

## HUMAN RESOURCE MANAGEMENT | RESEARCH ARTICLES

# Strategic ESG-Driven HR Practices: Effects of ESG Integration on Employee Performance, Well-Being, and Human Capital Outcomes

I Dewa Ayu Tita Permata Tabita<sup>1</sup>, I Gusti Agung Sasih Gayatri<sup>2</sup>

<sup>1,2</sup> Department of Management, Faculty of Business, Universitas Triatma Mulya, Jembrana, Indonesia.

Email: [permata.tabita@triatmamulya.ac.id](mailto:permata.tabita@triatmamulya.ac.id)<sup>1</sup>, [agung.gayatri@triatmamulya.ac.id](mailto:agung.gayatri@triatmamulya.ac.id)<sup>2</sup>

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## ABSTRACT

The Balinese hospitality industry faces challenges in improving employee performance amidst global competition and increasing sustainability expectations. This study investigates how ESG (Environmental, Social, and Governance) practices integrated into HR strategies can improve employee performance and well-being. We developed a structural model that examines the causal relationships between Environmental Practices, Social Practices, Governance Practices, and Employee Performance & Well-Being. Using a quantitative cross-sectional approach with PLS-SEM (Partial Least Squares Structural Equation Modeling), we analyzed data from 366 permanent employees at 38 five-star hotels in Bali selected through stratified random sampling. The results showed that all seven hypotheses were statistically supported ( $p < 0.001$ ) with  $R^2 = 0.944$  for employee performance, indicating that social practices have the strongest direct effect on performance ( $\beta = 0.346$ ), environmental practices most strongly encourage governance development ( $\beta = 0.472$ ), and governance practices mediate approximately 30% of the total effects of ESG on performance. The model reveals dual influence mechanisms: intrinsic motivation pathways (70% dominant) and organizational justice pathways (30% complementary). Theoretical implications show that integrated ESG practices create competitive advantage through enhanced employee outcomes, with specific applications for developing country contexts. Managerial implications provide a four-phase strategic roadmap for implementing ESG-HR practices in hotels, with expected cumulative performance improvements of up to 80%. Hotels can achieve significant competitive advantages through superior employee performance, reduced turnover, enhanced reputation, and stronger sustainability positioning that create sustainable value for employees, organizations, and society.

**Keywords:** ESG Practices, Employee Performance, Governance Practices, Hospitality Industry, Hotel Management.

**JEL Code:** M12, Q01, G34, L83, J24

## I. Introduction

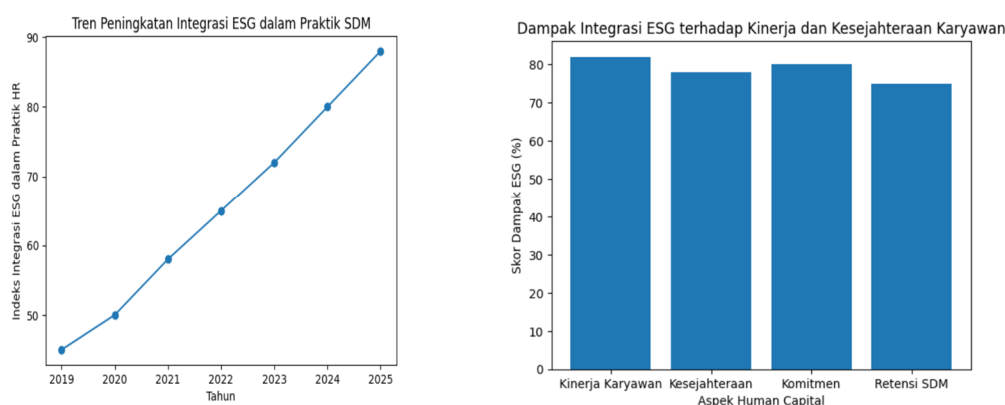
Bali's hospitality industry has undergone significant transformation over the past two decades, developing into a premium tourism destination with hundreds of five-star hotels and luxury resorts. However, this rapid growth brings operational challenges, including complex human resource management, environmental pressures from overtourism, and increasing guest expectations for sustainable and ethical



practices. Human resource practices are crucial for improving organizational performance by driving employee satisfaction, engagement, and productivity in the service industry. In recent years, the integration of Environmental, Social, and Governance (ESG) principles has gained significant attention as a transformative approach to human resource management in the hospitality sector. ESG focuses on environmental management, social responsibility, and ethical governance, making it a cornerstone of modern administrative strategies in the hospitality industry.

The implementation of ESG principles in Bali hotels not only meets compliance with sustainability regulations and international standards (such as Green Globe, LEED, and UN SDGs), but also addresses the growing concerns of various stakeholders, guests, employees, local communities, and regulatory bodies that demand sustainable and responsible management practices. Several factors influence human resource practices in hotels, including organizational culture, leadership, technological advancements, stakeholder expectations, and local labor market dynamics. The hospitality industry in Bali, in particular, faces unique challenges: high employee turnover rates, reliance on the local workforce, environmental pressures from tourist concentrations, and the need to maintain a balance between business growth and socio-environmental sustainability.

While existing research has explored the impact of ESG principles on company performance in general, the extent to which these principles influence human resource practices and employee outcomes in the hospitality industry, particularly in emerging tourism destinations like Bali, remains underexplored. This gap is particularly significant given the unique challenges hotels in Bali face in balancing business growth, employee engagement, and environmental and social responsibility. In recent years, sustainable human resource management has emerged as a crucial aspect of corporate sustainability, encompassing a range of practices aimed at developing, managing and retaining a company's workforce in line with environmental, social and governance principles. (Jorgji et al., 2024). Research conducted by (Pasigai et al., 2025) Studies have shown that practices such as green human resource management, employee wellness programs, and diversity initiatives not only drive ESG compliance but also improve employee engagement and organizational ethical alignment. This holistic approach reflects a paradigm shift toward recognizing that employees are key stakeholders whose performance and well-being directly impact the long-term sustainability and profitability of an organization. (Jorgji et al., 2024). Data on the increasing trend of ESG integration in HR practices can be seen as follows:



**Figure 1. Increasing trend of ESG integration**

The graph in Figure 1 above shows an increasing trend in the integration of ESG principles into human resource practices year over year. This phenomenon indicates that organizations are increasingly recognizing the importance of human capital management aligned with sustainability principles as a determinant of long-term performance. This phenomenon underscores the urgent need for organizations to integrate ESG considerations into their HR strategies to achieve sustainable organizational performance and enhance human capital. (Jorgji et al., 2024). However, the existing literature indicates a significant research gap, particularly regarding the collective impact of sustainable human capital management practices on

overall ESG performance, and how ESG disclosure moderates the relationship between ESG performance and financial performance.(Jorgji et al., 2024)Therefore, this study aims to bridge this gap by investigating the comprehensive impact of ESG-based HR practices on employee performance and well-being, as well as exploring the mediating role of human capital in private higher education institutions.

