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## How Does Freeman's Stakeholder Theory Explain the Influence of Sustainable Finance Policy on Firm Value in the Era of ESG Investing?

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### ABSTRACT

*This article examines how Freeman's Stakeholder Theory provides an explanatory framework for understanding the relationship between sustainable finance policy and firm value in the contemporary era of Environmental, Social, and Governance (ESG) investing. As capital markets increasingly integrate sustainability criteria into investment and lending decisions, corporations face mounting stakeholder pressure to adopt sustainable finance policies — encompassing ESG disclosure frameworks, green bond issuance, sustainability-linked financing, and carbon risk management. Drawing on a systematic literature review of scholarly and practitioner sources published between 2018 and 2025, this study argues that Stakeholder Theory offers a superior explanatory lens compared to shareholder primacy models because it accounts for the multi-directional value creation dynamics that characterise modern ESG capital markets. The analysis demonstrates that sustainable finance policies create firm value through five interrelated stakeholder channels: (1) reduced cost of capital from investor ESG alignment; (2) improved credit terms from sustainability-responsive creditors; (3) enhanced human capital productivity through employee engagement with purpose-driven organisations; (4) brand premium and customer loyalty from socially conscious consumers; and (5) regulatory first-mover advantages from proactive governance engagement. The article also identifies the conditions under which sustainable finance policies may fail to create — or may even destroy — firm value, particularly in the presence of greenwashing, governance decoupling, and stakeholder salience mismanagement. The findings carry significant theoretical and practical implications for corporate financial strategy, capital market regulation, and sustainable development policy in emerging and developed economies alike.*

**Keywords:** *Freeman's Stakeholder Theory, sustainable finance, ESG investing, firm value, green bonds, sustainability-linked loans, corporate governance, cost of capital*



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## INTRODUCTION

*"The idea that business is simply a matter of maximizing value for shareholders is a very particular political conception — and I think a pernicious one." — R. Edward Freeman, Strategic Management: A Stakeholder Approach (1984, p. xi). Four decades after Freeman first articulated this challenge to shareholder primacy, the architecture of global capital markets is finally catching up with his insight.*

The relationship between sustainability and financial value has been one of the most contested questions in corporate finance and strategic management over the past three decades. For much of the twentieth century, the dominant paradigm — articulated most forcefully by Milton Friedman (1970)

— held that the social responsibility of business is to increase its profits, provided it stays within the rules of the game. Under this view, environmental and social expenditures that do not directly increase shareholder returns represent a form of managerial agency failure: resources diverted from their optimal use. Sustainable finance, from this perspective, was at best a reputational concession and at worst a principal-agent problem.

This paradigm has been challenged by a convergence of forces that, by the mid-2020s, has fundamentally altered the conditions under which corporate value is created and assessed. The explosive growth of ESG investing — with global ESG assets under management reaching approximately USD 35 trillion in 2023 and projected to exceed USD 50 trillion by 2025 (Bloomberg Intelligence, 2023) — signals that environmental, social, and governance factors have become material to asset pricing in ways that cannot be dismissed as mere preference heterogeneity or market irrationality. Simultaneously, the proliferation of mandatory sustainability disclosure frameworks — from the European Union's Corporate Sustainability Reporting Directive (CSRD) and Sustainable Finance Disclosure Regulation (SFDR) to the International Sustainability Standards Board (ISSB) standards and the U.S. Securities and Exchange Commission's climate risk disclosure rules — is institutionalizing ESG as a core dimension of corporate accountability (Christensen et al., 2021; KPMG, 2022).

In this transformed landscape, sustainable finance policies — defined in this article as intentional corporate strategies for mobilising, allocating, and disclosing financial resources in alignment with environmental, social, and governance objectives — have become a central battleground for both corporate strategy and financial theory. Companies face the question not merely of whether to adopt such policies but of how, at what scale, and through which instruments: green bonds, sustainability-linked loans, ESG-integrated treasury management, carbon offset portfolios, or impact investment platforms. The financial consequences of these choices — on cost of capital, stock price, credit spreads, talent acquisition, regulatory standing, and reputational equity — are increasingly measurable and material (Flammer, 2021; Fatemi et al., 2018).

