

ESG Implications in Improving Green Business to Support Green Economy Strategy

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Abstrak. *Environmental, Social, and Government (ESG) merupakan suatu prinsip yang saat ini banyak digunakan oleh perusahaan sebagai salah satu bentuk dukungan terhadap program keberlanjutan. Dimana perusahaan yang telah menerapkan ESG diharapkan mampu menjalankan proses bisnis yang termasuk dalam kelompok bisnis hijau yang pada akhirnya dapat mendukung ekonomi hijau. Tulisan ini bertujuan untuk mengetahui implikasi penerapan ESG yang dilakukan oleh perusahaan dalam meningkatkan bisnis hijau yang pada akhirnya dapat mendukung ekonomi hijau. Penelitian ini menggunakan metode penelitian kualitatif dengan teknik pengumpulan data berupa studi pustaka. Hasil penelitian yang diperoleh menunjukkan bahwa terdapat banyak literatur pendukung yang menunjukkan bahwa penerapan ESG pada suatu perusahaan dapat memberikan banyak pengaruh terhadap kinerja perusahaan dan membuat perusahaan mulai menjalankan bisnis hijau. Dengan begitu, dukungan terhadap penerapan ekonomi hijau akan terlaksana secara optimal.*

Kata kunci: ESG; Bisnis Hijau; Ekonomi Hijau; Kinerja Perusahaan.

Abstract. *Environmental, Social, and Government (ESG) is a principle that is currently widely used by companies as a form of support for sustainability programs. Where companies that have implemented ESG are expected to be able to run a business process that is included in the green business group which can ultimately support the green economy. This paper aims to find out the implications of the implementation of ESG carried out by companies in increasing green business which can ultimately support the green economy. This study uses a qualitative research method with data collection techniques in the form of literature studies. The results of the study obtained showed that there was a lot of supporting literature showing that the implementation of ESG in a company could have a lot of influence on the company's performance and make the company start running a green business. That way, support for the implementation of the green economy will be carried out optimally.*

Keywords: ESG; Green Business; Green Economy; Corporate Performance.

Introduction

The challenges arising from population growth, climate change, and resource depletion have made sustainable development a critical global concern. These issues have prompted significant attention worldwide, urging a shift toward sustainability-driven practices. In this context, the efficiency of the green economy has emerged as a pivotal factor in achieving both social sustainability and high-quality economic growth (Hu et al., 2023). As industries globally transition into the era of Industry 5.0, which emphasizes human-machine collaboration (Nahavandi, 2019), new opportunities for innovation in business processes are created. However, despite these advances, economic growth often comes at the cost of environmental conservation (Husada & Handayani, 2021). The adverse effects of unsustainable development are felt by both humans and nature. While certain developments may benefit conservation, the negative outcomes risk exacerbating environmental degradation. Sustainability is essential for regulating the use of natural resources in a manner that maintains ecological balance. Natural resources serve dual purposes as both capital for economic development and essential life-support systems. As such, their use must contribute to the equilibrium of ecosystems (Damanik, 2023).

Unfortunately, this principle is frequently overlooked, as businesses often prioritize profit maximization over considering environmental impacts. This trend contributes to ecological harm, which ultimately jeopardizes human life. The growing resource and environmental constraints, coupled with regional economic and social inequalities, underscore the need for companies to incorporate Environmental, Social, and Governance (ESG) factors into their investment, organizational, and production decisions. By integrating ESG practices, businesses can improve regional green economic efficiency, fostering sustainable development at the corporate level (Hu et al., 2023). In Indonesia, the potential for advancing a green economy remains significant, especially in promoting environmentally responsible development. However, the successful

implementation of such a system requires broad support from various stakeholders. While entrepreneurs in Indonesia have begun introducing products that align with green economic principles, the overall implementation remains suboptimal. Key barriers to the full realization of a green economy include a lack of awareness and understanding of the green economy among both the public and business actors (Suwarno, 2023). Indonesia's potential for environmental progress remains underutilized, as evidenced by its ranking of 164th out of 180 countries in terms of environmental conservation (Databoks, 2022). This ranking highlights the need for urgent action to improve conservation efforts and the country's overall environmental performance.