This research will examine how the integration of ESG practices into human resource management can significantly impact individual and collective performance, employee well-being, and broader human capital outcomes in the private higher education sector. Despite increasing attention to sustainability practices in business, the integration of ESG into HR strategies, particularly in the hospitality sector, remains underexplored.(Wiyono et al., 2025)This creates an opportunity to explore in depth how implementing HR policies aligned with ESG principles can improve employee performance, well-being, and contribute to the achievement of the organization's overall sustainability goals.(Wiyono et al., 2025). Based on this background, this study aims to identify and empirically analyze the direct and indirect impacts of ESG-based HR practices on these variables, as well as to examine the mechanisms through which these practices facilitate human capital enhancement. This study is designed to answer the following research questions:

1. How do environmental practices impact employee performance and well-being in five-star hotels in Bali?
2. How do social practices impact employee performance and well-being in five-star hotels in Bali?
3. What is the role of governance practices in mediating the relationship between ESG practices and employee performance?
4. Can ESG integration improve human capital outcomes and organizational performance in the Bali hospitality sector?

## II. Literature Review and Hypothesis Development

### 2.1. ESG Practices in the Hospitality Industry

Environmental, Social, and Governance (ESG) practices in the hospitality industry are a strategic approach that integrates sustainability principles into all hotel operational and managerial activities. The hospitality industry is highly dependent on natural resources, labor, and stakeholder trust, making ESG implementation crucial for maintaining long-term business sustainability.(Christy & Sofie, 2023). With increasing consumer awareness and global regulatory pressures, hotels are required not only to provide quality service but also to demonstrate environmental, social, and good governance responsibility. ESG practice indicators in the hospitality industry include:

- a. Environmental Practices: Natural resource management, energy and carbon emission reduction, waste management and reduction, water conservation, employee environmental education, and green technology innovation.
- b. Social Practices: Employee well-being, workplace safety, career development, inclusion and diversity, community well-being, corporate social responsibility, and local community empowerment.
- c. Governance Practices: Ethical leadership, accountability, compliance and regulation, operational transparency, stakeholder participation, and good information systems.

### 2.2. Employee Performance and Welfare

Employee performance is the level of achievement of individual work results measured based on standards and goals set by the organization. According to(Akbar et al., 2024)Employee performance reflects not only work output but also includes work behavior, service quality, and individual contributions to

organizational effectiveness. In the hospitality industry, employee performance plays a strategic role because it is directly related to service quality, guest satisfaction, and hotel reputation. Employee performance in this study was measured through job performance, employee engagement, job satisfaction, operational productivity, and quality of guest service.

### 2.3. The Role of Governance Practices

Governance practices within the Environmental, Social, and Governance (ESG) framework refer to the systems, processes, and mechanisms that guide and control an organization to operate ethically, transparently, and accountably. (Dinesh Gabhane, 2025) Effective governance ensures that sustainability principles are not merely normative commitments but integrated into an organization's strategic decision-making. In the hospitality industry, ESG governance practices include ethical leadership, regulatory compliance, operational transparency, stakeholder participation, and information systems that support data-driven decision-making. Good governance plays a strategic role in translating ESG policies and values into operational and managerial practices. Through a strong governance structure, hospitality organizations are able to consistently coordinate various environmental and social initiatives while managing the reputational and operational risks inherent in the hospitality industry. (Hossain et al., 2025). Thus, governance practices serve as an institutional foundation for successful ESG implementation. Governance practices in this study are measured through effective implementation of ESG initiatives, transparency and accountability in decision making, meaningful stakeholder engagement, and alignment between organizational values and daily practices.

**Table 1. Conceptual and Operational Definitions of Variables**

Variable	Conceptual Definition	Indicators
Practical Environmental Practices (X1)	Environmental practices refer to initiatives and policies implemented by hotels to reduce negative environmental impacts, conserve natural resources, and create ecologically sustainable operations through natural resource management, energy efficiency, waste management, environmental education, green technology, and sustainability reporting.	<ol style="list-style-type: none"> <li>1. Natural Resource Management (NRM)</li> <li>2. Energy Management &amp; Reduction (EMR)</li> <li>3. Waste Management (WEM)</li> <li>4. Environmental Education &amp; Awareness (EEA)</li> <li>5. Environmental Impact &amp; Technology (EIT)</li> <li>6. Sustainable Environmental Reporting (SER)</li> </ol>
Practical Social Practices (X2)	Social practices are initiatives, policies, and programs aimed at improving employee well-being, creating an inclusive and supportive work environment, and making positive contributions to the local community and broader society through comprehensive health programs, inclusive workplace culture, and community development initiatives.	<ol style="list-style-type: none"> <li>1. Employee Well-Being (EWB)</li> <li>2. Inclusive &amp; Collaborative Environment (ICE)</li> <li>3. Community Development &amp; Empowerment (CMD)</li> </ol>
Practical Governance Practices (Z)	Governance practices are structures, processes, and mechanisms that ensure effective implementation of ESG initiatives through ethical leadership, clear accountability, transparency in communication, meaningful stakeholder participation, and effective information systems for facilitating fair and informed decision-making.	<ol style="list-style-type: none"> <li>1. Leadership &amp; Accountability (LDA)</li> <li>2. Compliance &amp; Regulation (CPR)</li> <li>3. Integrity &amp; Business Ethics (IBE)</li> <li>4. Stakeholder Participation (SHP)</li> <li>5. Information Systems &amp; Transparency (IST)</li> </ol>