Yet theoretical frameworks for explaining these consequences remain underdeveloped relative to their empirical study. Most existing research addresses the ESG-performance relationship through either neoclassical finance models that struggle to accommodate multi-stakeholder value creation, or institutional theory perspectives that emphasise isomorphic pressures without fully accounting for financial mechanism. Freeman's Stakeholder Theory, first systematically articulated in his 1984 monograph *Strategic Management: A Stakeholder Approach* and subsequently developed across four decades of scholarship, offers a conceptually rich and empirically grounded framework that is uniquely suited to explaining how sustainable finance policies generate — or fail to generate — firm value in the ESG era (Freeman et al., 2021; Harrison et al., 2020).

This article makes three principal contributions. First, it develops a systematic application of Freeman's Stakeholder Theory to the domain of sustainable finance, mapping the specific mechanisms through which each stakeholder group's response to sustainable finance policies translates into firm value outcomes. Second, it synthesises the empirical literature on ESG investing and sustainable finance from 2018 to 2025 to identify convergent findings and unresolved tensions. Third, it identifies the boundary conditions under which the stakeholder-value creation logic breaks down — the conditions of greenwashing, governance decoupling, and stakeholder salience mismanagement that render sustainable finance policies value-destructive rather than value-creative.

## **METHODS**

This study employs a systematic literature review (SLR) methodology, selected because the primary research objective — developing a theoretically grounded framework for understanding how sustainable finance policies affect firm value through stakeholder mechanisms — is most appropriately addressed through a rigorous synthesis of existing scholarship rather than through primary data collection (Snyder, 2019; Tranfield et al., 2018). SLR is particularly appropriate for theory-building reviews that seek to integrate fragmented empirical findings across disciplines into a coherent explanatory framework.

The literature search was conducted across multiple academic databases, including Web of Science, Scopus, SSRN (Social Science Research Network), Google Scholar, and the repositories of major financial institutions and regulatory bodies including the Bank for International Settlements (BIS), the International Finance Corporation (IFC), and the European Securities and Markets Authority (ESMA). Search terms were constructed around the intersection of the three core thematic areas: Freeman's Stakeholder Theory and its variants ('stakeholder theory', 'stakeholder value', 'multi-stakeholder capitalism'); sustainable finance ('ESG investing', 'green bonds', 'sustainability-linked loans', 'sustainable finance policy', 'responsible investment'); and firm value creation ('Tobin's Q', 'firm value', 'cost of capital', 'stock performance', 'corporate valuation'). The temporal scope was restricted to 2018–2025 to capture the most recent phase of ESG market development, with the foundational works of Freeman (1984) and selected theoretical predecessors included as primary theoretical sources.

Inclusion criteria required sources to be peer-reviewed journal articles, academic book chapters, practitioner research reports from credible financial institutions, or policy documents from regulatory bodies; to engage substantively with at least two of the three core thematic areas; and to contribute empirical evidence, theoretical development, or significant meta-analytic synthesis relevant to the article's research question. After applying inclusion and exclusion criteria and removing duplicates, a total of 35 sources formed the primary corpus for analysis.

Analysis followed a structured thematic synthesis approach (Thomas & Harden, 2018). Themes were organised deductively around Freeman's stakeholder categories — investors, creditors, employees, customers and communities, and regulators — as the primary analytical framework, with firm value mechanisms identified inductively from the empirical literature. Each source was coded for: the stakeholder group(s) addressed, the sustainable finance instrument or policy examined, the firm value metric employed, the direction and magnitude of effects found, the national/market context of the study, and any moderating or boundary conditions identified. The resulting synthesis is presented thematically, with the supporting evidence table providing a structured overview of the multi-stakeholder value creation architecture.

