

Research Article

Analysis of Environmental, Social, and Governance (ESG) Readiness and Implementation in MSMEs: The Role of Business Profiles and Organizational Characteristics

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Abstract: In today's era of sustainable economics, the application of environmental, social, and governance concepts is gaining traction and spreading to the MSMEs sector. However, in reality, putting these ideas into effect frequently encounters difficulties like scarce resources and low awareness among small and medium-sized businesses. To address these challenges, it is critical to provide personalized support and training that enables MSMEs to effectively integrate sustainable practices into their operations. ESG in the MSMEs sector still shows a considerable gap. Therefore, this study was conducted to examine the influence of business profiles and MSMEs characteristics on ESG implementation. Data was collected using a questionnaire distributed to 100 MSMEs operators. There are three main dimensions in this study: business profile, organizational characteristics, and ESG implementation. Hypothesis testing was performed using multiple linear regression analysis with the assistance of SPSS software. The results of the hypothesis testing indicate that business profile and organizational characteristics have a significant positive effect on ESG implementation. These results suggest that internal factors, namely business profile and organizational characteristics, are key factors capable of driving the sustainable adoption of ESG in the MSMEs sector.

Keywords: Business Profile; ESG; MSMEs; Organizational Characteristics; Sustainability.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) make a significant contribution to the national economy, both in terms of employment and value creation. Data obtained from linkumkm.id and released in November 2025 indicates that MSMEs contribute between 61% and 62% to the national GDP and are capable of employing up to 97% of the workforce. Given these remarkable figures, support from various stakeholders is essential to ensure the sustainability of MSMEs (Salsabila et al., 2025). However, in the context of long-term business sustainability, MSMEs face the challenge of adapting to sustainable business practices, particularly those related to environmental, social, and governance (ESG) aspects (Adenan et al., 2024; Tyler et al., 2024). Unlike large corporations, MSMEs have limited resources, simple organizational structures, and relatively low levels of formality.

This is supported by the findings of studies conducted by (Eriswanto et al., 2025; Madrid-guijarro & Duréndez, 2024; Setyaningsih et al., 2024; Shalhoob, 2023), which concluded that limitations in knowledge, resources, and technical training act as barriers for MSMEs in implementing sustainable business practices. As a result, the implementation of ESG practices among MSMEs is often sporadic, undocumented, and not yet integrated into business decision-making. However, growing market demands, regulations, and consumer awareness have made ESG practices a critical factor in maintaining the competitiveness of MSMEs (Parera & Trihastuti, 2025). According to empirical research in the context of MSMEs, ESG practices can be considered as an attempt to meet the expectations of stakeholders, who are increasingly demanding environmentally responsible and sustainable

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business practices (Hidayah et al., 2025). The readiness of MSMEs to implement ESG reflects their responsiveness to stakeholder pressure and expectations. nd reviews of the literature, top management's commitment and leadership, organizational culture, absorptive capacity, corporate governance, and internal reporting systems all play a significant role in the success of ESG implementation, in addition to external pressures like markets, stakeholders, and regulations (Appiah-Kubi, 2024; Galli et al., 2024; Harahap, 2025). Consequently, an empirical study that methodically connects the features of MSMEs with the degree of ESG implementation is required. By creating a contextual ESG measurement for MSMEs and examining the internal variables influencing its implementation, this study seeks to close this gap (Dewi & Puarag, 2026; Awanda et al., 2025).

2. Literature Review

Stakeholder Theory

According to stakeholder theory (Freeman, 1984; Freeman et al., 2010), an organization is accountable for the interests of parties involved in its operations. (Donaldson & Preston, 1995) support this viewpoint by arguing that controlling stakeholder interests is a useful instrument for promoting organizational sustainability as well as a normative standard. This discussion leads to the conclusion that stakeholder theory explains the phenomenon that companies are accountable not only to shareholders but also to all parties that are directly or indirectly impacted by their operations, including customers, employees, the community, the government, and the environment.

In the context of MSMEs, ESG practices can be considered as an attempt to meet the expectations of stakeholders, who are increasingly demanding environmentally responsible and sustainable business practices. The readiness of MSMEs to implement ESG reflects their responsiveness to stakeholder pressure and expectations.