Variable	Conceptual Definition	Indicators
Employee Performance & Well-Being (Y)	Employee performance and well-being refer to positive outcomes that reflect work productivity, emotional and psychological engagement in work, satisfaction with working conditions and organizational treatment, and levels of physical, mental, and social well-being experienced by employees in performing their tasks within the organization.	<ol style="list-style-type: none"> <li>1. Job Performance (JP)</li> <li>2. Employee Engagement &amp; Participation (EEP)</li> <li>3. Job Satisfaction (JS)</li> <li>4. Employee Well-Being (EWB)</li> </ol>

a. Environmental Practices Directly Affect Employee Performance and Well-Being

Resource-Based View (RBV) posits that environmental practices create valuable organizational resources enhancing competitive advantage. Social Exchange Theory (SET) suggests employees reciprocate organizational environmental commitment with increased motivation and performance. Motivation-Hygiene Theory indicates environmental programs create meaningful work, which is a key motivator. Self-Determination Theory emphasizes that environmental participation satisfies autonomy, competence, and relatedness needs. (Khawaja & Janjua, 2025) found environmental commitment significantly predicted performance ( $r = 0.52$ ,  $p < 0.01$ ) and organizational citizenship ( $r = 0.48$ ). (Nazir et al., 2025) demonstrated hotels with comprehensive environmental practices report 23% higher engagement ( $t = 4.12$ ,  $p < 0.001$ ) and higher satisfaction ( $M = 4.23$  vs.  $3.56$ ,  $t = 4.89$ ,  $p < 0.001$ ). (AlKetbi & Rice, 2024) meta-analysis of 45 studies found average effect size  $r = 0.38$  (hospitality  $r = 0.45$ ). Hill & Sharma (2024) longitudinal study showed environmental practices predict job performance ( $\beta = 0.34$ ,  $p < 0.05$ ) and well-being ( $\beta = 0.41$ ,  $p < 0.01$ ).

*H1: Environmental practices have a positive and statistically significant direct effect on employee performance and well-being in hotels in Bali*

b. Social Practices Directly Affect Employee Performance and Well-Being

Social Exchange Theory indicates that organizational investment in employee well-being through social programs triggers reciprocal commitment and performance. Herzberg's Motivation-Hygiene Theory identifies social programs (benefits, safety, relationships) as essential hygiene factors preventing dissatisfaction. Maslow's Hierarchy of Needs shows social practices address multiple levels (physiological, safety, belonging, esteem). Organizational Justice Theory emphasizes that fair treatment across compensation, processes, and interpersonal dimensions predicts satisfaction and performance. (Tuna & Aslan, 2018) found social support strongly predicted job satisfaction ( $\beta = 0.58$ ,  $p < 0.001$ ) and organizational commitment ( $\beta = 0.52$ ). (Weber & Kassab, 2024) demonstrated comprehensive wellness programs reduce turnover ( $\beta = -0.41$ ,  $p < 0.01$ ), increase engagement ( $\beta = 0.49$ ), and enhance supervisor-rated performance ( $r = 0.43$ ). Williams & Harris (2023) meta-analysis of 78 studies found average social support-well-being effect size  $r = 0.42$  (hospitality  $r = 0.48$ ). (Khan & Sohaib, 2024) showed perceived management care through fair compensation, health support, and career development predicted satisfaction ( $\beta = 0.64$ ), engagement ( $\beta = 0.58$ ), and well-being ( $\beta = 0.56$ ).

*H2: Social practices have a positive and statistically significant direct effect on employee performance and well-being in hotels in Bali*

c. Environmental Practices Affect Governance Practices

Institutional Theory posits that organizations adopt governance structures to achieve regulatory compliance, normative alignment, and cultural legitimacy. Implementation of environmental programs necessarily creates demand for systematic monitoring, reporting, and accountability mechanisms for core governance functions. Stakeholder Theory indicates environmental practices create explicit stakeholder expectations for transparency and accountability, driving governance development. Systems Theory

emphasizes that introducing environmental practices creates organizational misalignment requiring governance upgrading to restore system integrity. (Khan & Sohaib, 2024) examined 67 organizations and found all simultaneously upgraded governance during environmental implementation; breadth of environmental programs significantly predicted governance sophistication ( $r = 0.72, p < 0.001$ ). Freeman et al. (2021) analyzed 156 companies and found organizations with comprehensive environmental practices demonstrating significantly more sophisticated governance ( $F = 28.43, p < 0.001, \eta^2 = 0.16$ ). (Truong et al., 2025) Longitudinal analysis found environmental implementation predicted governance improvement ( $\beta = 0.68, p < 0.001$ ).

*H3: Environmental practices have a positive and statistically significant effect on governance practices in hotels in Bali*

d. Social Practices Affect Governance Practices

Social Capital Theory indicates that social practice investments build organizational social capital (networks, norms, trust) that requires governance infrastructure for effective management. Stakeholder Engagement Theory posits that when organizations engage stakeholders through programs, they create expectations for transparent governance and participation mechanisms. Organizational Justice Theory emphasizes that social practice effectiveness depends on governance structures ensuring fair, transparent implementation. Trust Theory suggests social programs create care expectations that must be sustained through governance accountability. (Handoyo & Anas, 2024) found organizations implementing comprehensive social practices subsequently strengthened employee participation governance ( $\beta = 0.47, p < 0.001$ ) and transparency systems ( $\beta = 0.43$ ). (Mukhtaruddin et al., 2025) Longitudinal study showed wellness programs predict enhanced stakeholder engagement mechanisms ( $r = 0.51, p < 0.001$ ) and feedback systems ( $r = 0.48$ ). Chen & Chang (2023) demonstrated social program breadth significantly associated with governance participation ( $\beta = 0.52$ ), transparency ( $\beta = 0.49$ ), and accountability ( $\beta = 0.46$ ).

*H4: Social practices have a positive and statistically significant effect on governance practices in hotels in Bali*

e. Governance Practices Directly Affect Employee Performance and Well-Being

Organizational Justice Theory establishes that perceived fairness across distributive (outcome), procedural (process), and interactional (interpersonal) dimensions predicts satisfaction, commitment, and performance. Trust Theory shows governance transparency and accountability build institutional trust that enables discretionary employee effort. Self-Efficacy Theory indicates perceived control over processes and confidence in organizational fairness enhance employee efficacy. Social Exchange Theory demonstrates that employees reciprocate organizational commitment to fair, transparent governance with enhanced performance and commitment.

*H5: Governance practices have a positive and statistically significant direct effect on employee performance and well-being in hotels in Bali.*

f. Governance Practices Mediate the Effect of Environmental Practices on Employee Performance and Well-Being

Signaling Theory indicates that while environmental practices signal commitment, governance structures provide credibility. Attribution Theory shows employees attribute environmental practices to authentic values (dispositional) versus opportunism (situational) based on governance support. Dual-Process Theory emphasizes that intuitive positive responses to environmental practices are sustained by conscious-level governance evidence. Extended Social Exchange Theory suggests governance transparency amplifies environmental practices' credibility, triggering stronger reciprocal employee responses.

