

Corporate Profitability as a Driver of Sustainability: Insights from Emerging Markets

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Abstract

This study analyses the relationship between corporate financial characteristics, geopolitical risk, organizational complexity, and corporate sustainability. Specifically, this study examines the effect of leverage and sales growth on profitability, the effect of profitability on sustainability, the moderating role of geopolitical risk, and the mediating role of organizational complexity. The study uses a quantitative approach with secondary data and is analyzed using partial least squares-based structural equation modeling (PLS-SEM). Model evaluation is conducted through goodness-of-fit testing, collinearity, and structural path significance. The results show that leverage has a positive and significant effect on profitability, while sales growth has no significant effect. Profitability has a positive effect on sustainability, but this effect weakens significantly in conditions of high geopolitical risk. Organizational complexity has a positive effect on sustainability, but does not mediate the relationship between profitability and sustainability because profitability does not have a positive effect on organizational complexity. These findings confirm that the relationship between financial performance and sustainability is contextual and influenced by external factors. This study contributes by integrating geopolitical risk and organizational complexity in explaining the dynamics of the relationship between financial performance and corporate sustainability.

Keywords: Profitability; Corporate Sustainability; Geopolitical Risk; Organizational Complexity; Financial Performance

JEL Codes: G32, M15, Q56

1. Introduction

Currently, sustainability issues are a major concern, especially in the context of industry. Companies are not only focused on financial profits but also on environmental conservation, community welfare, and good governance. Sustainability is believed to provide strategic benefits for companies. A number of studies show that sustainability practices help maintain company value, especially during crises such as the COVID-19 pandemic, when company value generally declines ([Bose et al., 2022](#); [Karman et al., 2024](#); [Phang et al., 2022](#); [Rahayu et al., 2024](#)). Meanwhile, the study by [Schulte and Knuts \(2022\)](#) fundamentally states that the impact

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of a sustainability approach that integrates risk management has been proven to provide positive benefits for companies, helping them identify opportunities and threats more systematically, as well as manage long-term risks that affect business competitiveness. Thus, sustainability is no longer just a requirement but a necessity for companies in the long term.

Therefore, the main concern in this context is how companies can build sustainability and what factors influence it. According to the Slack Resources Theory, companies with excess resources, such as financial assets, operational capacity, human resources, and others, have greater opportunities to adapt, innovate, or make strategic decisions outside of routine operational activities ([Bourgeois III, 1981](#)). This theory implies that companies with strong financial assets, such as high profitability, have a greater chance of achieving sustainability ([Heubeck & Ahrens, 2025](#); [Kim et al., 2019](#); [Yan et al., 2025](#)). However, there are still limitations in empirical studies that show profitability as the main capital for building sustainability, as stated by [Alshehadeh et al. \(2024\)](#). Most studies focus more on the impact of sustainability on profitability ([Aydoğmuş et al., 2022](#); [Batool et al., 2025](#); [Kuo et al., 2023](#); [Pham et al., 2021](#); [Utomo et al., 2020](#)).

Furthermore, in building sustainability, companies also face various obstacles that can affect the strength of their resources. One of the main obstacles is geopolitical risk, which can disrupt performance and profitability ([Duca et al., 2025](#); [Nguyen et al., 2025](#)). Therefore, companies need to continue to strengthen the resources that drive high profitability in order to cope with geopolitical pressures. Several empirical studies show that financing through leverage and sales growth significantly contribute to increased profitability ([Akhtar et al., 2022](#); [Murniati, 2023](#); [Susanti et al., 2022](#)).

As companies face geopolitical risks and profitability challenges, an internal resource-based approach becomes important to ensure sustainability. From the perspective of the Resource-Based View (RBV) Theory, it emphasises that a company's competitive advantage stems from unique and difficult-to-imitate internal resources ([Barney, 2001](#)). Profitability can be considered a strategic financial resource that enables investment in long-term sustainability initiatives ([Alshehadeh et al., 2024](#)). The effectiveness of utilising these resources depends on a company's ability to manage its organizational structure, including the number of subsidiaries and business diversification, which expands the network of resources and information flows, enabling sustainability practices to be implemented more effectively and systematically ([Peter & Swilling, 2014](#)). Thus, this organizational complexity has the potential to bridge the relationship between a company's profitability and sustainability.

This study examines the impact of profitability on sustainability, both through the mediating role of organizational complexity and the potential geopolitical risks that can weaken profitability's influence on sustainability. This study also examines the factors that influence profitability, particularly leverage and sales growth. This focus is based on the limited empirical studies that examine profitability as the main driver of sustainability. Most previous studies have examined how sustainability affects profitability, so the reverse relationship—how profitability drives sustainability—has not been comprehensively explored. This research gap provides an important basis for this study to offer a more complete understanding of the internal mechanisms companies use to build sustainability.

This study uses the food and beverage industry listed on the Indonesia Stock Exchange as its locus of observation, given that this industry faces high pressure related to sustainability standards and global geopolitical dynamics. Theoretically, this study contributes by reinforcing

Slack Resources Theory and the Resource-Based View by showing that profitability, as a strategic resource, can drive sustainability, especially when interacting with organizational complexity and external risks. Practically, the findings of this study guide companies in managing internal resources, organizational structures, and adaptation strategies to support long-term sustainability. Globally, the results of this study are relevant to the food and beverage industry in both developing and international markets, as they highlight how companies respond to cross-border economic pressures and geopolitical risks through strengthening profitability and resource management.