ESG (Environmental, Social, and Governance) Reporting

ESG reporting is the process of gathering, evaluating, reporting, and disseminating data about social aspects (labor practices, human rights, community impact), governance (board structure, control mechanisms, transparency), and environmental performance (emissions, resource use) (GRI, 2023). Prominent international standards and initiatives, including the GRI (Global Reporting Initiative), establish a framework for reporting sustainability impacts and performance, whereas IFRS prioritizes the disclosure of sustainability information pertinent to general financial statement users (investors) and its connection to a company's risks and cash flows. These two approaches represent the changing dynamics of voluntary reporting as it moves toward harmonization under more binding criteria. In the context of MSMEs, ESG reporting practices are less systematic than in large enterprises. Several problems remain in the implementation of ESG reporting, including insufficient capacity, literacy, and regulatory incentives (Fahmie et al., 2025; Polas et al., 2023).

The Influence of Business Profiles on ESG Implementation in MSMEs

The adoption of Environmental, Social, and Governance (ESG) practices by MSMEs is not standard. These variances are influenced by each business's internal conditions and features, which are reflected in their business profiles. Firm profiles include a variety of factors such as firm size, industrial sector, age, complexity of business procedures, market orientation, and amount of formality in business management. These qualities influence MSMEs' ability to adapt to the growing need for sustainability. According to accounting and sustainability literature, MSMEs with more mature and organized business profiles are better able to integrate ESG concepts into their operational activities than MSMEs that are still modest in scale and operated simply. As a result, the business profile has a significant impact on the effective application of ESG principles in day-to-day operations.

Previous research by (Basit et al., 2024; Jaramillo et al., 2018) shows that business size, industrial sector, and operational complexity have a substantial impact on the adoption of sustainable practices and ESG reporting. Meanwhile, (Dewi & Hastuti, 2024; Rusmanah et al., 2024) found that MSMEs' willingness and commitment to implementing ESG are influenced by their business characteristics. MSMEs with more developed and established company characteristics have a better possibility to include sustainability aspects into their business strategy and operations. This is due to the availability of resources, managerial capacity, and more supportive management systems. Based on this description, the study

hypothesis is stated as follows: H1: Business profiles effects the implementation of ESG in MSMEs.

The Influence of Organizational Characteristics on ESG Implementation in MSMEs

The adoption of Environmental, Social, and Governance (ESG) practices by MSMEs varies; rather, it is influenced by internal business features that separate one from another. These characteristics include the age of the company, managerial capacity, and the level of formality in management. These disparities in features influence the organization's ability to respond to sustainability demands and incorporate ESG principles into operational activities. According to Stakeholder Theory, MSMEs characteristics determine the level of pressure and expectations from stakeholders (Freeman et al., 2010).

MSMEs involved in major firms' supply chains, oriented toward national or worldwide markets, or operating in industries sensitive to environmental and social issues will face more ESG demands than MSMEs focused on local markets (Freeman, 1984; Freeman et al., 2010). This pressure motivates MSMEs with specific features to prioritize ESG practices in order to preserve commercial ties and corporate reputation (Dalu et al., 2025; Elza, 2025). These findings are confirmed by research undertaken by (Appiah-Kubi, 2024; Ohiona & Anwar, 2025; Ong et al., 2025), which show that the features of small-scale firms influence ESG adoption inside organizations. Based on the preceding explanation, the research hypothesis is presented as follows: H2: Organizational characteristics affect the adoption of ESG in MSMEs

3. Materials and Method

Population and Sample

This study's population is made up of Micro, Small, and Medium Enterprises (MSMEs) that operate in the commerce, service, and manufacturing sectors. Purposive sampling was used, with the following conditions in place: (1) MSMEs that have been actively operating for at least one year, (2) conduct normal operational activities, and (3) are directly managed by the owner. Based on these criteria, 100 MSMEs were chosen as the research sample, which was thought to be representative of the population's characteristics and sufficient for descriptive statistical analysis as well as assessing variable associations.

This study used primary data. Primary data were collected directly from respondents by distributing structured questionnaires to MSMEs owners. Primary data allows researchers to collect information that is current, relevant, and matched with the research objectives, particularly in terms of MSMEs' readiness and sustainable practices, which have or have not been adopted.

Definition and Measurement of Research Variables

Table 1. Definition and Measurement of Research Variables.