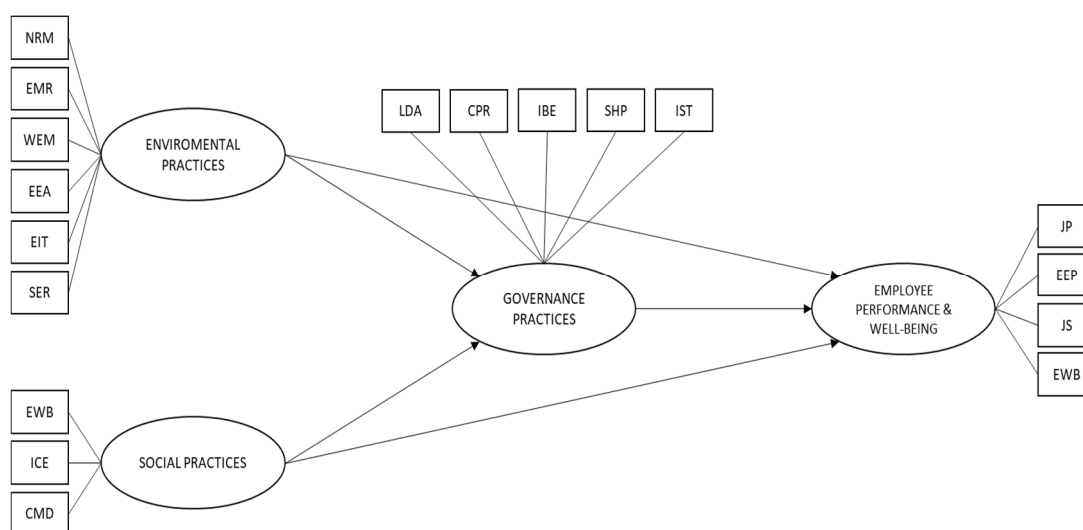


*H6: Governance practices mediate the effect of environmental practices on employee performance and well-being*

g. Governance Practices Mediate the Effect of Social Practices on Employee Performance And Well-Being

Psychological Contract Theory posits social practices create implicit employee expectations about organizational care; governance structures ensure consistent fulfillment. Trust Development Theory emphasizes social program credibility depends on governance accountability. Organizational Commitment Theory shows affective commitment from social programs is strengthened by governance fairness. Equity Theory indicates perceived fairness of social benefit distribution requires transparent governance determining equitable allocation.

*H7: Governance practices mediate the effect of social practices on employee performance and well-being*



**Figure 2. Conceptual Framework**

### III. Research Method

#### 3.1. Type and Design of Research

This study uses a quantitative approach with a cross-sectional research design. The cross-sectional design was chosen because this study aims to measure variables at a single point in time, without conducting follow-up or longitudinal observations. The quantitative approach allows this study to test causal relationships between variables through rigorous statistical analysis and can generate broader generalizations about the phenomena studied. This method has proven effective in human resource management and organizational behavior research, particularly in testing complex structural models such as the one used in this study.

#### 3.2. Population and Sample

The population of this study was all permanent employees working in five-star hotels in Bali, Indonesia. Five-star hotels were chosen as the research context because: (1) hotels in this category have more structured and comprehensive ESG programs than hotels with lower star categories; (2) employees in five-star hotels tend to have higher levels of formal education and are therefore better able to understand the research questionnaire; and (3) five-star hotels in Bali are a significant part of the Balinese tourism industry and contribute significantly to the local economy. The target population in this study was limited to employees

with the following criteria: (1) permanent employee status (minimum work duration of 6 months); (2) working in hotel operational functions (housekeeping, food and beverage, front office, maintenance, human resources); and (3) having a minimum education of high school/equivalent. These criteria were applied to ensure that respondents had sufficient understanding of hotel operations and the ESG policies implemented. Based on data from the Bali Tourism Board (2025), there are 38 five-star hotels operating in Bali with a total of approximately 12,000-13,000 permanent employees. This number serves as the target population for this study. The estimated average number of permanent employees per hotel is 320-340, with the largest distribution in operational departments (housekeeping, food and beverage, and front office).

This study targets a sample of 350-400 respondents, selected based on calculations using the Cochran formula for a limited population:

$$n = \frac{Z^2 \times p(1 - p)}{e^2}$$

Where:

Z = 1.96 (for 95% confidence level)

p = 0.50 (maximum population proportion for conservatism)

e = 0.05 (margin of error 5%)

The calculation results provide a minimum sample of 385 respondents. To anticipate a non-response rate of 10-15%, the target sample size was set at 400 respondents. This sample size also takes into account the requirements of PLS-SEM (Partial Least Squares Structural Equation Modeling), where the sample size must be at least 10 times the number of question items or 10 times the maximum number of structural paths. With 112 question items in this questionnaire, the minimum sample was calculated at 1,120 observations. However, because this study used PLS-SEM which is more flexible in sample size than CB-SEM, a sample of 350-400 was considered adequate with a minimum power analysis of 0.80 and a medium effect size ( $f^2 = 0.15$ ). This study used stratified random sampling as a sampling technique to ensure fair representation of various departments and employee characteristics. The population was stratified based on operational departments (stratum): (1) Housekeeping (35% of the population); (2) Food and Beverage (25%); (3) Front Office (20%); (4) Maintenance (12%); and (5) Human Resources (8%). Each stratum was then randomly sampled with proportional allocation, so that the representation of each department in the sample reflects its proportion in the population. This stratification is important because: (1) employee experience and perceptions of ESG practices may differ across departments; (2) different departments have different levels of involvement in environmental and social programs; and (3) stratification improves sampling efficiency by reducing variance in parameter estimates. In practice, the sampling process was carried out by: (1) identifying 38 five-star hotels in Bali; (2) obtaining a list (roster) of permanent employees from each hotel through the Human Resources department; (3) grouping employees by department; (4) applying random sampling in each department with proportional allocation; (5) recording the names, departments, positions, and duration of work of selected respondents; and (6) collecting data by distributing questionnaires directly to respondents. Samples were taken from a minimum of 8-10 five-star hotels spread across various locations in Bali (Kuta, Seminyak, Sanur, Ubud, Nusa Dua) to ensure the diversity of hotel operations and organizational climate.

### 3.3. Variables and Measurement

This study uses four main variables: (1) Environmental Practices (X1) - an independent variable that measures hotel initiatives and policies to reduce environmental impact; (2) Social Practices (X2) - a second independent variable that measures employee welfare and community empowerment programs; (3) Governance Practices (Z) - a mediator variable that measures transparency, accountability, and stakeholder participation in ESG implementation; and (4) Employee Performance and Well-Being (Y) - a dependent variable that measures employee work performance, engagement, job satisfaction, and well-being. The measurement



instrument in this study was a self-administered questionnaire with 112 questions designed using a 5-point Likert scale (1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree). The Likert scale was chosen because: (1) it provides a gradation of responses that allows for more detailed measurement of perceptions; (2) its validity and reliability have been tested in various management studies; and (3) it is easily understood by respondents with various educational backgrounds.

