
Implementation of Environmental, Social, and Governance Principles in Promoting Sustainable Economic Development in Indonesia

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ABSTRACT

This study aims to analyze the implementation of Environmental, Social, and Governance (ESG) principles in promoting sustainable economic development in Indonesia through a comprehensive literature review. The research draws upon a wide range of academic publications, national and international journals, and institutional reports related to ESG practices across various industrial sectors. The findings reveal that the integration of ESG principles plays a vital role in advancing sustainable growth. From an environmental perspective, ESG implementation enhances energy efficiency, reduces carbon emissions, and encourages the use of renewable and environmentally friendly technologies. Socially, ESG fosters corporate initiatives that improve employee welfare, occupational safety, and community empowerment through corporate social responsibility (CSR) programs. These efforts collectively strengthen social cohesion and contribute to long-term economic resilience. In terms of governance, the study highlights that transparency, accountability, and ethical management practices help build investor confidence and create a more stable and trustworthy business environment. Companies with strong governance structures tend to attract greater investment and perform better in the long term. Furthermore, the adoption of green technologies and sustainable innovations has become a key factor in improving operational efficiency and global competitiveness. Nevertheless, the implementation of ESG principles in Indonesia still faces several challenges. Small and medium-sized enterprises (SMEs), in particular, encounter obstacles such as limited financial resources, insufficient technical expertise, and inadequate regulatory support that hinder full ESG adoption. Therefore, the study emphasizes the importance of stronger collaboration among the government, the business sector, and civil society in developing effective strategies and policies to support ESG implementation. Such synergy is essential for creating an enabling environment for sustainable practices, accelerating the transition toward a green economy, and ensuring that economic progress aligns with environmental preservation and social equity.

Keywords: ESG, Sustainable Economic Development, Corporate Governance, Green Technology, Literature Review

BACKGROUND

The implementation of Environmental, Social, and Governance (ESG) principles in the corporate sector has gained significant attention in recent years. This trend is driven by the growing awareness of the urgency of sustainability in business operations. ESG encompasses not only environmental management aspects but also social responsibility and sound corporate governance practices. The main objective of ESG implementation is to ensure that companies pursue not only short-term profits but also consider their long-term impacts on society and the environment. This expectation reflects the growing demands of various stakeholders, including investors, regulators, and consumers, who increasingly require companies to operate in a socially and environmentally responsible manner (Madyan & Widuri, 2023).

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Globally, ESG principles have evolved into key indicators for investors in assessing a company's sustainability potential. The adoption of ESG principles now directly influences a company's ability to attract investment and secure financing. Many financial institutions require ESG compliance when evaluating investment portfolios, as neglecting ESG aspects may increase long-term risks both operationally and reputationally (Rosyidah & Ningsih, 2024). In Indonesia, major corporations have begun to recognize the importance of integrating ESG principles into their strategic frameworks, which is evident in the establishment of ESG committees, enhanced transparency in sustainability reporting, and the implementation of internal policies focused on long-term sustainability (Cahyaningtyas et al., 2024).

Despite the growing attention toward ESG adoption, several challenges remain, particularly among Small and Medium Enterprises (SMEs). Many SMEs face barriers such as limited internal resources, restricted access to reliable data, and insufficient market incentives to actively promote ESG implementation. In contrast, larger and more established corporations tend to be better equipped to adopt ESG principles, supported by greater financial resources and stronger governance mechanisms (Pramesti et al., 2024). This disparity underscores the need for greater efforts to ensure equitable ESG adoption across all business sectors in Indonesia.

One key aspect that supports ESG implementation in promoting sustainable economic development is the adoption of green technology. Green technology holds great potential to reduce environmental impacts by lowering greenhouse gas emissions, improving waste management efficiency, and encouraging the use of renewable energy sources. In sectors such as energy, mining, and agriculture, the adoption of green technology not only helps mitigate environmental degradation but also enhances operational efficiency ultimately improving financial performance and corporate competitiveness in the global market (Cahyaningtyas et al., 2024).

With increasingly stringent global and national sustainability regulations, companies that successfully integrate ESG principles will gain a significant competitive advantage. Such companies are better prepared to manage risks related to climate change, social instability, and governance challenges while contributing to the achievement of the Sustainable Development Goals (SDGs). Therefore, ESG implementation should not be viewed merely as a moral or regulatory obligation but as a strategic opportunity for companies to enhance long-term performance and achieve sustainable competitive advantage.