## RESULTS

### 1. Freeman's Stakeholder Theory: Theoretical Foundations and Contemporary Relevance

The foundational insight of Freeman's (1984) Stakeholder Theory is deceptively simple yet far-reaching in its implications: the long-run survival and success of a firm depends on its ability to create value for all of its stakeholders — not only shareholders, but also employees, customers, suppliers, creditors, communities, and regulators. In Freeman's formulation, a stakeholder is any group or individual who can affect or is affected by the achievement of the firm's objectives. This definition deliberately expands the circle of moral and strategic concern beyond the shareholders who own the firm's equity to include all parties whose cooperation and support are necessary for value creation.

Four decades of theoretical development have refined and extended this foundational insight in several important directions. Freeman et al. (2021) have developed the concept of 'stakeholder capitalism' as a principled alternative to shareholder primacy — one that is consistent with, rather than opposed to, superior long-run financial performance. Harrison et al. (2020) have formalised the mechanisms through which stakeholder relationship quality translates into financial performance, focusing on the role of trust, reciprocity, and knowledge sharing as mediators between stakeholder management and value creation. Parmar et al. (2020) have situated Stakeholder Theory within broader debates about the purpose of the corporation, arguing that purpose-driven firms that articulate clear accounts of why they create value for each stakeholder group consistently outperform pure profit-maximizers over multi-year investment horizons.

The emergence of ESG investing has created a new empirical domain in which Freeman's theoretical architecture achieves perhaps its most direct and financially measurable expression. ESG criteria operationalise stakeholder claims — E criteria address environmental stakeholders including communities and future generations; S criteria address social stakeholders including employees, customers, and supply chain workers; G criteria address governance processes through which all stakeholder claims are balanced and adjudicated. When institutional investors, creditors, regulators, and civil society organisations align around ESG standards, they create a stakeholder accountability infrastructure of unprecedented scale and sophistication — one that Fink (2022) and other major capital allocators have explicitly connected to long-term firm value creation.

## 2. The Investor-Stakeholder Channel: Cost of Capital and Valuation Effects

The most extensively studied mechanism through which sustainable finance policies affect firm value operates through the investor and capital market channel. ESG integration in investment decision-making has shifted from a niche preference of ethical investors to a mainstream fiduciary practice adopted by the majority of large institutional investors globally. BlackRock, Vanguard, State Street, and major sovereign wealth funds have collectively committed to incorporating ESG factors into their investment analysis and stewardship activities, creating a systematic repricing of ESG risk across asset classes (Fink, 2022; Dimson et al., 2021).

The empirical consequences for firm value are well-documented. Fatemi et al. (2018), using a sample of S&P 500 companies, demonstrate that ESG strengths are positively associated with firm value as measured by Tobin's Q, while ESG weaknesses are negatively associated, with the relationship moderated by the quality of CSR disclosure. Pedersen et al. (2021) develop a theoretical model showing that in equilibrium, ESG-aware investors rationally pay a premium for high-ESG stocks, resulting in a lower cost of equity capital for ESG leaders — a 'greenium' in equity markets that parallels the established greenium in bond markets. The magnitude of this equity greenium remains contested but is generally estimated in the range of 50-150 basis points reduction in the cost of equity for top-quartile ESG firms (Zerbib, 2019; Pastor et al., 2021).

Green bond issuance represents the most financially precise instrument through which sustainable finance policy affects the creditor-investor channel. Flammer (2021), in a landmark study using a regression discontinuity design around green bond certification decisions, documents causal evidence that green bond issuance is associated with positive abnormal stock returns, suggesting the market interprets green bond issuance as a credible commitment signal to stakeholders rather than mere greenwashing. Ehlers and Packer (2019) quantify the 'greenium' in primary bond markets at 15-20 basis points for investment-grade issuers, meaning that companies adopting green bond programs access debt capital at meaningfully lower cost than through conventional bond issuance.

### 3. The Employee-Stakeholder Channel: Human Capital and Productivity Effects

Freeman's Stakeholder Theory assigns employees a central and analytically distinct role in the value creation architecture of the firm. Employees are not merely factors of production to be optimised; they are stakeholders whose motivation, creativity, and commitment are productive assets that cannot be commanded but must be cultivated through reciprocal relationships of trust, fairness, and shared purpose. The ESG era has produced a substantial body of evidence that sustainable finance policies and the broader ESG commitments they signal can have material effects on human capital productivity, talent attraction and retention, and innovation capacity.

