
- **Risk measurement.** Recognize and assess potential risks associated with atmosphere change, work force disruption may cause supply chain, data protection and governance impartiality. (**Directory, 2025**).
- **Target setting.** Formulate a concrete, assessable goal to improve ESG outcomes, including mitigation of environmental impact and workforce inclusiveness (**Directory, 2025**).

- **Documentation.** Tracking and documenting performance and escalating to related stakeholders via multiple communication channels as per approved reporting standards (**Directory, 2025**).
- **Stakeholder collaboration.** Conduct engagement through partnership, dialogue to different related groups such as employees, consumers, communities, investors and authorities (**Directory, 2025**).

Fundamental elements of structure



Figure 2: Fundamental elements of ESG structure (Source: Directory, S. 2025, ESG Implementation Framework)

Implementation Of A Structured Budget To Ensure Stability, Market Impression, And Sustainable Market Value.

A well-structured budget facilitates bottom line revenue, ensures cost efficiency, and mitigates regulatory and legal issues. Improved employee productivity, optimum utilization of investment, and control of capital expenditure are aligned with business objectives.

Steps of implementing a well-crafted budget with rational investment are as follows:

- **Define the organization's vision.** In this segment, the organization articulates its vision and its desire to reach. Organization assesses its major sustainable threats and opportunities, prioritizes significant ESG factors aligning with business and stakeholder, and which ESG (Environmental, Social and Governance) factor creates significant value (**Defne, 2025b**).
- **Build budget structure.** After finalizing priorities, the organization can start building a budget based on categories that align with the strategy. Budget can be allocated as follows:
 - Environmental: Programs comprise improvement of energy efficiency, waste management enhancement, and climate-associated risk evaluation (**Defne, 2025b**).
 - Social: Programs emphasizing employee health and satisfaction, enhancement of community relations, and inclusive organizational culture (**Defne, 2025b**).
 - Governance: Allocate budget to strengthen compliance structure, monitoring and reporting tools, and development of corporate ethics (**Defne, 2025b**).

Category	Sub-category	Allocation	ROI metrics
Environmental	Emissions reduction tech	30-40%	tCO ₂ e Saved, % renewable Energy
	Waste/water management	15-20%	Circularity rate, litres saved
Social	DEI programmes	20-25%	Representation index, pay equity
	Community investment	10-15%	Local job creation, SDG alignment
Governance	Compliance infrastructure	15-20%	Audit pass rate, policy coverage
	Ethics training	5-10%	Incident reduction rate

Figure 3: Fundamental ESG Budget Categories, Allocation, and Key ROI Metrics for Strategic Investment (Source: Defne, 2025, Strategic ESG budgeting: A step-by-step for 2025 & 2026.)

Integration Budget with Business Strategy

An organization's viability as an ESG investment depends on how well it integrates with its business strategy.

Table 1: Industry wise financial indicators of ESG score and its impact

ROI stages	Key Investment	Return and Benefit	Result
Early ROI	Energy efficiency, waste management	Cost efficiency, Operational efficiency	Lower energy consumption/lower waste cost
Mid-to-long-term ROI	ESG integration to organization's growth, product and market	Enhanced shareholders return, capital mobilization and customer stickiness	Revenue growth with higher market share
Strategic ROI	Strategic financial planning reduces unwanted risk, minimizes long-term cost such as reputational and regulatory	Safe guards market value and prepares for future market opportunities	Prevent unwanted costs, ensures market readiness.

(Adopted from Source: Defne (2025) Strategic ESG budgeting: A step-by-step for 2025 & 2026.)

Implementation Of Kpi (Key Performance Indicator) And Monitoring Approach

An organization that sets a clear, measurable, and strategically aligned KPI (key performance indicator) structure can derive maximum output. On the other hand, the organization needs to structurally collect and analyze data to monitor continuous improvement and accountability.