Based on this conceptual framework, this study produced empirical findings confirming that the relationship between financial performance and corporate sustainability is neither linear nor universal, but is strongly influenced by a company's internal and external context. The results show that profitability plays an important role in driving sustainability, but its effectiveness weakens significantly when companies face high geopolitical risks. In addition, this study finds that organizational complexity directly contributes to sustainability but does not mediate between profitability and sustainability. Thus, the main contribution of this study lies in enriching the literature on sustainability and corporate finance by integrating geopolitical risk as a contingency factor and affirming the limited role of internal structural mechanisms in translating financial performance into sustainability performance, particularly in an uncertain business environment.

2. Literature Review

2.1 Slack Resources Theory

Slack Resources Theory explains that organizations with excess resources (organizational slack) tend to have greater flexibility in making strategic decisions and dealing with business environment uncertainty ([Waddock & Graves, 1997](#)). [March \(1963\)](#) defines slack as the difference between a company's total resources and the minimum requirements for operations to continue running normally. [Bourgeois III \(1981\)](#) emphasizes that Slack functions as a cushion that allows organizations to react to market changes, support innovation, and allocate funds for non-routine activities outside of core operations. Furthermore, [George \(2005\)](#) shows that slack resources enable companies to undertake long-term investments to strengthen competitiveness. Thus, Slack Resources Theory holds that resource reserves, especially financial resources, not only reflect a company's stability but also serve as a major driver of an organization's strategic and adaptive capabilities.

The relevance of Slack Resources Theory in this study lies in explaining how profitability can serve as a strategic resource in driving corporate sustainability. High profitability indicates the presence of financial slack, which provides companies with room to invest in sustainability practices such as social responsibility, environmental protection, and improved governance. A number of empirical studies confirm that slack resources play a positive role in a company's ability to take sustainability initiatives through innovative policies and adaptive responses to external pressures ([Heubeck & Ahrens, 2025](#); [Kim et al., 2019](#); [Yan et al., 2025](#)). Furthermore, [Alshehadeh et al. \(2024\)](#) emphasize the need for studies that view profitability not only as an outcome of sustainability but also as an initial capital for building sustainability. Therefore, based on Slack Resources Theory, this study assumes that companies with high profitability are more likely to achieve sustainability, especially in the face of geopolitical risks and industry competition dynamics.

2.2 Resources-Based Theory

The Resource-Based View (RBV) states that a company's long-term competitive advantage stems from unique internal resources and capabilities, rather than solely from external industry conditions ([Barney, 2001](#)). Strategic resources are considered valuable if they meet the criteria of being valuable, rare, inimitable, and non-substitutable, known as VRIN. These resources include financial assets, technology, managerial capabilities, knowledge, and organizational processes. Effective management of internal resources can shape a company's core competencies and support the implementation of complex strategies, including the management of organizational structures and subsidiaries, business diversification, and information flows that support strategic decision-making ([Peteraf, 1993](#); [Wernerfelt, 1984](#)).

In the context of this study, RBV is relevant for understanding how profitability as a strategic internal resource can interact with organizational complexity to drive corporate sustainability. High profitability reflects financial slack, allowing companies to allocate resources to sustainability initiatives (environmental, social, and governance) and to strengthen organizational capabilities. Organizational complexity, such as the number of subsidiaries or business line diversification, expands the network of resources and information flows, enabling sustainability practices to be implemented more effectively and systematically. Thus, RBV emphasizes that the management of unique internal resources, combined with strategically managed organizational complexity, is key to achieving sustainable competitive advantage ([Barney, 2001](#); [Kero & Bogale, 2023](#)).

2.3. Leverage, Sales Growth, and Profitability

Leverage reflects the extent to which a company uses debt to finance its operations and has been recognized as an important factor affecting financial performance. According to the trade-off theory in capital structure, optimal leverage can increase profitability through tax benefits and capital management discipline, while excessive leverage can increase the risk of bankruptcy ([Myers, 1984](#)). Empirical research in emerging markets shows a positive relationship between leverage and profitability, especially if companies maintain a controlled level of debt ([Akhtar et al., 2022](#); [Daruwala, 2023](#); [Zafar et al., 2019](#)). Therefore, the first hypothesis is proposed as follows:

H1: Leverage has a positive effect on profitability.

Sales growth reflects a company's ability to expand its market share and operational scale, thereby increasing revenue and operational efficiency. Companies with high sales growth can benefit from economies of scale, increased bargaining power, and internal financial flexibility that contribute to increased profitability ([Lim & Rokhim, 2021](#); [Yadav et al., 2022](#)). Based on this theoretical foundation and empirical findings:

H2: Sales growth has a positive effect on profitability.