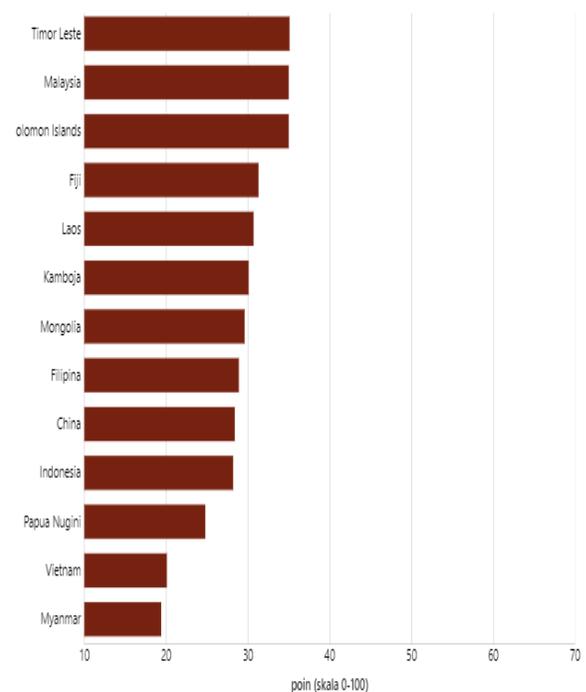


Figure 1. Graph of Nature Conservation Levels in Various Countries (Databoks, 2022)

Indonesia currently holds a low ranking in terms of environmental conservation, as reflected by its score of 28.2, far below the maximum possible value of 100. This score places Indonesia 164th out of 180 countries studied for environmental conservation. In the regional context of ASEAN, Indonesia ranks 22nd out of 25 countries in the Asia Pacific region and 8th out of 10 ASEAN countries. The country's rankings across key environmental metrics are also low, with an ecosystem vitality score of 34.1, an environmental health score of 25.3, and a

climate change mitigation policy score of 23.2, all out of 100 (Databoks, 2022). These figures highlight the urgent need for improved conservation efforts, signaling a critical issue that requires the attention of both the government and business sectors. The Plasticity Retention Index (PRI), introduced by the United Nations in 2005, underscores the impact of ESG (Environmental, Social, and Governance) factors on investment portfolio performance. Over time, frameworks for environmental management, social responsibility, and corporate governance have increasingly shaped corporate evaluations. Environmental management involves corporate initiatives aimed at reducing waste, pollution, greenhouse gas emissions, and mitigating climate change. Social responsibility, akin to corporate social responsibility (CSR), emphasizes fair business practices, respect for human rights, creating a safe working environment, and contributing to the community (Sitorus & Siregar, 2023). Governance relates to effective corporate management that balances economic success with ethical practices. Companies are expected to develop policies covering business ethics, transparency, and governance structures to guide their operations (Chang et al., 2021).

Green business activities focus on transforming inputs into outputs while ensuring the alignment of economic, social, and ecological benefits. Entrepreneurs adopting green business strategies inherently pursue sustainability in their business operations (Mutamimah, 2011, in Ksanthih, 2023). Governments and public awareness programs play a pivotal role in improving green business performance, ensuring that companies prioritize social responsibility and environmental stewardship in addition to financial gains. The principle of stakeholder maximization suggests that a company's operations should generate value and welfare for all involved parties, including owners, managers, employees, customers, government entities, and the surrounding community (Ksanthih, 2023). A green business strategy is not merely about profit generation, but rather involves actions aimed at environmental protection, including reducing pollution,

utilizing renewable energy, and providing high-quality environmental reporting (Utomo et al., 2023). The rapidly evolving concept of the green economy represents an alternative to traditional economic models reliant on fossil fuels such as coal, oil, and natural gas. The green economy is driven by the application of knowledge and technology to understand the interrelationship between human activities and natural ecosystems. The goal is to minimize the environmental impact of economic activities, especially in terms of climate change and global warming.