Table 2: Company wise ESG initiatives and outcome

KPI Step	Description	KPI Indicators	Monitoring mechanism
Define material	Select key ESG metrics	GHG emissions, diversity	Data collection via ESG

KPIs	aligned with industry, and business, regional priorities	ratios, audit pass rate	software, manual audits
Set targets and benchmarks	Establish specific, measurable goals with timeline	Reduce carbon by 20% by 2027, increase diversity by 15%	Benchmark against past performance and peer companies
Data collection & reporting	Implement systems (ERP, software) to accurately gather ESG data	Frequency of data submission, data accuracy	Automated dashboards, data validation
Continuous monitoring	Track KPI progress regularly and analyze issues	% progress toward targets, incident rates	Monthly/quarterly reviews and alerts
Reporting	Publish ESG performance in line with frameworks like GRI, SASB, CSRD, ISSB	Number of reports published, stakeholder feedback	Scheduled reporting cycles
Board oversight	Integrate ESG KPI review into management and board meetings	Board meeting ESG agenda inclusion rate	Meeting minutes, governance reviews
Continuous improvement	Adjust goals/actions based on KPI trends, regulations, stakeholder input	Adjusted ESL goals, implementation of recommendations	Periodic strategy review and revision

(Adapted from Source: ESG KPI EXAMPLES: 25 ESG KEY PERFORMANCE INDICATORS FOR ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING, no date)

Strengthening Esg Strategy For Sustainable Value Creation

Adopting a meaningful Environmental, Social, and Governance (ESG) strategy for long-term value creation is not just about pledging policies or making compliance-oriented disclosures. It requires the systematic incorporation of ESG considerations into corporate governance systems, stakeholder engagement tools, and financial planning cycles. When ESG is integrated across decision rights, accountability systems, and capital allocation mechanisms, it ceases to be a figurehead initiative and becomes a strategic lever for creating long term organizational value.

Governance Integration and Board Oversight

At the heart of effective ESG is corporate governance. ESG objectives are supported on a board level by company's strategy, business risks and long-term value creation. Creating ESG or sustainability committees within the board structure also promotes accountability, and help the board oversee ESG risks and opportunities. Artificial Discretion Governance mechanisms—such as role-specificity, escalation and performance monitoring—are crucial if ESG ambition is to be converted into operational reality, a point highlighted in earlier work (Directory, 2025).

To make governance even more robust, companies are connecting executive pay and incentives to ESG performance measures (think: reductions in emissions or diversity of the workforce or compliance). By aligning this structure, managers are held to account, and sustainability is integrated into decision making at strategic and operational levels. As a result, governance-led ESG integration diminishes fragmentation and aligns organizational coherence in terms of environmental, social, and governance factors.

Stakeholder Engagement And Materiality Assessment

Effective engagement of stakeholders is a key driver of ESG value. Engagement processes—such as materiality assessments, stakeholder consultations and dialogue forums—enable organizations to determine the

ESG matters of greatest relevance to their business model and those expected by stakeholders. "By integrating stakeholder contributions into governance and strategy development process companies increase legitimacy, transparency, and decrease risk" (Directory 2025).

In particular, materiality assessments offer a structured way to rank ESG issues in order of financial, operational and societal weight. Alongside governance principles and as input to strategic planning cycles, materiality outputs inform target setting, KPI development and resource allocation. This way we can ensure ESG projects are geared towards material risks and opportunities, not peripheral, fluffy, reputational considerations.

Budgetary Alignment And Financial Integration

Linking ESG priorities to the budget is crucial for turning sustainability aspirations into tangible outcomes. A formalized ESG budget enables companies to allocate capital for priority programs across the areas of environmental, social, and governance while detoxifying implementation risk and return on investment. By strategically allocating ESG budgets, sustainability objectives can be linked to financial performance measures including cost effectiveness, risk reduction and enhanced revenue generation (Defne, 2025).