2.4. Profitability, Geopolitical Risk, and Sustainability

Profitability is an important financial resource for companies to fund long-term initiatives, including sustainability practices. The Resource-Based View (RBV) suggests that high-profitability companies possess strategic slack resources that can be allocated to environmental, social, and governance (ESG) activities, thereby improving sustainability performance ([Alshehadeh et al., 2024](#); [Barney, 2001](#)). Empirical evidence shows that more profitable companies are better able to implement sustainability practices even in uncertain market

conditions ([Heubeck & Ahrens, 2025](#)).

However, geopolitical risks — such as regulatory instability, trade restrictions, and international conflicts — can limit the effectiveness of using financial resources for sustainability initiatives. Geopolitical uncertainty can weaken the positive influence of profitability on sustainability by increasing operational and strategic risks ([Duca et al., 2025](#); [Nguyen et al., 2025](#)). Therefore, the following hypothesis is proposed:

H3: Profitability has a positive effect on sustainability.

H4: Geopolitical risk moderates the effect of profitability on sustainability, whereby its effect weakens under high-risk conditions.

2.5. Profitability, Industry Complexity, and Sustainability

Industry complexity, reflected in the number of subsidiaries, business diversification, and internal structural complexity, can enhance a company's ability to utilise internal resources to achieve sustainability. Resource-Based View (RBV) and Slack Resources Theory state that profitable companies have financial slack that enables operational expansion and strategic management of complex organizational structures ([Barney, 2001](#); [Bourgeois III, 1981](#)). Empirical research shows that high profitability is associated with greater industry complexity, which in turn facilitates coordination, knowledge transfer, and the systematic implementation of sustainability practices ([Peter & Swilling, 2014](#); [Yan et al., 2025](#)).

Furthermore, industry complexity can mediate the relationship between profitability and sustainability by translating financial resources into structured and systematic sustainability practices. Complex industries can leverage internal networks and diverse resources to implement ESG initiatives more effectively, thereby strengthening overall sustainability performance. Thus, the following hypotheses are proposed:

H5: Profitability has a positive effect on industry complexity.

H6: Industry complexity has a positive effect on sustainability.

H7: Industry complexity mediates the effect of profitability on sustainability.

Based on the development of the previous hypotheses, the empirical model of the study can be presented in Figure 1.

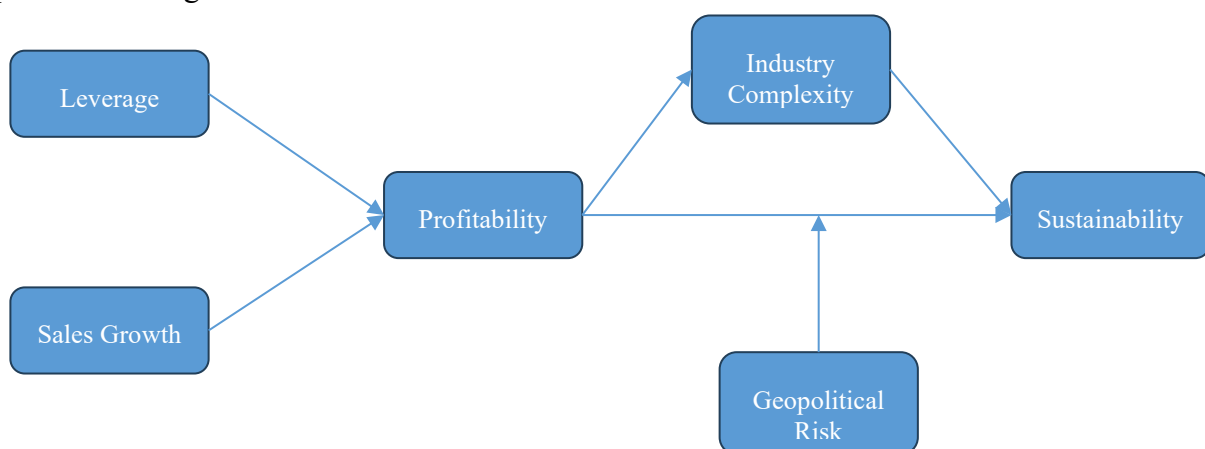


Figure 1. Empirical Research Model

3. Research Method

This study employs a causal research approach, a design that tests the presumed cause-and-effect relationship between the variables specified in the model. The research uses panel data from manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during 2020–2024. All research information comes from secondary data sources, primarily the annual reports of companies selected as samples for that period.

The research population comprises all manufacturing companies in the food and beverage subsector listed on the IDX during the five-year observation period. Sample selection was carried out using non-probability sampling techniques, specifically purposive sampling, which involves selecting sample units based on specific requirements and characteristics relevant to the research objectives. The sample criteria set in this study are as follows:

1. Manufacturing companies in the food and beverage industry that are listed and consistently not included in the blacklist of the Indonesia Stock Exchange from 2020 to 2024.
2. Manufacturing companies in the food and beverage sub-sector that provide sustainability disclosures, either through OJK standards, GRI standards, or by participating in PROPER assessments by the Ministry of Environment and Forestry.
3. Companies that have subsidiaries as a form of industrial complexity.

Based on predefined sampling criteria, 26 manufacturing firms in the food and beverage subsector were selected, yielding 130 panel observations (26 firms $\times$ 5 years).