Variable	Operational Definitions	Indicators
Business Profile (X ₁)	Internal business characteristics that reflect the operational, structural, and strategic conditions.	Industry sector, product/raw material characteristics, operational digitalization, supply chain connectivity, market orientation, operational complexity, regulatory compliance, seasonal dependency, initial capital requirements, business certification (Basit et al., 2024; Galli et al., 2024; Jaramillo et al., 2018)
Organizational Characteristics (X ₂)	The level of organizational maturity, managerial capacity, and structural readiness in managing business activities professionally and sustainably.	Strategic planning, financial reporting systems, managerial innovation orientation, entrepreneurial capacity development, business legality, digital technology utilization, human resource development, access to formal financing, business networking, business age, product/service

ESG Implementation (Y)	The application of sustainability principles in operational, managerial, and strategic activities.	innovation, stakeholder partnerships (Basit et al., 2024; Freeman et al., 2010; Galli et al., 2024; GRI, 2023; Jaramillo et al., 2018; Polas et al., 2023). Environmental: energy efficiency, material usage, waste management; Social: occupational safety (K3), community engagement, non-discrimination; Governance: ethics, audit, transparency; Integration: reporting, communication, certification (Basit et al., 2024; Galli et al., 2024; GRI, 2023; Jaramillo et al., 2018).
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Hypothesis Testing Procedures

This study conducted hypothesis testing using multiple linear regression analysis in SPSS to evaluate the impact of the independent variables on ESG implementation readiness among MSMEs. The independent variables represent internal organizational factors, including business profiles, and organizational characteristics. The dependent variable is ESG implementation. This analytical approach enables the assessment of both individual and simultaneous effects of internal factors on MSMEs' preparedness to adopt ESG principles.

4. Results and Discussion

In this section, the author needs to explain the hardware and software used, dataset sources, initial data analysis, results, and results analysis/discussion. Presenting the results with pictures, graphs and tables is highly recommended. Formulas or evaluation measuring tools also need to be included here. There must be discussion/analysis, and you can't just rewrite the results in sentence form, but you need to provide an explanation of their relationship to the initial hypothesis. In addition, this section needs to discuss and elaborate on important findings.

Validity test result

The study carried out validity testing to verify that the questionnaire items effectively captured the intended constructs. A research instrument is considered valid when the statements used effectively represent the variables under investigation and capture the conceptual dimensions of the constructs.

To determine item validity, Pearson's product-moment correlation method was applied by contrasting each item's calculated correlation coefficient (r -calculated) with the critical r -value (r -table) at the 0.05 significance level. Through this procedure, the strength and direction of the correlation between each item and the aggregate construct score can be determined. With a total of 100 respondents, the critical r -table value applied in this study was 0.197. Questionnaire items with r -calculated values exceeding this threshold were considered valid and retained for further analysis. Conversely, items that did not meet this criterion were excluded from subsequent statistical procedures.

Table 2. Validity Test X1.

Indicators	r -calculated	Sig (p)
1	.587	.000
2	.569	.000
3	.457	.000
4	.779	.000
5	.749	.000
6	.761	.000
7	.629	.000
8	.635	.000
9	.572	.000
10	.466	.000
11	.514	.000
12	.506	.000

Table 2 reports the results of the validity test for the Business Profile variable (X1). The results show that all questionnaire items have r-calculated values greater than the critical r-table value of 0.197 at the 5% significance level. In addition, all items demonstrate significance values below 0.05 ($p = 0.000$). The results demonstrate that each business profile indicator is statistically valid and reliably captures the underlying construct. Therefore, all twelve items (1–12) were retained and included in subsequent data analysis.

Table 3. Validity Test X2.

Indicators	r-calculated	Sig (p)
1	.760	.000
2	.578	.000
3	.898	.000
4	.776	.000
5	.669	.000
6	.837	.000
7	.315	.000
8	.201	.000
9	.696	.000
10	.604	.000
11	.662	.000
12	.614	.000

As shown in Table 3, the validity testing for the Organizational Characteristics variable (X2) indicates that all items demonstrate r-calculated values above the critical threshold of 0.197 at a 5% level of significance. Moreover, all items demonstrate statistically significant correlations with total construct scores ($p < 0.05$). In summary, all twelve indicators (1–12) meet the validity criteria and are therefore suitable for subsequent statistical testing.

Table 4. Validity Test Y.

Indicators	r-calculated	Sig (p)
1	.590	.000
2	.641	.000
3	.837	.000
4	.825	.000
5	.673	.000
6	.694	.000
7	.841	.000
8	.430	.000
9	.911	.000
10	.458	.000
11	.906	.000
12	.726	.000

Table 4 summarizes the validity test results for the ESG implementation construct (Y). The findings indicate that all questionnaire items have r-calculated values exceeding the critical r-table value of 0.197 at the 5% significance level. In addition, all indicators show statistically significant correlations with the total construct score ($p < 0.05$). This suggests that these items continue to play an important role in capturing variances in ESG practices across organizations. Overall, the findings support the validity of all twelve ESG implementation assessment items and their suitability for additional statistical analysis. The satisfactory level of item validity supports the reliability of the measurement instrument and provides a solid foundation for subsequent regression and hypothesis testing.