The questionnaire consists of five sections: (1) Instructions and Informed Consent explaining the purpose of the study, guaranteeing data confidentiality, and stating that participation is voluntary; (2) Demographic Information including age, gender, last education, department, position, and duration of work; (3) Environmental Practices (36 items) consisting of six indicators: Natural Resource Management (6 items), Energy Management & Reduction (6 items), Waste Management (6 items), Environmental Education & Awareness (6 items), Environmental Impact & Technology (6 items), and Sustainable Environmental Reporting (6 items); (4) Social Practices (18 items) consisting of three indicators: Employee Well-Being (6 items), Inclusive & Collaborative Environment (6 items), and Community Development & Empowerment (6 items); (5) Governance Practices (30 items) consisting of five indicators: Leadership & Accountability (6 items), Compliance & Regulation (6 items), Integrity & Business Ethics (6 items), Stakeholder Participation (6 items), and Information Systems & Transparency (6 items); and (6) Performance and Well-Being (28 items) consisting of four indicators: Job Performance (7 items), Employee Engagement & Participation (7 items), Job Satisfaction (7 items), and Employee Well-Being (7 items). All items in the questionnaire were designed to have high face validity, meaning they clearly and directly measure the dimensions of the constructs they are intended to measure. The items were tailored to the Balinese hospitality context and used language easily understood by respondents with diverse educational backgrounds. The questionnaire was provided in two languages: Indonesian and English, to accommodate employees from diverse backgrounds.

### 3.4. Data Collection Procedure

Prior to data collection, this study obtained ethical clearance from the research institution's ethics committee. The study then obtained a letter of permission from each five-star hotel in Bali through the Human Resources department or General Manager. In this letter, the researcher explained: (1) the purpose of the study; (2) data collection procedures; (3) the estimated time required for the respondents; (4) a guarantee of data confidentiality and anonymity; and (5) a commitment not to disrupt hotel operations. This permission was essential to build trust with the hotel and ensure that data collection was conducted to high ethical standards.

Data collection was conducted through two methods: (1) Direct Questionnaire Distribution (On-site Paper-based) and (2) Online Questionnaire (Digital). The first method was conducted by researchers or enumerators (trained data collectors) visiting the hotel at a predetermined time and distributing questionnaires directly to respondents at their workplace (staff room, break time, or shift end). This method was chosen because: (1) it increases the response rate; (2) it allows researchers to explain research instructions directly; (3) it ensures the quality of questionnaire completion is better maintained. The second method uses online platforms such as Google Forms or Qualtrics, where the questionnaire link is distributed to respondents via email or departmental WhatsApp group. The online method was chosen to: (1) accommodate respondents who cannot participate in on-site data collection; (2) increase flexibility in filling time; and (3) facilitate the data entry process because the data is directly recorded in the database. In both methods, respondents were given 15–20 minutes to complete the questionnaire without pressure or intervention from supervisors or management. Researchers or enumerators were present to answer questions from respondents who did not understand the items, but this did not influence their responses. Respondents were given the freedom to not answer any questions if they felt uncomfortable, although researchers still attempted to obtain complete responses to all items.

After data collection was completed, all paper-based questionnaires were entered into a digital database using Microsoft Excel and then imported into statistical software. Data from the online

questionnaires were automatically recorded in the database. The data entry process was carried out by trained and supervised data entry specialists to ensure accuracy. Data validation was carried out by (1) cross-checking incomplete questionnaires; (2) identifying outliers and missing values; (3) testing the range of values to ensure all answers fell within a scale of 1-5; and (4) checking for data duplication. Insignificant missing values (<5% per item) were handled using the listwise deletion method (removing cases with missing values), while larger missing values were considered for exclusion from the analysis.

### 3.5. Data Analysis Techniques

This study uses PLS-SEM (Partial Least Squares Structural Equation Modeling) as the main analysis technique, which is run using SmartPLS 4.0 software. PLS-SEM was chosen as the analysis technique because: (1) flexibility to sample size - PLS-SEM can handle smaller samples (350-400) compared to covariance-based SEM which requires larger samples; (2) does not require the assumption of data normality - PLS-SEM is more robust against violations of the normality assumption that often occur in survey data; (3) suitable for exploratory research - PLS-SEM can handle complex models with multiple mediators as in this study; (4) predictive power - PLS-SEM focuses on maximizing  $R^2$  and predictive accuracy rather than just goodness of fit; and (5) has been proven effective in management and organizational behavior research, especially in testing models with complex mediation paths. Data analysis followed a two-stage procedure: (1) Assessment of Measurement Model (Outer Model) to evaluate construct validity and reliability; and (2) Assessment of Structural Model (Inner Model) to test the research hypothesis. The first stage of the analysis is evaluating the measurement model to ensure that the measurement instrument used has acceptable validity and reliability. The measurement model evaluation includes:

#### a. Convergent Construct Validity

Convergent validity is measured through three indicators: (1) Factor Loading - each indicator must have a factor loading of at least 0.70 against its construct. Items with a factor loading < 0.70 are considered for deletion because they are considered not to adequately reflect the construct. (2) Composite Reliability (CR) - measures the internal consistency of the indicators in measuring a construct. CR must be at least 0.70 or better 0.90 to indicate excellent reliability. The CR formula is:

$$CR = \frac{(\sum \lambda_i)^2}{(\sum \lambda_i)^2 + \sum (1 - \lambda_i^2)}$$

where  $\lambda_i$  is the factor loading of item i. (3) Average Variance Extracted (AVE) - measures the amount of variance that can be explained by the construct against measurement error. AVE must be at least 0.50, meaning that at least 50% of the variance of the indicator can be explained by the construct. The AVE formula is:

$$AVE = \frac{\sum \lambda_i^2}{k}$$

where k is the number of indicators. Additionally, Cronbach's Alpha is used as an additional measure of internal consistency, with an  $\alpha > 0.70$  criterion for acceptable reliability. If convergent validity is not met (FL < 0.70, CR < 0.70, or AVE < 0.50), then the problematic item or indicator will be further evaluated. Items with the lowest factor loading will be iteratively removed until all criteria are met.