This study uses leverage, sales growth, profitability, industry complexity, geopolitical risk, and sustainability as variables. The research variables and their measurements are explained as follows:

1. Leverage

Leverage is the level of debt in a company's capital structure, expressed as the proportion of its assets financed by liabilities. This variable is measured by the ratio of total debt to total assets ([Frank & Goyal, 2009](#); [Rajan & Zingales, 1995](#)).

2. Sales Growth

Sales Growth reflects a company's ability to increase sales revenue from one period to the next, illustrating the prospects for business growth. The measurement is done through the percentage change in annual sales ([Delmar et al., 2003](#)).

3. Profitability

Profitability indicates a company's ability to generate profits through the efficient use of its assets. This variable is proxied by Return on Assets (ROA), which is the ratio of net profit to total assets ([Brigham & Houston, 2019](#); [Demsetz & Villalonga, 2001](#)).

4. Industry Complexity

Industry complexity describes the level of complexity in a company's organizational structure due to business diversification. Complexity is measured by the number of subsidiaries owned ([Bushman et al., 2004](#); [Coles et al., 2008](#)).

5. Geopolitical Risk

Geopolitical risk reflects global uncertainty arising from political conflicts, international tensions, and geopolitical instability that impact economic and business activities.

Measurement uses the Global Geopolitical Risk Index (GPR) ([Caldara & Iacoviello, 2022](#); [Pástor & Veronesi, 2013](#)).

6. Sustainability

Sustainability reflects a company's commitment to sustainable business practices through transparent reporting and compliance with environmental and social standards. This variable is measured using an ordinal scale of 1–5 based on the implementation of sustainability reports (OJK/GRI) and participation in and ranking by the Ministry of Environment and Forestry's PROPER program ([Dhaliwal et al., 2011](#); [Eccles et al., 2014](#); [GRI, 2015](#)).

Sustainability is measured using the following ordinal scale:

Table 1. Sustainability Measurement Scores

Score	Criteria
1	Does not compile sustainability reports
2	Compiles sustainability reports in accordance with national/OJK standards
3	Prepares sustainability reports based on GRI standards or participates in the Ministry of Environment and Forestry's PROPER program
4	Prepares GRI-based sustainability reports and participates in the Ministry of Environment and Forestry's PROPER program
5	Prepares GRI-based sustainability reports and participates in the Ministry of Environment and Forestry's PROPER program with a Gold (excellent) rating

Source: Developed from several previous studies (2025)

4. Findings and Discussions

4.1 Descriptive Statistics

Descriptive statistics provide an overview of the characteristics of each research variable, including the highest and lowest values, the mean, and the level of data dispersion, as indicated by the standard deviation. A summary of these results is shown in Table 2.

Table 2. Descriptive Research Variables

Variabel	N	Min	Max	Mean	SD	Modus
Leverage	130	0.097	3.404	0.456	0.348	0.097
Sales Growth	130	-0.968	2.737	0.098	0.399	-0.968
Profitability	130	-0.278	1.332	0.088	0.183	-0.278
Industry Complexity	130	1.000	21.000	5.777	5.040	1.000
Geopolitical Risk	130	0.023	0.105	0.059	0.035	0.023
Sustainability	130	1.000	4.000	2.377	0.674	2.000

Source: Processed research data (2025)

Descriptive statistical analysis was conducted to provide an overview of the characteristics of the research data, including the variables Leverage, Sales Growth, Profitability, Industry Complexity, Geopolitical Risk, and Sustainability. The main statistics analyzed included the minimum, maximum, mean, standard deviation, and mode values.

First, the Leverage variable ranged from 0.097 to 3.404, with an average of 0.456 and a standard deviation of 0.348. The relatively low average value reflects that most companies in the sample tend to use external financing (debt) in moderate proportions to total assets. The standard

deviation, which is not too large, indicates that the level of variation in leverage between companies is relatively controlled. Second, the Sales Growth variable ranges from -0.968 to 2.737, with an average of 0.098 and a standard deviation of 0.399. This indicates that there is substantial variation in sales growth across companies, including some experiencing significant sales declines (negative growth). The low average value indicates that, in general, company sales growth is at a fairly moderate level.

Third, the Profitability variable ranges from -0.278 to 1.332, with an average of 0.088 and a standard deviation of 0.183. The relatively small average profitability indicates that, in general, the companies' ability to generate profits is still limited, with some companies even experiencing losses (negative profitability). The low standard deviation indicates that profitability is relatively even across companies. Fourth, the Industry Complexity variable has a value range of 1.000 to 21.000, with an average of 5.777 and a standard deviation of 5.040. The fairly large standard deviation indicates a high level of industrial structure heterogeneity, reflecting significant variations in competitive dynamics, the number of business segments, and the degree of diversification across industries.