Reliability test result

Reliability testing was conducted to examine the consistency of the research instrument in measuring the variables under investigation. An instrument is considered reliable when it produces stable and consistent measurement results when applied to respondents with similar characteristics. In this study, instrument reliability was assessed using Cronbach's Alpha coefficient. This method is widely used to evaluate the internal consistency of multi-item measurement scales in social science research. A construct is regarded as reliable when its Cronbach's Alpha value exceeds the recommended threshold of 0.70, indicating satisfactory internal consistency.

Table 5. Reliability test result.

Variable	Cronbach's Alpha
Business Profile (X1)	.836
Organizational Characteristics (X2)	.864
ESG Implementation (Y)	.912

Table 5 presents the results of the reliability testing for the research instrument. The findings indicate that all measurement scales have Cronbach's Alpha values exceeding the recommended threshold of 0.70, demonstrating satisfactory internal consistency. This result indicates that the items measuring environmental, social, and governance practices are highly coherent and effectively represent the underlying construct. Overall, these results confirm that the research instrument demonstrates strong reliability and is suitable for further statistical analysis.

Multicollinearity test result

Table 6. Multicollinearity test result.

Independent Variable	Tolerance	VIF
Business Profile (X1)	.362	2.762
Organizational Characteristics (X2)	.362	2.762

Table 6 presents the results of the multicollinearity test for the independent variables included in the regression model. The analysis indicates that both Business Profile (X1) and MSMEs Characteristics (X2) exhibit tolerance values greater than 0.10 and Variance Inflation Factor (VIF) values well below the commonly accepted threshold of 10. These findings indicate that there is no substantial linear relationship between the independent variables that could influence regression coefficient estimate. In other words, each variable provides unique explanatory information to the model and does not overly overlap with the other predictor.

Results of Normality Test

Table 7. Normality test result.

Test statistic	Value
N	100
Kolmogorov-Smirnov Z	.127
Asymp. Sig. (2-tailed)	.082

Table 7 shows the results of the normality test using the One-Sample Kolmogorov-Smirnov method. The research reveals that the asymptotic significance value (Asymp. Sig.) is 0.082, which is greater than the usual significance level of 0.05. This finding shows that the null hypothesis of normal distribution cannot be rejected. In other words, the regression model's residuals have a normal distribution. As a result, the normality condition for multiple linear regression analysis is satisfied. This assumption implies that the predicted regression coefficients and statistical inferences drawn from the model are reliable and not influenced by deviations from normalcy. As a result, the data are suitable for additional parametric statistical analysis and hypothesis tests.

Coefficient determination

Table 8. Coefficient determination.

Model	R Square	Adj R Square
1	.600	.592

The R Square (R^2) value of 0.600 indicates that there is a 60% variation. ESG implementation can be explained using business profiles and MSMEs characteristics. Thus, the combination of these two independent variables makes a significant contribution to the level of ESG implementation at MSMEs. Furthermore, the Adjusted R Square value of 0.592 indicates that the model's ability to explain dependent variables is 59.2%.

Hypothesis test result

Table 9. Results of multiple linear regression analysis.

Variable	B	Std error	Beta	t	Sig
Constant	4.244	3.211	-	1.321	0.189
X1	0.492	0.127	0.413	3.866	0.000
X2	0.456	0.120	0.404	3.789	0.000

Regression Equation:

$$Y = 4.244 + 0.492X1 + 0.456X2 + \epsilon \dots \dots \dots (i)$$

The equation shows a constant value of 4.244, indicating that if the Business Profile (X1) and MSMEs Characteristics (X2) are set to zero, the ESG Implementation (Y) value is 4.244. This constant demonstrates the amount of ESG adoption even when the business profile and MSMEs characteristics found in this study are not considered.

Additionally, a positive correlation is indicated by the Business Profile (X1) regression coefficient of 0.492. This means that for every one-unit rise in the Business Profile, ESG Implementation increases by 0,492, provided all other factors stay constant. The MSMEs Characteristics (X2) regression coefficient of 0.456 is also positive, implying that every one-unit increase in MSMEs Characteristics increases ESG Implementation by 0,456, provided all other variables stay constant.

Overall, these findings show that business profiles and organizational features have significant and complementary roles in improving ESG adoption among MSMEs. The positive direction of the correlations demonstrates that improvements in internal business circumstances and organizational management are critical for supporting sustainable and responsible business practices.