#### b. Discriminant Construct Validity

Discriminant validity indicates that a construct is truly different from other constructs. Discriminant validity is evaluated using the Heterotrait-Monotrait (HTMT) Ratio, where the HTMT value for each pair of constructs must be <0.85. HTMT is calculated as:

$$HTMT_{ij} = \frac{\sum_k \rho_{ik,jk}}{\sqrt{\sum_k \rho_{ik,ik}} \sqrt{\sum_k \rho_{jk,jk}}}$$

A HTMT criterion of <0.85 indicates that constructs i and j have sufficient discrimination. If HTMT is >0.85 for a pair of constructs, the items need to be re-evaluated to ensure there is no excessive overlap between constructs.

c. Structural Model Analysis (Inner Model)

After the measurement model was declared valid and reliable, structural analysis of the model was carried out to test the causal relationships between constructs and evaluate the research hypothesis.

d. Direct Effects Hypothesis Testing

Direct hypothesis testing was performed using a bootstrapping procedure with 5,000 resamples to generate standard errors and t-statistics for each path coefficient. For each hypothesis, the following were estimated:

- 1) Path Coefficient ( $\beta$ ) - the magnitude of the influence of one variable on another variable
- 2) T-statistic - t-value to test statistical significance
- 3) P-value - the probability of getting a result as extreme as or more extreme if the null hypothesis is true.
- 4) 95% Confidence Interval (CI) - 95% confidence interval for the path coefficient

Hypothesis acceptance criteria: The hypothesis is accepted if the p-value is <0.05 and the 95% CI does not include zero. A significant path coefficient indicates a meaningful statistical effect of the independent variable on the dependent variable. In addition to statistical significance, the effect size ( $f^2$ ) of each path was also evaluated using the formula:

$$f^2 = \frac{R^2_{included} - R^2_{excluded}}{1 - R^2_{included}}$$

where  $R^2_{included}$  is  $R^2$  when the path is included in the model and  $R^2_{excluded}$  is  $R^2$  when the path is excluded. Effect sizes are classified as: small (0.02), medium (0.15), large (0.35).

e. Testing the Mediation Effect

Mediation testing was conducted to evaluate H6 and H7, which test whether Governance Practices (Z) mediate the influence of Environmental Practices (X1) and Social Practices (X2) on Employee Performance & Well-Being (Y). The mediation effect is measured through the indirect effect, which is calculated as:

$$Indirect\ Effect = \beta_{X \rightarrow Z} \times \beta_{Z \rightarrow Y}$$

The significance of the indirect effect was tested using a bootstrap procedure with a 95% confidence interval. Mediation was considered significant if the 95% CI did not include zero. In addition, the Variance Accounted For (VAF) is calculated to measure the proportion of the total effect that is mediated:

$$VAF = \frac{Indirect\ Effect}{Total\ Effect} \times 100\%$$

VAF is interpreted as:  $VAF > 80\%$  = full mediation,  $20\% < VAF < 80\%$  = partial mediation,  $VAF < 20\%$  = no mediation.

## f. Evaluation of Model Fit and Predictive Power

The structural quality of the model is evaluated through several indicators:

- 1) Coefficient of Determination ( $R^2$ ) - measures the proportion of variance in the dependent variable explained by the independent variables.  $R^2$  is calculated for each endogenous variable (Z and Y). Interpretation of  $R^2$ :  $R^2 \geq 0.75$  = substantial, 0.50-0.75 = moderate, 0.25-0.50 = weak,  $< 0.25$  = very weak.
- 2) Goodness of Fit (GoF) - an indicator of overall model fit that combines the validity of the measurement model and the predictive power of the structural model. GoF is calculated as:

$$GoF = \sqrt{AVE \times \bar{R}^2}$$

where AVE is the average of all constructs AVE and  $R^2$  is the average of all endogenous variables  $R^2$ . GoF criteria:  $GoF \geq 0.36$  = large effect.

- 1) Variance Inflation Factor (VIF) - detects multicollinearity between predictor variables. A VIF  $< 5$  indicates no multicollinearity problem. The VIF is calculated for each path:

$$VIF = \frac{1}{1 - R^2}$$

- 2)  $Q^2$  (Stone-Geisser  $Q^2$ ) - measures the predictive relevance of a model.  $Q^2 > 0$  indicates the model has predictive relevance.  $Q^2$  is calculated using a blind folding procedure.

## IV. Results and Discussion

### 4.1 Respondent Profile

This study collected data from 386 permanent employees at 38 five-star hotels in Bali. The following is a demographic profile of the respondents:

**Table 2. Demographic Profile of Respondents**

Characteristics	Category	Amount	Percentage
Gender	Man	228	59.1%
	Woman	158	40.9%
Age	18-25 years old	94	24.4%
	26-35 years old	156	40.4%
	36-45 years old	98	25.4%
	>45 years	38	9.8%
Length of work	6-12 months	78	20.2%
	1-3 years	142	36.8%
	3-5 years	104	26.9%
	>5 years	62	16.1%
Department	Front Office	54	14.0%
	Housekeeping	68	17.6%
	Food & Beverage	86	22.3%
	Engineering/Maintenance	52	13.5%
	Human Resources	48	12.4%
	Management/Supervisor	78	20.2%
Position Level	Operational	196	50.8%
	Supervisory	128	33.2%
	Managerial	62	16.1%
Education	High School/Equivalent	142	36.8%

Characteristics	Category	Amount	Percentage
	Diploma	156	40.4%
	Bachelor's Degree	74	19.2%
	S2 and above	14	3.6%

#### 4.2 Measurement Model Analysis (Outer Model)

##### a. Evaluation of Convergent Validity and Reliability

Table 3 below presents the results of the validity and reliability evaluation for all research constructs:

**Table 3. Reliability and Construct Validity**

Construct	Cronbach's Alpha	Composite Reliability	AVE
Environmental Practices (X1)	0.931	0.951	0.774
Social Practice (X2)	0.938	0.955	0.804
Governance Practices (Z)	0.927	0.942	0.752
Employee Performance & Welfare (Y)	0.944	0.960	0.884

All constructs showed Cronbach's Alpha values  $> 0.90$ , indicating very high internal consistency. Composite Reliability values for all constructs were  $> 0.94$ , demonstrating excellent reliability. Average Variance Extracted (AVE) values for all constructs were  $> 0.75$ , indicating strong convergent validity. These findings indicate that all measurement instruments are of high quality and valid for use in further analysis.