The United Nations Environmental Programme has highlighted the importance of international agreements supporting the transition toward a green economy as a solution to combat climate change (Yasa, 2010 in Ali et al., 2023). In this context, economic growth serves as a means to improve societal welfare, not as an end that disregards environmental impacts. Sustainable economic growth requires responsible management of natural resources, ensuring their availability for future generations. The green economy incorporates various initiatives, such as renewable energy adoption, greenhouse gas emission reduction, waste management, recycling, and the use of more efficient production technologies. These efforts collectively aim to reduce the negative environmental and public health impacts of economic activities (Suwarno, 2023).

Literatur Review

Self-efficacy, a key concept in psychology, encompasses three dimensions: magnitude, which refers to the level of task difficulty an individual believes they can achieve; strength, the conviction regarding whether this magnitude is strong or weak; and generality, the degree to which the expectation is generalized across various situations (Lunenburg, 2011). Self-efficacy is essentially a judgment of one's capabilities to plan and execute actions to attain specific goals (Mukhid, 2009). In academic contexts, self-efficacy reflects a student's confidence in performing particular tasks (Perez & Ye, 2013). It plays a significant role in academic motivation, learning motivation, and

resistance to challenges in the learning process (Zimmerman, 2000). In the realm of mathematics, self-efficacy is defined as an individual's confidence in completing a range of tasks, from understanding concepts to solving problems (May, 2009). High mathematics self-efficacy promotes improved learning outcomes, which, in turn, enhances motivation in the learning process. Stronger self-efficacy beliefs generally lead to better academic results and greater learning motivation (Zimmermann et al., 2011). Consequently, mathematics self-efficacy is conceptualized as a belief in one's ability to address various mathematical problems, with the three dimensions magnitude, strength, and generality affecting performance and motivation. Over time, business development has increasingly recognized the need to balance profit-making with environmental stewardship, thus reducing ecological risks. The connection between business continuity and environmental responsibility is essential, as companies must consider their role in preserving ecological systems while achieving profitability (Ksanthih, 2023). Business strategies now often reflect an awareness of the potential impact of industrialization on the environment, emphasizing the need for sustainable practices.

The Fourth Industrial Revolution, characterized by the widespread use of automation technologies, such as artificial intelligence, has brought significant changes to industries. However, this progress must also be accompanied by improvements in ecosystem sustainability, particularly through the development and implementation of renewable energy technologies. To address these concerns, governments have partnered with various organizations to promote green and sustainable business practices, especially for entrepreneurs (Ksanthih, 2023). The intersection of business ethics, resource management, and environmental sustainability is becoming increasingly important. Businesses must manage their use of natural resources effectively, as resource scarcity can lead to production disruptions and raw material shortages. Furthermore, the rise of industrialization has led to an increase in industrial waste, which poses risks to natural

ecosystems. To mitigate these risks, it is essential to adopt waste management strategies, such as recycling technologies, which can transform waste into valuable products with economic benefits (Setyowati et al., 2023). The importance of Environmental, Social, and Governance (ESG) practices has gained traction among socially responsible organizations. Stakeholders and investors increasingly believe that companies with strong ESG disclosures tend to perform better operationally, generate higher returns, and exhibit lower risks (Shaik, 2022). ESG is a non-financial performance measure that tracks corporate sustainability efforts in environmental, social, and governance areas, influencing both operational decisions and investment strategies (Shaikh, 2022). Business strategy, which outlines a company's activities and decisions to achieve its objectives, also impacts ESG performance. In this context, strategies such as cost leadership can significantly influence a company's ESG outcomes. From an evolutionary perspective, a company's ecosystem development is integral to its strategic evolution, suggesting that businesses cannot thrive without robust strategies that incorporate efficient ESG practices.