Fifth, the Geopolitical Risk variable ranges from 0.023 to 0.105, with an average of 0.059 and a standard deviation of 0.035. The low average reflects that the level of geopolitical risk faced by companies is generally low, although there are still variations across periods and company operating regions. Finally, the Sustainability variable ranges from 1.00 to 4.00, with an average of 2.377 and a standard deviation of 0.674. The average value indicates that the level of implementation of sustainability practices is at a medium level. The moderate standard deviation indicates that there are significant differences in the implementation of sustainability between companies with high commitment and companies that are still at a basic level of implementation

4.2 Goodness of Fit Test

The Goodness-of-Fit test assesses the degree of fit between the research model and the empirical data. Assessing the model's suitability is important to ensure that the model constructed can adequately represent the data conditions. The results of the Goodness of Fit test in this study are presented in Table 3.

Table 3. Goodness of Fit of the Structural Model

Criteria	Parameter	Rule of Thumb	Decision
<i>Average path coefficient (APC)</i>	= 0.21, $P < 0.01$	Acceptable $P < 0.05$	Accepted
<i>Average R-squared (ARS)</i>	= 0.194, $P < 0.01$	Acceptable $P < 0.05$	Accepted
<i>Average adjusted R-squared (AARS)</i>	= 0.182, $P < 0.01$	Acceptable $P < 0.05$	Accepted
Average block VIF (AVIF)	1.01	acceptable if ≤ 5 , ideally ≤ 3.3	Accepted
Average full collinearity VIF (AFVIF)	1.287	acceptable if ≤ 5 , ideally ≤ 3.3	Accepted
Tenenhaus GoF (GoF)	0.440	small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36	Accepted
Sympson's paradox ratio (SPR)	1	acceptable if ≥ 0.7 , ideally = 1	Accepted
R-squared contribution ratio (RSCR)	1	acceptable if ≥ 0.9 , ideally = 1	Accepted

Criteria	Parameter	Rule of Thumb	Decision
Statistical suppression ratio (SSR)	1	acceptable if ≥ 0.7	Accepted

Source: Processed research data (2025)

Based on Table 3, the Goodness-of-Fit test results indicate that the structural model meets all feasibility criteria. The APC, ARS, and AARS values are significant at $P < 0.01$, indicating that the relationship between variables and the clarity of the model are at an acceptable level. The low AVIF and AFVIF values below 3.3 indicate that there are no multicollinearity issues.

Furthermore, the GoF value of 0.440 indicates a high level of model fit. The SPR, RSCR, and SSR values, each equal to 1, indicate model consistency and the absence of Simpson's paradox or statistical suppression effects. Thus, the structural model is declared feasible and can be used to test the research hypothesis.

4.3 Full Collinearity VIF, Adjusted Squared, and Q Squared Tests

The results of the Full Collinearity VIF, R-Squared, Adjusted Squared, and Q Squared tests can be seen in Table 4. below.

Table 4. Full Collinearity VIF, Adjusted Squared, and Q Squared Tests

	Lev	SG	Profit	GeoRisk	GeoRisk* Profit	Complex	Sustain
Full Coll. VIF	1.405	1.101	1.706	1.135	1.606	1.029	1.024
Adj. R-Squared			0.492			0.001	0.051
Q Squared			0.499			0.013	0.086

Source: Processed research data (2025)

Based on Table 4, the results of the Full Collinearity VIF test show that all constructs in the model, namely Leverage, Sales Growth, Profitability, Geopolitical Risk, the interaction between Geopolitical Risk and Profitability, Industry Complexity, and Sustainability, have VIF values below the threshold of 3.3. This finding indicates that the structural model is free from collinearity problems, both vertical and lateral collinearity, and does not contain indications of common method bias. Thus, the model's causal relationships can be reliably estimated.

The Adjusted R-Squared value indicates the extent to which exogenous variables explain endogenous variables, consistent with the direction of the relationship in the research model. The Adjusted R-Squared for the Profitability variable of 0.492 indicates that Leverage and Sales Growth simultaneously explain 49.2% of the variation in Profitability, with the remaining 50.8% explained by factors outside the model. Based on general PLS-SEM criteria, this value falls into the moderate to strong category, so that the structure of the relationship towards Profitability is considered substantive.

Meanwhile, the Adjusted R-Squared for Industry Complexity is 0.001, indicating that Profitability has only a very limited ability to explain the variation in Industry Complexity. This indicates that Industry Complexity in the model is more influenced by other factors not covered in the research framework. Furthermore, the Adjusted R-Squared value for Sustainability of 0.051 indicates that the combined influence of Profitability, Industry Complexity, and the interaction between Geopolitical Risk and Profitability explains only about 5.1% of the variation in Sustainability, which is classified as weak in terms of explanatory power.

The Q-Squared (Q^2) test results show that all endogenous variables, namely Profitability,

Industry Complexity, and Sustainability, have a Q^2 value above zero. This confirms that the model has predictive relevance, although the level of predictive power varies between variables. The relatively high Q^2 value for Profitability indicates good predictive ability, while the Q^2 values for Industry Complexity and Sustainability indicate limited but statistically relevant predictive ability.

Overall, the results of the Full Collinearity VIF, Adjusted R-Squared, and Q-Squared tests show that the research model has met the structural feasibility criteria, is free from collinearity bias, and has predictive relevance, although the explanatory power of some endogenous variables is still relatively low and opens up room for further model development.

4.4. Significance Test of the Influence Between Variables

This section describes the analysis of the significance of the relationship between variables that will be used to answer the research questions and hypotheses proposed in this study. The results of the construct relationship estimation are presented in Table 5 below.