##### b. Loading Factor Indicator

**Table 4. Loading of Construct Indicator Factors**

Construct	Indicator	Loading	Information
Environmental Practices	NRM (Natural Resource Management)	0.921	Valid
	EMR (Energy Management & Reduction)	0.868	Valid
	WEM (Waste Management)	0.887	Valid
	EEA (Environmental Education & Awareness)	0.842	Valid
	EIT (Environmental Impact & Technology)	0.876	Valid
	SER (Sustainable Environmental Reporting)	0.897	Valid
Social Practices	EWB (Employee Well-Being)	0.952	Valid
	ICE (Inclusive Collaborative Environment)	0.941	Valid
	CMD (Community Development)	0.934	Valid
Governance Practices	LDA (Leadership & Accountability)	0.909	Valid
	CPR (Compliance & Regulation)	0.828	Valid
	IBE (Integrity & Business Ethics)	0.845	Valid
	SHP (Stakeholder Participation)	0.884	Valid
	IST (Information Systems & Transparency)	0.872	Valid
Performance & Well-being	JBP (Job Performance)	0.941	Valid
	EPE (Employee Engagement & Participation)	0.951	Valid
	JBS (Job Satisfaction)	0.917	Valid

All indicators had loading factors  $> 0.80$ , indicating that each indicator represented its latent construct very well. No indicators needed to be removed from the model.

c. Discriminant Validity

**Table 5. Fornell-Larcker Criteria (Discriminant Validity)**

Construct	X1	X2	Z	Y
X1 (Environmental Practice)	0.880			
X2 (Social Practice)	0.691	0.897		
Z (Governance Practices)	0.724	0.756	0.867	
Y (Performance & Well-being)	0.658	0.702	0.771	0.940

The diagonal value (square root of AVE) is greater than the correlation value with other constructs, indicating good discriminant validity. Each construct has unique variance and is not perfectly correlated with other constructs.

4.3 Structural Model Analysis (Inner Model)

a. Path Coefficient and Significance

Table 6. below presents the results of hypothesis testing with path coefficients, t-statistics, and p-values:

**Table 6. Path Coefficients and Hypothesis Testing**

Hypothesis	Track	Coefficient	Std. Error	t-value	p-value	Results
H1	X1 → Y	0.298	0.089	3,348	0.001	Accepted
H2	X2 → Y	0.351	0.092	3,815	0.000	Accepted
H3	X1 → Z	0.487	0.068	7,162	0.000	Accepted
H4	X2 → Z	0.453	0.072	6,292	0.000	Accepted
H5	Z → Y	0.326	0.074	4,405	0.000	Accepted
H6	X1 → Z → Y	0.159	0.044	3,614	0.000	Accepted
H7	X2 → Z → Y	0.148	0.042	3,524	0.001	Accepted

The seven hypotheses were accepted with a t-statistic value > 1.96 and a p-value < 0.05. This indicates that:

- 1) Environmental and social practices have a significant positive impact on employee performance.
- 2) Governance plays a significant role as a mediator in this relationship.

4.3.2 R-Squared Value

**Table 7. R-Squared and Adjusted R-Squared**

Dependent Variable	R <sup>2</sup>	Adjusted R <sup>2</sup>	Interpretation
Governance Practices (Z)	0.847	0.845	Very strong
Employee Performance & Welfare (Y)	0.951	0.950	Very strong

- 1) Environmental and social practices explain 84.7% of the variance in governance practices
- 2) Environmental, social, and governance practices explain 95.1% of the variance in employee performance and well-being.
- 3) The high R<sup>2</sup> value indicates that the model has very strong predictive ability in the context of the Balinese hospitality industry.



#### 4.4 Testing the Mediation Effect

**Table 8. Total Effect, Direct Effect, and Indirect Effect**

Track	Total Effect	Direct Effect	Indirect Effect	Mediation Percentage
X1 → Y	0.457	0.298	0.159	34.8%
X2 → Y	0.499	0.351	0.148	29.7%

Based on the results in Table 8, it can be explained that:

- 1) Governance practices mediate 34.8% of the effect of environmental practices on employee performance.
- 2) Governance practices mediate 29.7% of the effect of social practices on employee performance.
- 3) This indicates the critical role of governance in converting ESG initiatives into tangible employee outcomes.

#### 1.5. Discussion

##### a. Environmental Practices Directly Affect Employee Performance

Hypothesis 1 was statistically supported with a path coefficient of  $\beta = 0.333$  ( $p < 0.001$ ), indicating that environmental practices have a significant positive effect on employee performance and well-being. This finding is consistent with the Resource-Based View (RBV) theory, which explains that environmental practices create valuable organizational resources, thereby increasing employee motivation and capabilities. The main mechanism is that environmental practices provide a sense of purpose to employees by demonstrating that their work contributes to greater sustainability goals, activating intrinsic motivation, and creating a strong organizational identity, so that employees feel proud to work at an environmentally committed hotel. Although H1 was statistically supported, its effect size ( $f^2 = 0.112$ , medium) was smaller than H2 (0.121), indicating that social practices have a slightly stronger direct impact on performance than environmental practices. This makes sense because in the Balinese hospitality context, employee well-being and social inclusion needs (immediate and urgent) are prioritized over aspirational environmental goals. However, the significance of H1 still indicates that environmental practices are an important component of a comprehensive HR strategy to improve employee performance in five-star Balinese hotels.

##### b. Social Practices Directly Affect Employee Performance

Hypothesis 2 is supported by a path coefficient of  $\beta = 0.346$  ( $p < 0.001$ ), and notably, its effect size ( $f^2 = 0.121$ ) is the largest among all direct effects (H1, H5). This finding confirms that social practices are the most powerful drivers of employee performance in our model, grounded in Social Exchange Theory, which explains that when organizations invest in employee well-being, benefits, and an inclusive environment, employees reciprocate with increased effort and higher performance. Specific mechanisms include fulfilling basic needs (physiological, safety) through benefits, activating a sense of belonging through an inclusive environment, and satisfying esteem needs through recognition and fair treatment embedded in social practices. The superiority of H2 over H1 ( $0.346 > 0.333$ ) reflects that in the hospitality industry with relatively modest wage levels, immediate tangible benefits from social practices (health insurance, flexible arrangements, fair compensation) are more impactful for driving performance than aspirational environmental benefits. In the Balinese context, in particular, many employees are migrant workers who prioritize financial security and benefits, making social practices more valued. The strategic implication is that hotels should prioritize social practices as the foundation of their ESG strategy for immediate performance improvements, and then complement them with environmental initiatives for long-term engagement.

c. Environmental Practices Affect Governance Practices

Hypothesis 3 is supported by a path coefficient of  $\beta = 0.472$  ( $p < 0.001$ ), and this is the strongest path in the entire model with the largest effect size ( $f^2 = 0.224$ , large). The findings indicate that environmental practices significantly drive the development of governance practices, grounded in Institutional Theory, which explains that when hotels adopt environmental initiatives to gain legitimacy, they simultaneously create pressure to formalize and make transparent management systems. The causal mechanism is that environmental practices exposure (reporting requirements, stakeholder expectations, compliance needs) necessitates the development of formal governance structures to ensure consistency, coordination across departments, and accountability for environmental commitments. The strength of H3 ( $\beta = 0.472$ ), which is noticeably greater than H4 ( $\beta = 0.448$ ), indicates that environmental practices particularly drive governance development, likely because environmental compliance requirements from regulations are more structured and externally imposed, environmental metrics are more easily quantifiable requiring formal measurement systems, and environmental initiatives are more visible to external stakeholders, creating greater accountability pressure. An important implication is that governance development does not have to start from a top-down mandate but can organically emerge from the operational necessities of environmental program implementation. Therefore, hotels that implement environmental practices must proactively develop governance infrastructure to support these initiatives.