Resource-based theory further asserts that a firm's internal capabilities and resources are fundamental for gaining competitive advantage. Efficient management of these resources, combined with well-executed business strategies, can lead to superior performance and long-term sustainability (Habib, 2023). ESG practices not only enhance business performance but also foster customer trust and improve corporate reputation, both of which contribute to resource development. Research by Ruan and Liu (2021) highlights the challenges faced by companies in China, where ESG rankings of listed companies show a significant negative correlation with company performance. Despite this, strengthening ESG disclosure practices, as advocated by Chinese regulators, is essential for improving transparency and corporate accountability. However, early-stage implementation of ESG activities may present increased costs for non-state-owned enterprises and businesses not yet

environmentally sensitive. These companies may experience a decline in performance as they adapt to new ESG requirements.

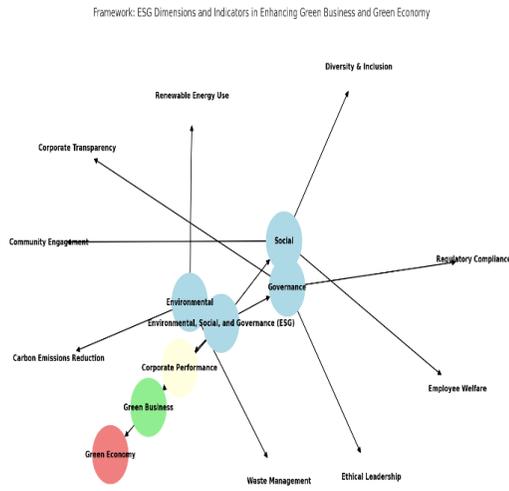


Figure 2. Framework: ESG Implementation in Enhancing Green Business and Supporting the Green Economy

Research Methodology

This study follows a causal research design, aiming to identify the influence of one variable on another. It employs an explanatory research method, which is commonly used to understand the relationship between variables and assess how one variable impacts another. Using a quantitative approach, this research focuses on providing a comprehensive analysis of the correlation between multiple variables, while testing hypotheses regarding their interconnections. The study specifically examines the implementation of Environmental, Social, and Governance (ESG) practices within organizations and its effects on corporate performance, risk management, and sustainable economic growth. The research emphasizes that ESG adoption is not merely a compliance measure but also a strategic advantage. It is expected to enhance business sustainability, support green business initiatives, and facilitate the transition to a Green Economy.

Results and Discussion

Results

The framework presented illustrates how Environmental, Social, and Governance (ESG) principles serve as a foundation for the development of Green Business, which, in turn, supports the Green Economy. ESG is divided into three key dimensions: Environmental, Social, and Governance, each encompassing specific indicators that influence corporate sustainability.

1) Environmental Dimension, Driving Sustainability in Business Operations

The Environmental dimension focuses on how businesses manage their impact on the environment. Key indicators within this dimension include carbon emissions reduction, renewable energy adoption, and waste management. Companies that implement robust environmental policies are likely to see improvements in operational efficiency and enhanced sustainability performance. A study by Friede, Busch, and Bassen (2015) found a positive correlation between environmental sustainability and corporate financial performance. Their research highlighted that firms adopting green policies attract more investors and are better positioned for long-term profitability.

2) Social Dimension: Strengthening Corporate Responsibility and Stakeholder Trust

The Social dimension reflects how businesses engage with their employees, communities, and stakeholders. Key indicators include employee welfare, community involvement, and diversity and inclusion. Companies that prioritize these aspects tend to foster a strong reputation and ensure long-term stability. According to Eccles, Ioannou, and Serafeim (2014), businesses that focus on social responsibility benefit from higher employee satisfaction, increased consumer trust, and improved financial performance, reinforcing the significance of ethical business practices.

3) Governance Dimension: Ensuring Transparency and Ethical Leadership

The Governance dimension emphasizes corporate integrity and accountability. Important indicators include corporate transparency, ethical leadership, and

adherence to regulatory standards. Firms with strong governance structures are better equipped for risk management and are more attractive to investors. Research by Clark, Feiner, and Viehs (2015) found that companies with robust governance frameworks experience lower capital costs, greater investment appeal, and better risk mitigation, all of which contribute to overall business resilience.