Research Objectives

This research aims to examine the implementation of Environmental, Social, and Governance (ESG) principles among companies in Indonesia, with a focus on the challenges and opportunities they encounter in integrating these sustainability principles into their business strategies. The study seeks to gain an in-depth understanding of how both large-scale enterprises and Small and Medium Enterprises (SMEs) adopt and implement ESG practices in their operations, as well as how these

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principles influence their long-term performance. Furthermore, this research aims to explore the role of green technology in supporting the implementation of ESG principles, particularly in reducing negative environmental impacts and enhancing operational efficiency. Accordingly, the study also investigates how the application of green technology can strengthen corporate competitiveness in the global market.

LITERATURE REVIEW

1. Environmental Aspect

The environmental aspect within the ESG framework focuses on a company's efforts to manage and minimize the ecological impacts resulting from its operational activities. This includes various initiatives such as waste management, energy efficiency, sustainable use of natural resources, and corporate policies addressing climate change. Companies with strong environmental performance are typically committed to reducing carbon emissions, adopting environmentally friendly technologies (green technology), and increasing transparency in sustainability reporting. The implementation of innovative strategies in energy efficiency and environmental management not only helps companies operate more sustainably but also strengthens their reputation among investors and the public. Therefore, a company's success is no longer measured solely by its financial performance, but also by the extent to which it contributes to environmental preservation and global ecosystem balance (Chandra et al., 2022).

2. Social Aspect

The social aspect of ESG relates to how a company interacts with and builds strong relationships with its stakeholders, including employees, customers, local communities, and supply chain partners. This dimension covers important issues such as human rights protection, occupational health and safety, workforce diversity, and corporate social responsibility (CSR) toward surrounding communities. Companies that prioritize the social aspect tend to gain greater public trust, as they are perceived to care about the welfare of society and their employees. Moreover, consistent implementation of social responsibility can enhance customer loyalty, strengthen corporate reputation, and reduce the risk of social conflicts that may disrupt business stability. Hence, attention to the social dimension is a critical factor in building a company's long-term sustainability (Chandra et al., 2022).

3. Governance Aspect

The governance aspect emphasizes the importance of transparency, accountability, and ethical conduct in corporate management. Good governance includes a clear organizational structure, effective oversight by the board of directors, the establishment of dedicated ESG committees, and strict internal policies against corruption and unethical behavior. Implementing strong governance ensures that every business decision takes into account its long-term social and environmental impacts. Furthermore, open reporting that adheres to international standards such as the Global Reporting Initiative (GRI) enhances a company's credibility among stakeholders. With a robust governance framework, companies can build public trust, maintain their reputation, and ensure business operations founded on integrity and sustainability (Chandra et al., 2022)

4. Sustainable Economic Development

The concept of sustainable economic development is rooted in the principle that economic growth must align with environmental preservation and the improvement

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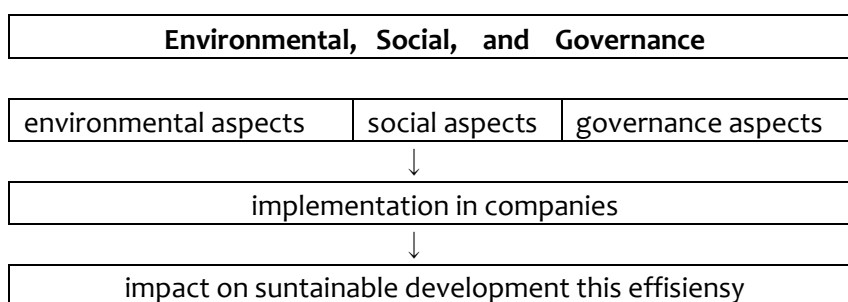
of social well-being. Sustainable development emphasizes maintaining a balance between meeting the needs of the present generation and ensuring the ability of future generations to meet their own. In the economic context, this entails promoting stable and inclusive growth through innovation, efficient resource utilization, and the adoption of environmentally friendly technologies that minimize negative impacts on nature (Calvin Alfiansyah et al., 2024).

A **conceptual framework** is a conceptual construct designed to illustrate the researcher’s reasoning process in understanding, analyzing, and formulating solutions to research problems. This framework serves as a systematic guide for explaining the relationships among observed phenomena, empirical data obtained in the field, and the theories and literature relevant to the research topic.

The development of a framework begins with identifying the main problem to be investigated, followed by a review of various concepts, theories, and previous findings that can support an understanding of the issue. The researcher then formulates the relationships between variables or concepts that exert direct or indirect influence, in order to illustrate the mechanisms by which a phenomenon occurs.

