

ABSTRACT

This study aims to examine the effect of business strategies, specifically cost leadership and differentiation strategies, on the risk of financial distress, as well as to investigate the mediating role of environmental, social, and governance (ESG) performance in the relationship between business strategies—particularly cost leadership and differentiation strategies—and the risk of financial distress. The cost leadership strategy is proxied by total assets turnover operation, while the differentiation strategy is proxied by profit margin. ESG performance is measured using Bloomberg's ESG Score, and financial distress is assessed using the Altman Z-Score. This study also employs a control variable in the form of a leverage ratio, specifically the debt to assets ratio.

The population in this study consists of non-financial sector companies listed on the Indonesia Stock Exchange from 2018 to 2023. The sample was selected using a purposive sampling method, resulting in 52 companies being used as the final sample. The data were obtained from the Bloomberg Finance Laboratory, Faculty of Economics and Business, Diponegoro University. Data analysis was conducted using SPSS 29 and AMOS 29.

The results show that the cost leadership strategy has a positive effect on ESG performance, while the differentiation strategy has no significant effect on ESG performance. The cost leadership strategy negatively affects the risk of financial distress, and the differentiation strategy also negatively affects the risk of financial distress. However, ESG performance does not significantly affect financial distress. Furthermore, ESG performance is not proven to mediate the effect of either the cost leadership or differentiation strategies on financial distress.

Keywords: Cost leadership strategy, differentiation strategy, ESG performance, financial distress.