4) ESG's Impact on Green Business and the Green Economy

The integration of ESG principles significantly influences a company's transition into a Green Business. This transition fosters innovation in sustainable practices and enhances corporate performance. In turn, Green Business contributes to the Green Economy, focusing on sustainable economic growth while minimizing environmental harm. Hart and Milstein (2003) emphasized that businesses adopting sustainability strategies gain a competitive advantage through eco-friendly product innovation, increased market share, and enhanced stakeholder value.

5) ESG as a Strategic Enabler for Economic Transformation

Ultimately, ESG principles act as strategic enablers that not only improve business operations but also drive broader economic transformation toward sustainability. Companies and countries that embrace ESG practices are more likely to develop green technologies, adopt circular economy models, and build resilient economic systems. A recent study by Zhang, Wang, and Rauch (2022) found that firms aligning with ESG-driven policies are more adaptable to climate regulations and sustainable finance trends. These companies are better positioned for long-term business success and environmental protection.

This framework emphasizes that ESG is not merely a corporate responsibility measure but a significant driver of green business transformation. By addressing environmental, social, and governance factors, companies can enhance their financial performance, sustainability, and long-term competitiveness,

while simultaneously contributing to the broader Green Economy development agenda. Eccles, Ioannou, & Serafeim (2014) examined the long-term effects of sustainability practices on organizational processes and performance. Their study found that firms with robust ESG strategies outperform those without in terms of profitability and stock market performance. Companies that incorporate environmental and social governance into their core strategies tend to attract more long-term investors and customers. Clark, Feiner, & Viehs (2015) explored how sustainability drives financial performance in their research titled *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Performance*. They provided evidence that ESG-focused companies experience lower capital costs, greater operational efficiency, and stronger risk management. Their study also revealed that sustainability-oriented firms are more adaptable to regulatory changes and environmental challenges, making them more competitive in the long term. Hart & Milstein (2003), in *Creating Sustainable Value*, proposed a framework that links ESG initiatives with corporate innovation, risk management, and long-term business success. They concluded that businesses investing in green business strategies could enhance their brand reputation, employee engagement, and customer loyalty, which ultimately results in stronger financial performance.

Zhang, Wang, & Rauch (2022) examined the role of ESG in the transition to a Green Economy in their study, *The Role of ESG in the Transition to a Green Economy: Evidence from Global Markets*. Their research indicated that countries and corporations with strong ESG commitments are more likely to develop green technologies, implement circular economy models, and achieve sustainable economic growth. Habib (2023) analyzed ESG in relation to the potential for bankruptcy within U.S. companies. The study found that business strategy significantly and positively influences ESG performance. Specifically, companies employing a cost leadership strategy demonstrated better ESG performance, aligning with the theoretical frameworks of business strategy and contingency, evolutionary,

resource-based, stakeholder, institutional legitimacy, signaling, and agency theories. The research also showed that businesses with superior cost leadership strategies have a reduced likelihood of bankruptcy. The studies above demonstrate that ESG plays a crucial role in implementing green business practices. By adopting ESG principles, companies can steer their operations towards environmentally friendly practices, thereby promoting the conservation of environmental resources. Ghadimi et al. (2020) discussed green manufacturing within green business strategies and highlighted that green manufacturing practices are essential for managing environmental challenges. The study also emphasized the need for further research in systematically identifying, classifying, and ranking enablers for successful implementation, particularly in the Irish context. Alkhodary (2023) explored the determinants influencing the implementation of green business practices and found that practices such as energy efficiency, waste reduction, and environmental management systems significantly enhance a company's competitive advantage. The study highlighted that environmentally responsible business practices positively affect market share, customer loyalty, and innovation.