Discussion of Hypothesis Testing Results

The Influence of Business Profile on ESG Implementation

The t-test results show that the calculated t-value is 3.866, with a significance level of 0.000. The significance value is less than 0.05 (Sig. < 0.05), indicating a positive and significant effect of Business Profile (X1) on ESG Implementation (Y). The study's findings indicate that ESG implementation is positively and significantly impacted by business profile. This finding is consistent with research undertaken by (Al Amosh, 2025; Amara & Sapariyah, 2025), who indicated that firm size, age, internal management, and industry characteristics all had a beneficial effect on ESG disclosure. According to the report, businesses with more sophisticated management systems and greater business capacity are typically better equipped to adopt sustainable practices.

The findings of this study are likewise consistent with those of (Castro & Gradillas, 2022; Roestanto et al., 2022), who found that firm size, age, and industry type influence ESG disclosure. This study demonstrates that operational characteristics and business structure play a key role in encouraging organizations to improve transparency and accountability through ESG disclosure. Furthermore, the study's findings are consistent with stakeholder theory, which highlights the importance of organizations considering the interests of all stakeholders involved in corporate operations. MSMEs linked to large corporations' supply chains, having national or export markets, and functioning in a rigorous regulatory environment confront increased stakeholder pressure. This pressure motivates organizations to incorporate ESG practices as a way of demonstrating accountability and transparency to stakeholders. Thus, the study's findings suggest that the stronger the business profile, the greater MSMEs' ability and commitment to regularly implementing ESG practices. Thus, it is understood that company profile affects ESG implementation.

The Influence of Organizational Characteristics on ESG Implementation

The t-test findings for the MSME Characteristics variable (X2) reveal a calculated t-value of 3.789 with a significance level of 0.000. This score is less than 0.05, indicating that MSMEs Characteristics have a positive and significant impact on ESG Implementation. This finding is consistent with study by (Cahyono et al., 2024; Lu et al., 2025), which emphasize that internal business readiness, particularly leadership, innovation, and organizational governance, are critical variables in the successful adoption of ESG principles in MSMEs. These findings are consistent with the MSME Characteristics indicators identified in this study, which include the presence of a defined vision and mission, the submission of regular financial reports, management openness to innovation, and involvement in entrepreneurship training.

Furthermore, previous research by (Castro & Gradillas, 2022; Esposito De Falco et al., 2021), highlighted the importance of formality and governance aspects, such as business permit ownership, access to formal financing, and operational transparency, as prerequisites for effective ESG implementation. This is consistent with the findings of this study, which suggest that MSMEs with more formal and professional organizational characteristics are better positioned to continuously implement ESG practices. These findings support stakeholder theory by demonstrating that an organization's ability to meet the interests of various stakeholders, including employees, customers, suppliers, financial institutions, the government, and the surrounding community, has a significant impact on business sustainability.

As a result, the study's findings not only support earlier research, but they also expand their theoretical and empirical context to include MSMEs. MSME features, such as organizational maturity, management professionalism, and long-term orientation, have been shown to be essential foundations for promoting ESG implementation. This demonstrates that ESG in MSMEs is influenced not only by external variables, but also by the strength of the company's internal qualities. Thus, it is believed that MSME features have an impact on ESG implementation.

5. Conclusion

Based on the results of research on the influence of Business Profile (X1) and Organizational Characteristics (X2) on ESG Implementation (Y), the following conclusions can be drawn: Business Profile (X1) has a positive and significant effect on ESG Implementation (Y). This is proven by the results of the partial test (t-test) with a significance value of 0,000 ($< 0,05$). This means that the better the MSMEs business profile, the higher the level of ESG implementation applied. This condition shows that business capacity readiness, operational stability, and business structure can encourage MSMEs to implement ESG practices more effectively. Organizational Characteristics (X2) also has a positive and significant effect on ESG Implementation (Y). This is evidenced by the results of the partial test (t-test) with a significance value of 0,000 ($< 0,05$).

This means that the better the characteristics of MSMEs, especially those related to internal management readiness, business formality level, experience, and business organization, the higher the ESG implementation carried out by MSMEs. Overall, the results show that organizational competencies and internal business conditions are important factors influencing MSMEs' adoption of ESG. Organizational traits and company profiles both make significant contributions to improving sustainable performance. These findings underline the necessity of improving internal management capacity and company formalization in order to support sustainable and ethical business practices in the MSMEs sector.

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