Thus, a conceptual framework functions not only as a theoretical explanation but also as a logical bridge connecting the theoretical foundation, problem formulation, and research hypotheses (if applicable). Through the conceptual framework, the direction of the research becomes more focused, the scientific arguments are strengthened, and the integration between theory and its practical application within the research context becomes clearer.

Therefore, the research framework in this study is designed to systematically describe the relationships among the key concepts that form the focus of the research, explain the conceptual foundation underlying the study, and demonstrate how previous theories and empirical findings are utilized to address the research problems. The research framework of this study is presented as follows:



Previous Research

Several previous studies have revealed that the implementation of ESG principles in Indonesia remains at varying stages of development. Madyan and Widuri (2023) found that most Indonesian companies are still in the early phases of ESG adoption, with the main challenges being limited human resources and internal capacity to conduct comprehensive ESG disclosures and reporting. In contrast, large corporations particularly those in the energy and banking sectors have demonstrated more advanced integration of ESG principles into their business strategies.

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In the banking sector, Cahyaningtyas et al. (2024) found that ESG disclosure positively affects financial performance and corporate reputation, especially among companies operating in industries with high environmental risks. However, despite these positive effects, the impact of ESG disclosure on financial performance often depends on the specific metrics used and the characteristics of each industry. This finding highlights the need for more standardized measurement and assessment frameworks to enhance the effectiveness of ESG implementation.

Furthermore, a study by Pramesti et al. (2024) concluded that one of the main challenges in ESG implementation lies in the differences among ESG assessment methodologies used by various rating agencies, as well as the high initial costs associated with the collection and verification of non-financial data. Meanwhile, research conducted by Rosyidah and Ningsih (2024) indicated that companies with strong governance structures particularly those that establish dedicated ESG committees tend to improve the quality of their disclosures and overall sustainability performance.

RESEARCH METHODS

Data

In conducting the literature review, the researcher analyzed various scholarly references, including national and international journals, academic books, official institutional reports, government documents, and other relevant academic publications. The main objective of this method is to collect and integrate existing knowledge, identify research gaps, and strengthen the theoretical and conceptual foundations underlying the phenomenon under study.

Methods

This study employs a literature review approach. A literature review is a systematic process conducted to identify, examine, evaluate, and synthesize findings from various research studies and academic sources related to the research focus. This approach aims to obtain a comprehensive understanding of the concepts, theoretical foundations, and previous research findings concerning the implementation of Environmental, Social, and Governance (ESG) principles in achieving sustainable development.

RESULTS AND DISCUSSION

Results

DIMENSIONS	MAIN ASPECTS	IMPLEMENTATION IN COMPANIES	IMPACT ON SUSTAINABLE DEVELOPMENT
Environmental	Energy and resource efficiency	The company implements various energy-saving initiatives, such as using low-energy technology equipment, optimizing production processes, utilizing renewable energy	This efficiency The program helps reduce the carbon footprint and the consumption of natural resources, thereby supporting long-term energy availability. The implementation of clean technology also promotes the sustainability of the

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		sources such as solar panels, and implementing water conservation systems. Furthermore, the company has adopted an energy audit strategy to regularly monitor energy consumption and set resource reduction targets.	national energy system, supports the transition toward a green economy, and reduces pollution levels, which positively impacts public health.
	Green innovation	The company develops environmentally friendly products and technologies, such as sustainable raw materials, low-carbon production processes, and innovative product designs that are recyclable. It also invests in research related to renewable energy and environmentally efficient technologies as part of its long-term strategy.	Green innovation enhances corporate competitiveness while strengthening the green industrial ecosystem. This fosters new economic opportunities, creates green jobs, and accelerates the transformation toward an environmentally resilient and globally competitive economy.
Social	employee welfare and safety	The company develops environmentally friendly products and technologies, such as sustainable raw materials, low-carbon production processes, and innovative product designs that are recyclable. It also invests in research related to renewable energy and environmentally efficient technologies as part of its long-term strategy.	These efforts increase labor productivity, build employee loyalty, and improve the quality of national human resources. In turn, a more capable workforce strengthens national economic competitiveness and supports sustainable economic growth.

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Governance	Transparency and accountability	Companies are increasing transparency through sustainability reporting, accurate financial disclosure, independent audits, and ESG performance monitoring systems. They also ensure that risk management information is clearly communicated to stakeholders.	Transparency practices strengthen public trust, market stability, and corporate legitimacy. This creates a healthy investment environment, encourages long-term capital flows, and reinforces a sustainable financial ecosystem.
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Discussion

The implementation of Environmental, Social, and Governance (ESG) principles has become a key element in realizing sustainable development in today’s business landscape. Based on the examination of corporate policies across these three dimensions, it is evident that business organizations increasingly recognize the importance of sustainability as an integral part of their long-term strategic objectives.