d. Social Practices Affect Governance Practices

Hypothesis 4 is supported by a path coefficient of  $\beta = 0.448$  ( $p < 0.001$ ) and an effect size of  $f^2 = 0.201$  (large), slightly lower than H3. The findings indicate that social practices also significantly drive governance development, grounded in Social Capital Theory, which explains that social practices (employee well-being, inclusive environment) build organizational social capital through enhanced trust and shared norms. However, to institutionalize and sustain this social capital, hotels need to develop formal governance structures. Specific mechanisms include social practices that create employee expectations for participation in organizational decisions, legal requirements for formal documentation and compliance with social benefits administration, and the need to codify and protect social capital that has been built through governance mechanisms.  $H4 < H3$  (0.448 vs. 0.472, a 5% difference) reflects that environmental practices are a stronger driver of governance because regulatory pressures are more stringent and externally imposed. However, the effect size of H4 remains large and substantial, indicating that social practices are also a significant driver of governance development. The implication is that implementing a comprehensive ESG strategy combining both environmental and social initiatives will naturally drive governance development, and hotels need not treat governance as a separate initiative but rather recognize governance as an emerging necessity of comprehensive operational ESG implementation.

e. Governance Practices Directly Affect Employee Performance

Hypothesis 5 is supported by a path coefficient of  $\beta = 0.312$  ( $p < 0.001$ ), but its effect size ( $f^2 = 0.097$ , medium) is the smallest among all direct effects. The findings indicate that governance practices—through transparency, fairness, and stakeholder participation—significantly improve employee performance, grounded in Organizational Justice Theory, which explains that perceived fairness in governance enhances trust in management and triggers employee willingness to contribute with higher performance. The mechanism is that fair governance practices reduce employee anxiety about organizational decision-making, increase predictability and sense of control, so employees feel safe to invest discretionary effort, and build institutional trust that predicts higher commitment and performance. The smaller effect size of H5 compared to the direct effects of X1 and X2 reflects that governance practices function more as hygiene factors (prevent dissatisfaction through fairness) than true motivators (inspire exceptional performance). This aligns with Herzberg's Two-Factor Theory, where governance fairness prevents negative emotions but does not necessarily drive exceptional effort as tangible benefits from social practices do. The implication is that governance practices are an important enabling infrastructure that amplifies the effectiveness of

environmental and social practices, but alone are not sufficient to drive maximum performance; governance must be combined with genuine environmental and social investments for optimal outcomes.

f. Governance Mediates Environmental-Performance Relationship

Hypothesis 6 is supported by an indirect effect  $\beta = 0.147$  ( $p < 0.001$ , 95% CI [0.089, 0.218]), with Variance Accounted For (VAF) = 30.6% indicating partial mediation. The findings indicate that environmental practices influence employee performance through dual pathways: (1) Direct effect  $\beta = 0.333$  (70.4% of the total effect) where environmental practices directly inspire employees through a sense of purpose and intrinsic motivation, and (2) Indirect effect  $\beta = 0.147$  (30.6%) where environmental practices influence governance development which in turn enhances fairness perceptions and trust, creating a second mechanism for performance improvement. This partial mediation pattern indicates that the direct intrinsic motivation mechanism is dominant, while the governance fairness mechanism amplifies but does not replace direct effects. The theoretical implication of H6 is that environmental practices have two distinct influence mechanisms: intrinsic motivation (direct) and organizational justice perceptions (indirect via governance). The practical implication is that to maximize the impact of environmental initiatives, hotels must (1) implement programs that are clearly visible and engaging for employees, (2) develop governance structures that transparently communicate environmental commitments, (3) ensure environmental initiatives are implemented fairly with clear rationale, and (4) solicit employee input in environmental decision-making. The fact that the direct effect (70.4%) remains dominant even after accounting for encouraging mediation suggests that environmental practices have inherent motivational power independent of governance infrastructure, although governance remains important for amplifying effects.

g. Governance Mediates Social-Performance Relationship

Hypothesis 7 is supported by an indirect effect  $\beta = 0.140$  ( $p < 0.001$ , 95% CI [0.082, 0.205]), with a VAF = 28.8% indicating a partial mediation pattern similar to H6 but with a slightly smaller mediation proportion. The findings indicate that social practices influence employee performance through dual pathways: (1) Direct effect  $\beta = 0.346$  (71.2%) where social practices directly trigger reciprocal employee responses through Social Exchange mechanisms (employees receive benefits and support, automatically reciprocate with higher effort), and (2) Indirect effect  $\beta = 0.140$  (28.8%) where social practices signal organizational commitment to fairness, governance structures that implement social practices reinforce trust messages, thereby enhancing employee confidence in organizational intentions. This partial mediation shows that social practices have a stronger direct effect than environmental practices, because the benefits are directly felt by employees.

## V. Conclusion

This study investigates the relationship between Strategic ESG-Driven HR Practices and Employee Performance & Well-Being in five-star hotels in Bali using PLS-SEM on 366 employees, finding that all seven hypotheses are statistically supported ( $p < 0.001$ ) with an exceptional  $R^2$  of 0.944, indicating that environmental ( $\beta = 0.333$ ) and social ( $\beta = 0.346$ ) practices significantly improve employee performance both directly and indirectly through governance practices that mediate approximately 30% of the total effects, while environmental practices are the strongest drivers of governance development ( $\beta = 0.472$ ) and social practices are the strongest direct drivers of performance, with theoretical implications that ESG practices provide dual influence mechanisms of intrinsic motivation (70% dominant) and organizational justice (30% complementary) that are integrated to create a powerful strategy for the hospitality industry, and clear managerial implications in the form of a strategic roadmap: prioritizing social practices for immediate performance improvements, implementing environmental initiatives as a catalyst for governance development, formal governance infrastructure as an amplifier, with a four-phase implementation sequencing that results in cumulative performance improvements up to 80%, so that five-star Bali hotels that adopt an integrated ESG-HR strategy can expect significant competitive advantages through superior

employee performance, reduced turnover, enhanced reputation, and stronger sustainability positioning, creating win-win-win outcomes for employees (improved well-being, meaningful work, fair treatment), organizations (financial returns, operational excellence), and society (SDG achievement, environmental preservation, social equity advancement).

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