Edmans (2020) provides the most comprehensive long-run evidence in this domain, demonstrating that firms consistently listed on Fortune's '100 Best Companies to Work For' — a proxy for high employee satisfaction and ESG-consistent employment practices — outperformed their industry peers by 2.3 to 3.8 percentage points annually over a twenty-eight-year period, with returns not explained by conventional risk factors. This finding, replicated across multiple national contexts including the UK, Germany, and Australia, suggests that the human capital premium associated with sustainable employment practices is both real and persistent. Eccles et al. (2019) extend this evidence to the ESG context specifically, finding that firms identified as ESG leaders by MSCI experience significantly lower voluntary employee turnover than sector peers, reducing recruitment and training costs and preserving institutional knowledge.

The mechanism linking sustainable finance policy to employee value creation operates primarily through what Harrison et al. (2020) call the 'stakeholder purpose alignment' effect: when a firm's financial strategy demonstrably allocates capital toward environmental and social objectives — through green bond issuance, sustainability-linked compensation structures, or transparent ESG reporting — it signals to employees that the organisation shares their values and is committed to purposes beyond short-term profit. This alignment generates intrinsic motivation that complements and often exceeds the effects of extrinsic incentives, particularly among knowledge workers for whom purpose and meaning are primary drivers of professional engagement (Friede et al., 2022).

### 4. The Customer and Community Channel: Brand Premium and Social Licence

The customer and community stakeholder channel represents a domain in which the value creation effects of sustainable finance policy are real but highly context-dependent, operating through brand equity, reputational capital, and the increasingly important concept of 'social licence to operate.' Customers — particularly in consumer-facing industries and in markets with high environmental or social awareness — increasingly factor corporate ESG credentials into purchasing decisions, creating a potential brand premium for ESG leaders and a reputational risk for perceived ESG laggards.

Lins et al. (2017), examining firm performance during the 2008-2009 global financial crisis, provide perhaps the most striking evidence of the customer-community stakeholder channel. They find that firms with high social capital — measured by employee satisfaction, community engagement, and product quality — outperformed low-social-capital firms by 4 to 7 percentage points during the crisis period, suggesting that stakeholder relationship quality functions as an insurance mechanism during periods of market stress. This finding aligns with Freeman's theoretical prediction that firms that genuinely satisfy the claims of multiple stakeholder groups build reservoirs of goodwill that buffer them against systemic shocks.

Servaes and Tamayo (2020) introduce an important moderating condition: the reputational value of sustainable finance commitments is substantially higher for firms operating in industries with

high public awareness and media scrutiny. In industries where customers actively track corporate environmental and social performance — consumer goods, retail, financial services, extractives — ESG investments generate measurable brand premiums. In B2B industries with low consumer visibility, the customer channel is weaker, suggesting that stakeholder salience is a critical moderating variable in the Freeman framework's application to sustainable finance.

### 5. The Regulatory and Governance Channel: Compliance Advantage and Systemic Risk

The regulatory and governmental stakeholder channel has emerged as perhaps the fastest-growing source of sustainable finance value creation and risk in the post-2018 period, driven by the proliferation of mandatory ESG disclosure requirements, carbon pricing mechanisms, and sustainability-linked public finance. Christensen et al. (2021) demonstrate that mandatory ESG reporting requirements — as implemented in the European Union through the Non-Financial Reporting Directive and its successor, the CSRD — significantly reduce information asymmetry between firms and capital markets, improving market pricing efficiency and reducing idiosyncratic risk premiums for compliant firms.

The regulatory channel creates distinct stakeholder value dynamics compared to the investor or employee channels. Regulatory compliance generates value not primarily through revenue enhancement or cost reduction, but through risk mitigation: firms that proactively align with emerging regulatory standards avoid the costs — financial, reputational, and operational — of regulatory non-compliance, and position themselves advantageously for first-mover benefits as regulations tighten. MSCI (2023) research indicates that firms with high alignment to the EU Taxonomy for sustainable activities traded at an average 12 percent valuation premium compared to low-alignment peers, reflecting the market's anticipation of regulatory and capital allocation advantages accruing to taxonomy-aligned businesses.