Table 5. Significance Test of the Influence Between Variables

Description Path	Path Coefisien	P-Value
Leverage → Profitability	0.705	<0.001
Sales Growth → Profitability	-0.022	0.373
Profitability → Sustainability	0.126	0.036
Geopolitical Risk*Profitability → Sustainability	-0.195	0.003
Profitability → Industry Complexity	-0.096	0.084
Industry Complexity → Sustainability	0.114	0.050
Profitability → Industry Complexity → Sustainability	-0.011	0.412

Source: Processed research data (2025)

The results of the significance estimation of the relationship between variables can also be shown in the following model path diagram.

Based on the test results, leverage has a positive and significant effect on profitability with a path coefficient of 0.705 and a p-value of <0.001, thus supporting hypothesis H1. Conversely, sales growth was not found to have a positive effect on profitability, with a path coefficient of -0.022 and a p-value of 0.373, indicating a statistically insignificant effect. Thus, hypothesis H2 is rejected.

Furthermore, profitability was found to have a positive and significant effect on sustainability, as indicated by a path coefficient of 0.126 with a p-value of 0.036, thus supporting hypothesis H3. The results of the moderation effect test show that the interaction between geopolitical risk and profitability has a negative and significant effect on sustainability, with a path coefficient of -0.195 and a p-value of 0.003. This finding indicates that geopolitical risk significantly moderates the effect of profitability on sustainability in a weakening direction, thus supporting hypothesis H4.

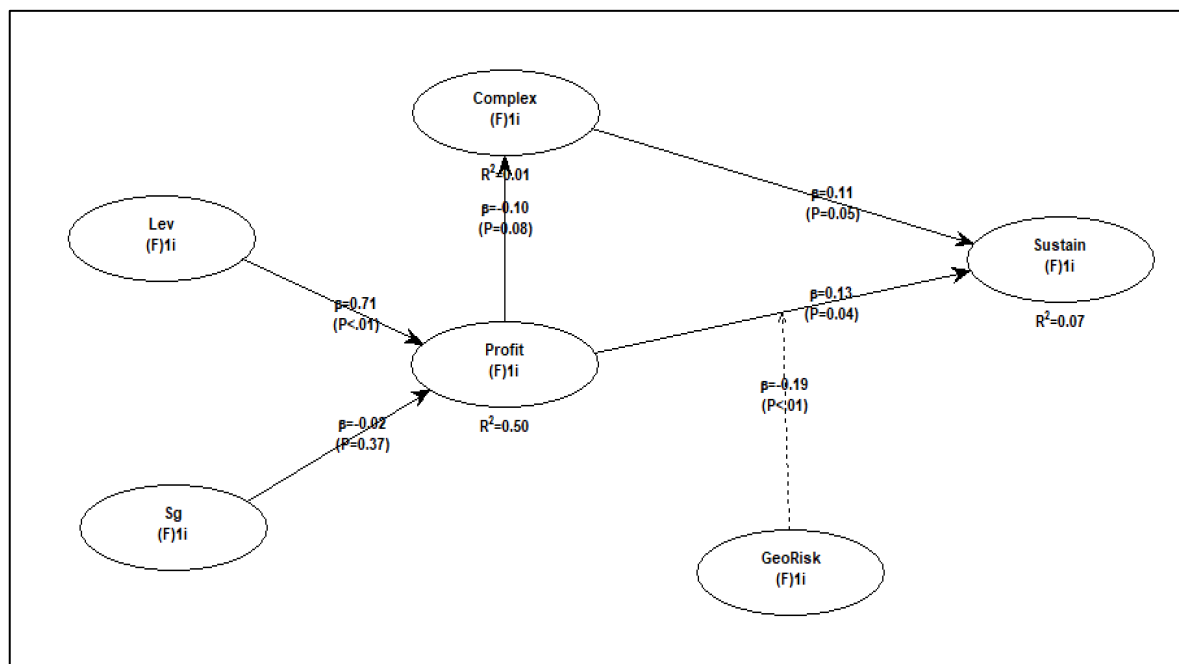


Figure 2. Significance of the Influence Between Variables

Meanwhile, the effect of profitability on organizational complexity shows a path coefficient of -0.096 with a p-value of 0.084 , indicating a negative effect with a weak level of significance ($p > 0.05$ and < 0.10). Although marginally significant, the direction of the effect is contrary to the hypothesis, causing hypothesis H5 to remain rejected. Furthermore, organizational complexity was found to have a positive effect on sustainability with a path coefficient of 0.114 and a p-value of 0.050 , indicating significance at the 5 per cent confidence level, thus supporting hypothesis H6 marginally. However, the results of the indirect effect test showed that organizational complexity did not mediate the relationship between profitability and sustainability, as the mediation path coefficient of -0.011 with a p-value of 0.412 was not statistically significant, so hypothesis H7 was rejected.

In summary, the results of the hypothesis testing can be presented in Table 6.