Environmental Impact on Sustainable Development

In the environmental dimension, the business sector has begun to adopt various measures aimed at improving energy efficiency and optimizing natural resource management. Initiatives such as the use of energy-saving technologies, the adoption of alternative energy sources like solar power, water conservation systems, and the implementation of regular energy audits reflect companies’ commitment to reducing energy consumption and minimizing carbon emissions. These initiatives directly contribute to mitigating negative environmental impacts. Moreover, the reduced reliance on fossil fuels and the decline in pollution levels support the transition toward a green economy and help improve environmental quality. In the long run, these practices promote energy resource sustainability and enhance public health.

The implementation of green innovation reflects a strong commitment by companies to align their operational activities with environmental sustainability principles. Increasingly, companies are focusing on developing eco-friendly products and technologies to reduce negative impacts on the ecosystem while simultaneously creating added value that strengthens their competitiveness in the global market.

These efforts are realized through the use of sustainable raw materials, the adoption of low-emission production processes, and the development of recyclable product designs consistent with the circular economy concept. Furthermore, companies are investing in renewable energy research and resource efficiency technologies as part of their long-term strategic policies. This series of actions demonstrates a proactive corporate approach to adopting clean technologies and integrating sustainable production practices as a core component of innovation strategies.

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Green innovation makes a substantial contribution to achieving sustainable development goals, particularly by promoting low-carbon economic growth. Through the adoption of environmentally friendly technologies, companies not only reduce environmental pressures but also open new economic opportunities through the development of green industries and the creation of environmentally based employment (green jobs).

Such implementation fosters a business ecosystem that is more resilient, adaptable, and competitive on a global scale ultimately contributing to long-term economic stability. Green innovation also serves as a key driver in accelerating the transition toward an inclusive and sustainability-oriented economy while supporting the achievement of the Sustainable Development Goals (SDGs). Overall, the implementation of green innovation positions companies as key agents in preserving natural resources, enhancing long-term economic value, and achieving a balance between industrial growth and environmental preservation for future generations.

Social Impact on Sustainable Development

In the social dimension, companies are increasingly emphasizing human resource development and employee welfare. The implementation of training programs, provision of health facilities, compliance with occupational health and safety (OHS) standards, performance-based incentives, and the creation of a supportive work environment that promotes work-life balance are essential policies for improving human resource quality.

These measures not only enhance employee competence and productivity but also strengthen employee loyalty, thereby ensuring business continuity. Furthermore, the overall improvement in workforce quality contributes to national economic competitiveness and drives inclusive and sustainable economic growth.

Governance Impact on Sustainable Development

In the governance dimension, the application of transparent corporate governance is reflected in the publication of sustainability reports, the conduct of independent audits, and the establishment of ESG performance monitoring systems. By disclosing risk-related information to stakeholders, companies demonstrate their commitment to transparency, integrity, and accountability. Such practices enhance investor and public trust, thereby creating a more stable and credible investment climate. Strong governance and openness form the foundation for developing a more efficient and sustainable market while reinforcing corporate legitimacy in the long term.

Overall, the implementation of ESG principles is not merely an expression of corporate ethics and social responsibility but also a critical strategy for enhancing competitiveness and long-term business sustainability. By adopting environmentally responsible practices, ensuring social well-being, and implementing effective governance, companies can make a tangible contribution to economic, social, and environmental stability aligning their efforts with global sustainable development goals.

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CONCLUSION

The implementation of Environmental, Social, and Governance (ESG) principles has been proven to play a crucial role in promoting sustainable economic development in Indonesia.

Environmental Aspect:

Efforts related to energy efficiency, effective waste management, and the adoption of green technologies have significantly contributed to reducing carbon emissions and improving overall ecosystem quality.

Social Dimension:

Attention to employee welfare, occupational health and safety, as well as the implementation of corporate social responsibility (CSR) programs, enhances workforce productivity while simultaneously building public trust.

Governance Aspect:

The application of transparency, accountability, and integrity in sustainability reporting strengthens investor confidence and fosters long-term economic stability. Overall, the integration of ESG principles serves as a strategic foundation for achieving balanced growth where economic progress, social welfare, and environmental preservation can advance together in support of Indonesia's sustainable development goals.

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