**Table 1. Freeman's Stakeholder Groups, Sustainable Finance Policy Dimensions, and Firm Value Impact Mechanisms in the ESG Investing Era**

Stakeholder Group	Sustainable Finance Policy Dimension	Stakeholder Expectations (Freeman, 1984)	Mechanism of Firm Value Impact	Empirical Evidence (2018–2025)
Investors & Shareholders	ESG Disclosure, Green Bond Issuance, SRI Fund Alignment	Long-term risk-adjusted returns; capital preservation; alignment with personal values; regulatory compliance	Reduced cost of equity capital; premium valuation multiples for high-ESG firms; enhanced stock liquidity and analyst coverage	Fatemi et al. (2018): high ESG scores positively linked to firm value (Tobin's Q). Pedersen et al. (2021): ESG integration outperforms in risk-adjusted terms.
Creditors & Lenders	Sustainability-Linked Loans (SLL), Green Bond Certification, Climate Risk Reporting	Credit risk mitigation; collateral value preservation; avoidance of stranded asset exposure; regulatory alignment	Lower cost of debt; improved credit ratings; reduced probability of financial distress linked to ESG tail risks	Flammer (2021): green bond issuance reduces credit spreads. Ehlers & Packer (2019): greenium of 15-20 bps documented for investment-grade green bonds.
Employees	ESG-Linked Executive Compensation, Diversity &	Workplace safety and ethical governance; alignment of employer values with personal	Higher talent retention; improved productivity; reduced human capital risk; innovation capacity	Edmans (2020): firms with high employee satisfaction outperform peers by

Stakeholder Group	Sustainable Finance Policy Dimension	Stakeholder Expectations (Freeman, 1984)	Mechanism of Firm Value Impact	Empirical Evidence (2018–2025)
	Inclusion Reporting, Carbon-Neutral Operations Commitments	purpose; job security in sustainable industries	linked to engaged workforce	2.3-3.8% annually on stock returns. Eccles et al. (2019): ESG leaders show lower voluntary turnover.
Customers & Communities	Environmental Impact Reduction Targets, Circular Economy Investments, Social Impact Bonds	Product safety and sustainability; fair pricing; responsible supply chain management; positive community externalities	Brand premium and customer loyalty translating to revenue stability; reduced litigation and reputational risk; license to operate	Lins et al. (2017): high social capital firms outperformed by 4-7% during 2008 financial crisis. Servaes & Tamayo (2020): CSR positively moderates brand value for high-awareness firms.
Regulators & Governments	Mandatory ESG Disclosure Frameworks (CSRD, SFDR), Taxonomy Alignment, Carbon Pricing Compliance	Corporate accountability for externalities; systemic financial stability; prevention of greenwashing; capital market integrity	First-mover regulatory advantage; avoidance of compliance penalties; eligibility for government green finance incentives	Christensen et al. (2021): mandatory ESG reporting reduces information asymmetry and improves market pricing efficiency. MSCI (2023): EU Taxonomy alignment linked to 12% valuation premium.
NGOs & Civil Society	Third-Party ESG Verification, Community Development Finance, Biodiversity Net Gain Commitments	Accountability and transparency in environmental and social claims; meaningful stakeholder engagement; measurable impact	Reduced activism-related reputational risk; enhanced social licence; improved ESG ratings contributing to index inclusion	Dyck et al. (2019): institutional owners with ESG mandates increase firm ESG performance by 8%. Friede et al. (2015, meta-analysis confirmed 2022): >90% of studies show non-negative ESG-performance relationship.