Table 6. Summary of Hypothesis Testing Results

Hypothesis	Hypothesis Statement	Path Coefficient	P-Value	Decision
H1	Leverage has a positive effect on profitability	0,705	$< 0,001$	Supported
H2	Sales growth has a positive effect on profitability	$-0,022$	0,373	Supported
H3	Profitability has a positive effect on sustainability	0,126	0,036	Supported
H4	Geopolitical risk moderates the effect of profitability on sustainability	$-0,195$	0,003	Supported
H5	Profitability has a positive effect on complexity industry	$-0,096$	0,084	Rejected (weakly)

				significant)
H6	complexity industry has a positive effect on sustainability	0,114	0,050	Supported (marginal)
H7	complexity industry mediates the effect of profitability on sustainability	-0,011	0,412	Rejected

Source: Processed research data (2025)

4.5. The Effect of Leverage on Profitability

The study's results indicate that leverage has a positive effect on profitability. Thus, an increase in debt financing improves a company's profitability. These results are in line with the trade-off theory view that optimal leverage management can increase profitability through tax benefits and capital management discipline ([Meyer & Rowan, 1977](#)). The findings of this study also support previous studies which state that leverage can drive increased profitability with a controlled level of debt ([Akhtar et al., 2022](#); [Daruwala, 2023](#); [Zafar et al., 2019](#)).

Furthermore, these results can be justified by examining the descriptive statistical characteristics of the leverage and profitability variables. The average leverage value of 0.456 with a standard deviation of 0.348 indicates that, in general, companies in the sample use relatively moderate debt levels, although there is considerable variation in leverage (minimum value of 0.097 and maximum value of 3.404). This condition indicates that the majority of companies are not yet at extreme leverage levels, so that the benefits of using debt can still be optimally utilized. In line with this, profitability has a positive average of 0.088 and a standard deviation of 0.183, indicating that, even though some companies have negative profit performance, in aggregate companies are able to generate profits. The combination of moderate leverage and positive average profitability reinforces the empirical finding that an increase in leverage within controlled limits contributes positively to company profitability, as reflected in the results of testing the structural model's significant relationship.

4.6. The Effect of Sales Growth on Profitability

The results show that sales growth does not have a significant effect on profitability, with a negative coefficient direction. This finding is inconsistent with the proposed hypothesis and with most previous literature, which suggests that sales growth can increase profitability through economies of scale, greater operational efficiency, and a stronger market position ([Lim & Rokhim, 2021](#); [Yadav et al., 2022](#)). Empirically, these results indicate that the increase in sales volume among the companies in the research sample has not been converted into increased profits, thus rejecting hypothesis H2. In other words, the sales expansion has not been accompanied by improvements in profit margins or cost structure efficiency.

The difference between this study's results and previous studies' findings can be explained theoretically through the perspective of cost-driven growth. Theoretically, sales growth does not always result in increased profitability if it is achieved through aggressive strategies such as price reductions, increased marketing costs, distribution expansion, or large operational investments. This condition is reflected in the descriptive statistics of the sales growth variable, which show an average of 0.098, a standard deviation of 0.399, and a very wide range from -0.968 to 2.737. This high variability indicates that sales growth is unstable and heterogeneous across companies, so its impact on profits is inconsistent. On the other hand, profitability has a relatively low average value of 0.088 with a standard deviation of 0.183, and there are still

companies with negative profitability. The combination of fluctuating sales growth and low profitability reinforces the explanation that, in the context of this study, sales growth reflects a short-term expansion strategy oriented towards volume rather than profit creation, thus not supporting the positive empirical findings reported in previous studies.

4.7. The Effect of Profitability on Sustainability

Based on the analysis, profitability has a direct positive effect on sustainability. These results imply that the higher the profitability, the greater the company's responsibility for sustainable development. This study is consistent with the Resource-Based View (RBV) perspective, which emphasises that companies with high profitability tend to have strategic slack resources that can be utilised to support environmental, social, and governance (ESG) initiatives. The availability of these resources enables companies to invest more intensively in sustainability practices, which ultimately contributes to improved sustainability performance ([Alshehadeh et al., 2024](#); [Barney, 2001](#)). Furthermore, these findings also support the research by Heubeck and Ahrens (2025), who argue that companies with high profits have the ability to implement sustainability practices even in uncertain market conditions.

These findings are also reflected in descriptive statistics showing that profitability has an average value of 0.088 with a standard deviation of 0.183, indicating that, in general, companies still generate profits despite variations in performance between companies. At the same time, sustainability shows an average value of 2.377 on a scale of 1–4 with a standard deviation of 0.674, reflecting a moderate level of implementation of sustainability practices. This pattern shows that companies with better profitability have relatively adequate financial capacity to maintain and improve sustainability performance, in line with the positive relationship generated by structural model testing.

4.8. The Moderating Effect of Geopolitical Risk on the Relationship between Profitability and Sustainability

The results show that geopolitical risk significantly moderates the effect of profitability on sustainability in a negative direction. A negative and significant interaction coefficient indicates that an increase in geopolitical risk weakens the positive effect of profitability on sustainability. Thus, even though companies have good profit performance, their ability to allocate financial resources to sustainability practices is reduced when they operate in a high-risk geopolitical environment. These findings confirm that an uncertain external context plays an important role in determining the effectiveness of utilising profitability to support the sustainability agenda, thereby supporting hypothesis H4.