These findings suggest that businesses with a long-term approach to sustainability can improve their market position by adopting environmentally friendly practices, ultimately benefiting from enhanced customer loyalty, market share, and innovative capacity. The implementation of a green economy not only promotes the sustainability of environmental and natural resources but also contributes to national economic resilience, particularly in achieving the targets set by the Sustainable Development Goals (SDGs) for 2030. The concept of the green economy was first introduced in a 1989 report by environmental economists for the British government, titled *Blueprint for a Green Economy* (Pearce, Markandya, & Barbier, 1989). This report provided recommendations for the British government, evaluating the definition of sustainable development and assessing the policies and economic impacts related to sustainable development. The development of

the green economy gained momentum in the late 20th century as awareness grew about environmental issues caused by pollution and the overuse of natural resources. The green economy was subsequently developed as an alternative model to minimize these negative impacts and foster sustainable economic growth (Suwarno, 2023).

Discussion

This study examines the implications of Environmental, Social, and Governance (ESG) principles in enhancing green business practices and supporting the broader green economy strategy. ESG integrates environmental management, social responsibility, and governance practices to improve corporate performance and contribute to sustainable development. The findings indicate that the environmental dimension of ESG, such as reducing carbon emissions and using renewable energy, improves operational efficiency and financial performance. These results align with previous studies, such as Friede, Busch, & Bassen (2015), which show a positive correlation between environmental sustainability and better financial outcomes. Furthermore, the social dimension of ESG, which includes employee welfare, community engagement, and diversity, strengthens stakeholder relationships, as supported by Eccles et al. (2014), who found that companies with strong social responsibility experience improved consumer trust and financial performance.

Governance, focusing on transparency and ethical leadership, reduces operational risks and fosters investor confidence, echoing Clark, Feiner, & Viehs (2015), who found that firms with strong governance structures experience lower capital costs. Moreover, integrating ESG practices facilitates the transition to green business models that align with the green economy, which aims to minimize environmental impact while promoting economic growth. Hart & Milstein (2003) argue that companies adopting sustainability strategies gain a competitive edge through eco-friendly innovations and increased market share, a finding supported by this research. Similarly, Zhang, Wang, & Rauch (2022) emphasize that

companies with strong ESG commitments are better positioned to adapt to climate regulations and sustainable finance trends, ensuring long-term business success. This study supports these findings, showing that ESG practices are key enablers for green technology development and the circular economy. ESG also enhances a company's competitiveness by gaining customer loyalty, increasing market share, and fostering innovation, as shown by studies like Alkhodary (2023) and Habib (2023), which argue that ESG performance positively influences competitive advantage and business performance. Despite challenges in Indonesia, where the awareness and implementation of ESG practices are still developing, the country has significant potential to leverage ESG for green economic growth. The Databoks (2022) report reveals that Indonesia ranks low in environmental conservation in the Asia-Pacific region, indicating the need for stronger ESG adoption. This aligns with Suwarno (2023), who emphasizes the importance of increasing awareness and implementing green economy systems in Indonesia. While the adoption of ESG is still in its early stages, this study highlights the potential for ESG to drive sustainability and economic resilience in Indonesia. The findings underscore the importance of collaboration between businesses and government to promote environmental and social responsibility, contributing to a more sustainable and inclusive green economy.

Conclusion

The application of Environmental, Social, and Governance (ESG) principles plays a crucial role in transforming businesses into more sustainable and environmentally friendly models. As outlined in this discussion, the implications of ESG on green business reinforce the commitment of companies to responsible practices in environmental management, social engagement, and transparent governance. By focusing on ESG, businesses can reduce their carbon footprint, enhance resource efficiency, and create value for stakeholders, ensuring long-term

sustainability. Strategies that promote the green economy, supported by ESG initiatives, foster innovation in renewable energy, waste management, and the development of environmentally friendly products. Furthermore, companies committed to ESG practices tend to gain increased trust from investors, consumers, and society, which positively impacts their long-term competitiveness. By integrating ESG, businesses not only contribute to the green economy but also align with government regulations and policies that address environmental concerns, while mitigating the risks posed by climate change and environmental degradation. Ultimately, ESG serves as the foundation for sustainable green business growth, enhancing business resilience and ensuring active contributions to the development of an inclusive and sustainable green economy. It is clear that adopting ESG principles is essential for companies striving to remain competitive while contributing to the global sustainability agenda.

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