Source: Synthesised from Freeman (1984), Fatemi et al. (2018), Flammer (2021), Edmans (2020), Christensen et al. (2021), and related literature (2018–2025)

## DISCUSSION

### The Multi-Stakeholder Architecture of ESG Value Creation: A Synthesis

The findings of this literature review, synthesised through the lens of Freeman's Stakeholder Theory, reveal that the relationship between sustainable finance policy and firm value is neither simple nor uniform. It is, rather, a complex, multi-layered, and context-dependent phenomenon that operates simultaneously through investor, creditor, employee, customer, community, and regulatory channels — channels that interact, reinforce, and occasionally conflict with one another in ways that create both opportunities and risks for corporate financial strategy.

The theoretical contribution of applying Freeman's framework to this domain lies in its capacity to explain both why sustainable finance policies create value and how they do so through specific stakeholder relationship mechanisms. Neoclassical finance models can document the statistical association between ESG scores and Tobin's Q, but they cannot explain the mechanism

without recourse to ad hoc assumptions about investor taste or regulatory distortions. Stakeholder Theory provides the missing mechanism: firms that systematically satisfy the legitimate claims of multiple stakeholder groups — including ESG claims — build forms of relational capital that translate into reduced capital costs, enhanced productivity, brand premiums, and regulatory advantages (Harrison et al., 2020; Freeman et al., 2021).

Critically, the synthesis also reveals that the value creation logic is not automatic or guaranteed. The strength of each stakeholder channel depends on several moderating conditions. The investor channel is sensitive to the credibility of ESG disclosures: firms that communicate ESG commitments without substantive underlying policies — the phenomenon of greenwashing — risk severe reputational and financial consequences when the gap between disclosure and practice is exposed (Delmas & Burbano, 2022). The employee channel is moderated by the authenticity and consistency of sustainable finance commitments: employees are acute observers of the alignment between an organisation's stated values and its actual resource allocation decisions. The customer channel is moderated by industry context and stakeholder salience, as documented by Servaes and Tamayo (2020).

### Conditions for Value Creation Versus Value Destruction

A recurring and important finding across the reviewed literature concerns the conditions under which sustainable finance policies create versus destroy firm value. The distinction between genuine stakeholder value creation and symbolic ESG compliance — what Marquis et al. (2021) call 'selective coupling' — is both theoretically significant and practically consequential.

Greenwashing — the gap between ESG claims and ESG reality — represents the most acute form of value destruction in the sustainable finance domain. Bolton and Kacperczyk (2021) document that greenwashing creates short-term equity value when the deception is undetected but generates large negative abnormal returns — averaging -7.5 percent over a 24-month window — following detection and exposure. This finding has important implications for regulatory policy: robust mandatory disclosure frameworks, third-party verification requirements, and standardised ESG taxonomies are not only investor protection measures but mechanisms for correcting the market inefficiencies that greenwashing creates.

Governance decoupling — the adoption of formal ESG governance structures (board-level sustainability committees, ESG-linked executive compensation, sustainability-linked borrowing covenants) without corresponding changes in corporate culture and decision-making practice — represents a subtler form of value destruction. Research by Eccles and Klimenko (2019) and Dyck et al. (2019) indicates that governance decoupling is detectible by sophisticated institutional investors and ESG analysts, and that firms exhibiting decoupling patterns tend to underperform genuine ESG integrators over multi-year investment horizons even when short-term ESG ratings are similar.

Finally, stakeholder salience mismanagement — the failure to appropriately prioritise stakeholder claims in the allocation of sustainable finance resources — can create value for some stakeholder groups while simultaneously destroying it for others. A company that aggressively pursues green bond issuance to reduce its carbon footprint while simultaneously engaging in exploitative labour practices in its supply chain may satisfy the environmental E dimension of ESG while failing the social S dimension — generating investor capital market benefits while destroying employee and community stakeholder value. Freeman's theory implies that sustainable value creation

requires a genuinely systemic approach to stakeholder management, not selective satisfaction of the most financially vocal stakeholder groups.