This finding is in line with previous literature emphasising that geopolitical risk increases policy uncertainty, market risk, and a company's operational and strategic costs. [Duca et al. \(2025\)](#) and [Nguyen et al. \(2025\)](#) show that geopolitical instability encourages companies to be more conservative in their investment decisions, including investments in long-term sustainability initiatives. Under these conditions, companies tend to shift their focus on profit utilisation to maintain financial resilience, liquidity, and risk management, resulting in suboptimal resource allocation for environmental, social, and governance activities. Thus, the results of this study reinforce empirical evidence that geopolitical risk functions as a contingency factor that systematically weakens the relationship between a company's financial performance and sustainability performance.

4.9. *The Effect of Profitability on Industry Complexity*

The results of the study indicate that profitability has a negative effect on industry complexity with a weak level of significance, so that hypothesis H5, which states that there is a positive effect, is not supported. This finding is not entirely consistent with the Resource-Based View and Slack Resources Theory perspectives, which argue that high profitability provides financial slack to drive operational expansion and increase the complexity of a company's organizational structure ([Barney, 2001](#); [Bourgeois III, 1981](#)). However, empirically, these results indicate that companies in the research sample tend not to use their profits to expand or complicate their organizational structures. This pattern is reflected in the descriptive data on profitability, which has an average value of 0.088 with a standard deviation of 0.183, indicating relatively limited and variable profit capacity. Under these conditions, companies are more inclined to maintain organizational efficiency rather than increase complexity, so that the positive relationship expected in theory is not confirmed in the context of this study.

4.10. *The Influence of Industry Complexity on Sustainability*

The test results show that Industry Complexity has a positive effect on sustainability with a significance level that is within the conventional limit, so that hypothesis H6 is marginally supported. This finding aligns with the literature, which indicates that companies with greater complexity have more mature coordination capacities, functional specialization, and management mechanisms for systematically implementing sustainability practices (Peter & Swilling, 2014; Yan et al., 2025). Descriptively, Industrial Complexity in this study has an average value of 5.777 with a standard deviation of 5.040 and a wide range of values, indicating heterogeneity in organizational structure between companies. Meanwhile, sustainability has an average value of 2.377 on a scale of 1–4, reflecting a moderate level of sustainability practice implementation. This combination indicates that companies with more complex organizational structures tend to have better capabilities in managing and coordinating sustainability initiatives.

4.11. *The Role of Industrial Complexity Mediation*

Indirect effect testing indicates that industrial complexity does not mediate the relationship between profitability and sustainability; thus, hypothesis H7 is rejected. Although industrial complexity has a positive effect on sustainability, the absence of a positive effect of profitability on organizational complexity means that the mediation pathway is not significantly established. These findings indicate that the increase in sustainability derived from profitability is more direct, as shown by test H3, and does not occur through increased organizational complexity. In other words, in the context of this study, companies tend to allocate profits directly to sustainability activities without first expanding or complicating their organizational structure, so that the role of industry complexity as a mechanism for transmitting the influence of profitability on sustainability is not empirically confirmed.

5. **Conclusions**

This study examines the relationship between corporate financial characteristics, geopolitical risk, industrial complexity, and corporate sustainability. The findings indicate that leverage has a positive and significant effect on profitability, suggesting that effective debt management enhances firms' earnings performance. In contrast, sales growth does not have a significant impact on profitability, implying that increased sales do not necessarily translate into improved efficiency or profit margins.

Profitability is found to positively influence corporate sustainability, confirming that stronger financial performance provides firms with greater capacity to support sustainability initiatives. However, this relationship weakens significantly under heightened geopolitical risk, highlighting its role as a contingency factor that constrains firms' ability to translate profits into sustained sustainability commitments.

The results further show that profitability has a negative and weakly significant effect on industrial complexity, thus failing to support the hypothesized positive relationship. Conversely, industrial complexity demonstrates a positive, albeit marginally significant, effect on sustainability. However, it does not mediate the relationship between profitability and sustainability. These findings suggest that firms tend to allocate financial resources directly to sustainability initiatives rather than channeling them through increased organizational or industrial complexity.

This study contributes to the literature by reinforcing the Resource-Based View and Slack Resources Theory, emphasizing profitability as a strategic resource underpinning corporate sustainability performance. At the same time, the findings highlight the contextual nature of this relationship, as geopolitical risk weakens firms' capacity to convert financial performance into sustainable practices. By incorporating geopolitical risk as an external contingency factor, this study extends prior research on the financial performance–sustainability nexus, while also demonstrating that industrial complexity does not function as an effective mediating mechanism.

The findings offer important managerial and policy implications. They underscore the importance of maintaining an optimal capital structure and sustainable profitability as foundations for corporate sustainability initiatives. Firms should recognize that sales expansion alone does not guarantee higher profitability, and that external uncertainties—particularly geopolitical conditions—must be anticipated in sustainability-oriented strategic planning. For investors and policymakers, the results indicate that corporate sustainability outcomes depend not only on internal financial performance but also on firms' and institutions' ability to manage external risks effectively.

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