Environmental outlays, such as energy efficiency, waste reduction and climate risk management often yield savings from the outset, while social programs improve employee productivity, retention and brand value. Spending on governance supports compliance and reporting integrity, good ethical behavior. By incorporating ESG budgets into mainstream financial planning, firms underpin the strategic relevance of sustainability and enhance sustainable long-term market fitness.

Toward Sustainable Value Creation

Taken together, governance oversight, stakeholder-informed materiality assessments, incentive alignment, and ESG-linked budgeting form an integrated implementation architecture. This architecture enables organizations to move beyond fragmented or compliance-driven ESG practices and toward **sustainable value creation embedded within corporate strategy and financial decision-making**. As emphasized in ESG implementation frameworks, disciplined governance and financial alignment are the primary mechanisms through which ESG strategies achieve credibility, accountability, and enduring impact (Directory, 2025; Defne, 2025).

DISCUSSION

This study's findings suggest that effective ESG implementation is fundamentally a governance-led exercise and not simply a technical or regulatory compliance matter. The deconstruction highlights that, when considering ESG discourse, the organizational governance is central to the over-arching framework connecting ESG objectives and business strategy, operational performance and financial planning. If governance fails to provide the right kind of oversight, ESG will end up a mess of fragmentation, incoherence and symbolic adoption.

The suggested cyclical model of ESG implementation process - appraisal, target setting, execution and performance analysis - illustrate how the governance system nurtures learning and adaptation. Senior management accountability and engagement at board level are important to ensure that ESG is embedded in risk management systems, performance measurement and capital allocation processes. This evidence reinforces extant governance theory, that emphasizes control, oversight and strategic alignment, as the necessary prerequisites for organizational resilience.

The governance-centric framework is complemented by the Stakeholder Engagement in this situation. The study shows that stakeholder participation promotes transparency and legitimacy of information, as well as the flow of information in decision-making, especially when integrated into formal mechanisms of governance. Documented and scrutinized structured engagement rather than ad-hoc approaches provide for informed decisions and help manage risks to reputation, regulation. The study also highlights that stakeholder engagement itself is insufficient; governance structures with accountabilities, escalation mechanisms and performance targets need to be in place.

The implementation effectiveness is further improved if the ESG goals are added into a structured budgeting process. Studies show that ESG-aligned budget-apportionment and ROI cycles are the money stages that demonstrate financial planning can turn environmentally sound promises into measurable green investments – delivering immediate financial gains, as well as long-term strategic advantages. By tying ESG investments to financial metrics like cost savings, revenue growth and risk management, companies can better make the case for those initiatives both inside and outside their own walls.

The increased emphasis on ESG-related KPIs and monitoring activities highlights the importance of measurement and transparency to sustain momentum around ESG. It also brings credibility and encourages further development by complementing KPIs with established reporting frameworks and board oversight practices. Taken together, these findings suggest that ESG success is not delivered through stand-alone initiatives but rather through organised governance arrangements that integrate the context of sustainability into the day to-day business decision making.

CONCLUSION

This study provides evidence that the success of ESG strategies is built on incorporating governance discipline, stakeholder engagement and financial alignment within a framework for implementation. Governance is the key enabler that converts ESG commitments into embedded, responsible and measurable corporate behaviors.

Without strong governance, ESG efforts will have a hard time creating durable change—or playing any significant role in the creation of long-term value.

Surviving and thriving Corporates can enhance their capacity for sustainable growth, build investor confidence, and meet ESG regulations by embedding ESG objectives into the foundation of governance. This connection is further secured by the engaging of stakeholders to maximize oversight, credibility and responsiveness; as well as value-aligned ESG investment planning which results in those participating making financially informed decisions with measurable impact supporting sustainability activities.

This article contributes to the literature on ESG by shifting away from how ESG information is disclosed and what it leads to, toward internal systems of governance or enforcement that supports the creation of sustainable value. Practically speaking, the findings offer a blueprint for firms interested in moving past token ESG strategies and folding it into their policies. Our future research will also test the proposed model empirically in different industries where it is likely to find that differences in governance quality affect the ESG performance and long term business durability.

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