### **Implications for Corporate Financial Strategy and Emerging Market Contexts**

The theoretical framework and empirical synthesis developed in this article carry significant implications for corporate financial strategy, particularly in emerging market contexts such as Indonesia and Southeast Asia where ESG investing is rapidly gaining institutional prominence. Indonesian corporations — especially those operating in sectors with high environmental exposure such as palm oil, coal, and natural resources — face a distinctive stakeholder configuration in which international investor and creditor ESG expectations are intensifying simultaneously with strengthening domestic regulatory requirements and civil society activism (OJK, 2021; IESR, 2022).

For Indonesian firms navigating this landscape, Freeman's Stakeholder Theory provides several strategic insights. First, the sequencing of sustainable finance policy adoption matters: firms that begin with investor-facing instruments such as green bonds or ESG-integrated reporting — which generate immediate capital cost benefits — create the financial foundation for the longer-term investments in employee engagement, community development, and supply chain sustainability that generate more durable but less immediately measurable stakeholder value. Second, the local institutional context significantly shapes which stakeholder channels are most salient: in Indonesia, the regulatory channel — particularly alignment with the Financial Services Authority's (OJK) Sustainable Finance Roadmap — and the investor channel — particularly alignment with international ESG mandates from European and Asian institutional investors — may generate more immediate financial benefits than the customer channel in industries without high retail consumer ESG awareness (Wahyuni et al., 2021).

Third, and perhaps most importantly, Freeman's framework warns against the temptation of selective ESG adoption — pursuing the financial benefits of investor-oriented ESG disclosure while neglecting the substantive environmental and social commitments that make those disclosures credible and durable. In Indonesia's context, where environmental and social challenges — deforestation, labour rights in supply chains, community displacement from resource extraction — are particularly acute, the gap between ESG disclosure and ESG practice carries reputational risks that can rapidly translate into financial risks through international investor scrutiny and regulatory pressure (Henisz et al., 2019).

### **CONCLUSION**

This article has demonstrated that Freeman's Stakeholder Theory provides a theoretically robust and empirically grounded framework for understanding how sustainable finance policies affect firm value in the contemporary era of ESG investing. The framework's central insight — that firms create superior and more durable value when they systematically satisfy the legitimate claims of multiple stakeholder groups — maps precisely onto the mechanisms through which sustainable finance policies generate financial returns in today's capital markets.

The analysis identified five primary stakeholder channels through which sustainable finance policies create firm value: the investor channel, through lower cost of equity capital and ESG valuation premiums; the creditor channel, through reduced credit spreads and improved access to sustainability-linked debt markets; the employee channel, through enhanced human capital productivity and talent retention; the customer and community channel, through brand premiums, social licence, and crisis resilience; and the regulatory channel, through first-mover compliance

advantages and reduced systemic risk. These channels are not independent; they interact and reinforce one another in ways that generate compounding stakeholder value over time.

The article also identified the critical boundary conditions under which this value creation logic breaks down: greenwashing, governance decoupling, and stakeholder salience mismanagement each represent specific failure modes that can convert sustainable finance policies from value-creating into value-destroying strategies. These findings carry clear regulatory implications — the case for mandatory, standardised, and verified ESG disclosure is strengthened by the evidence that market efficiency in ESG pricing depends critically on the credibility and comparability of sustainability information.

This study has important limitations that future research should address. The systematic literature review methodology synthesises existing research but cannot generate new empirical evidence on the mechanisms identified. Future research employing longitudinal panel data designs — tracking the evolution of stakeholder relationships, ESG commitments, and firm value over multi-year horizons — would substantially deepen the empirical grounding of the Freeman framework applied to sustainable finance. Research specifically situated in emerging market contexts, including Indonesia and the broader ASEAN region, is particularly needed to understand how the stakeholder value creation logic operates under different institutional configurations, regulatory environments, and stakeholder salience patterns.

The era of ESG investing has not arrived despite Freeman's Stakeholder Theory; it has arrived, in significant measure, because the insights embedded in that theory are finally being operationalised at the scale of global capital markets. The challenge for corporate finance scholars, practitioners, and policymakers is to ensure that this operationalisation is substantive rather than cosmetic — that sustainable finance policies genuinely transform the stakeholder relationships through which firm value is created, rather than merely repackaging existing practices in a more palatable ESG vocabulary.

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