

# Integrating ESG Principles in MSME Management: A Qualitative Study of Governance and Accountability in Banten, Indonesia

**Tias Pramono<sup>1\*</sup>, Yunianto Agung Nugroho<sup>2</sup>, Hatoli Waruwu<sup>3</sup>, Ahmad Fauji<sup>4</sup>, Jainuri<sup>5</sup>**

<sup>1,2,3,4,5</sup>Universitas Insan Pembangunan Indonesia, Indonesia

\*Corresponding email: [tipidai1@gmail.com](mailto:tipidai1@gmail.com)

**Abstract --** The integration of Environmental, Social, and Governance (ESG) principles has increasingly been promoted as a pathway toward sustainable and accountable business practices. However, empirical understanding of how ESG principles are interpreted and implemented within micro, small, and medium enterprises (MSMEs) remains limited, particularly in developing economies. This study aims to explore how ESG principles are understood, operationalized, and embedded in governance and accountability practices among MSMEs in Banten Province, Indonesia. Adopting a qualitative and interpretive research design, the study draws on in-depth interviews, non-participant observations, and document analysis involving 24 participants, consisting of MSME owners, managers, and supporting institutional stakeholders. The findings reveal that ESG integration within MSMEs is largely implicit, fragmented, and highly context-dependent. While most participants lack formal familiarity with ESG as a comprehensive framework, many engage in practices aligned with its social and ethical dimensions, driven primarily by personal values, community norms, and relational trust. Governance practices are predominantly informal and centralized in owner-managers, with ethical leadership serving as the main mechanism shaping accountability rather than formal structures or standardized reporting systems. Financial accountability remains operational in nature, social accountability is relationally grounded, and environmental accountability is largely compliance-oriented. Key drivers of ESG integration include owner values, ethical orientation, and external pressures from markets and regulations, whereas major barriers consist of resource limitations, conceptual complexity of ESG frameworks, and fragmented institutional support. The study highlights that ESG implementation in MSMEs constitutes a socially embedded governance process rather than a formal compliance exercise. By providing qualitative evidence from an underexplored regional context, this research contributes to ESG and MSME governance literature and offers policy-relevant insights for developing adaptive, context-sensitive ESG frameworks suitable for small enterprises in emerging economies.

**Keywords:** ESG principles; MSMEs; Governance; Accountability; Indonesia.

## I. INTRODUCTION

### Background and Research Context

The emergence of Environmental, Social, and Governance (ESG) principles marks a significant shift in organizational governance frameworks. Initially oriented towards large corporations and financial institutions, ESG principles have begun to influence smaller entities, particularly Micro, Small, and Medium Enterprises (MSMEs), as a mechanism for ensuring sustainable business operations that align with global sustainability goals, including the Sustainable Development Goals (SDGs) (Octasylva et al., 2022). MSMEs, which contribute significantly to economic stability and job creation in Indonesia, face unique challenges in integrating these principles due to their predominantly informal governance structures and limited managerial resources (M et al., 2023).

In the context of Indonesia, notably in areas like Banten, MSMEs are often the backbone of regional economies, operating within a complex interplay of industrial activities, community interests, and regulatory frameworks (Permanasari et al., 2022). Effective integration of ESG strategies can enhance governance quality and accountability, fostering trust between MSMEs and their stakeholders—including communities, regulators, and larger supply chains (Qiu et al., 2023). However, the realization of ESG objectives among these smaller enterprises is inconsistent, driven by resource constraints and a lack of formal governance infrastructure (Kultsum et al., 2022). Understanding the local dynamics affecting ESG adoption in MSMEs is therefore vital.

## Problem Identification

Despite the growing recognition of ESG frameworks' importance, many MSMEs perceive these principles as burdensome and irrelevant, mainly due to their emphasis on immediate economic viability over long-term sustainability (Yustisi, 2024). The governance practices within these enterprises often reflect a centralization of authority in owner-managers, leading to informal decision-making processes that hinder transparency and accountability (Juansah et al., 2023). Moreover, while national policies advocate for sustainability, many MSMEs lack practical guidance on integrating ESG, making implementation challenging (Wijiyanti et al., 2025). This disconnect raises pressing questions regarding the feasibility of these frameworks in fostering ethical business behavior amongst MSMEs in Banten.

## Research Gap

The prevailing literature largely overlooks the practical application of ESG principles in the MSME sector, focusing instead on large corporations and multinational enterprises (ER & Nurmadewi, 2020). Specifically, the integration of ESG in developing markets, such as Indonesia, requires qualitative insights that reflect the lived experiences of MSME stakeholders (Itang et al., 2023). Current studies have emphasized financial performance, neglecting the critical aspects of governance and accountability linked to ESG, thereby signaling a pressing need for qualitative research examining these dynamics (Tjahjadi et al., 2020).

## Research Objectives and Questions

This study aims to bridge the aforementioned research gap by conducting a qualitative case study focusing on how ESG principles are understood and enacted within MSMEs in Banten, Indonesia. The primary objectives include:

1. Analyzing MSME owners' interpretations of ESG principles.
2. Investigating governance practices and accountability mechanisms associated with ESG implementation.
3. Identifying drivers and barriers impacting ESG integration.

Guided by these objectives, the research seeks to answer the following questions: How is ESG operationalized in MSME management? What governance structures and accountability measures exist locally?

## Contribution of the Study

This investigation contributes to the broader discourse on ESG by providing empirical insights from the Indonesian context, thus addressing a significant oversight in the existing literature. The findings aim to inform policymakers, sector associations, and development agencies about effective strategies for fostering ESG principles within MSMEs, thereby empowering these enterprises towards ethical sustainability (Alfarizy et al., 2021). Emphasizing governance and accountability roles within this research also highlights the transformative potential of integrated ESG practices for local economies.

## Literature Review and Theoretical Framework

### *ESG Principles: Conceptual Foundations*

ESG principles serve as a multidimensional framework guiding organizations toward sustainability beyond mere financial metrics. The environmental dimension encompasses resource management and ecological impacts, while the social dimension focuses on community relations and labor conditions. Governance pertains to ethical oversight and responsible management practices that foster trust and accountability (Alamin et al., 2022). Current literature emphasizes stakeholder theory as foundational for understanding ESG accountability across diverse organizational types, extending the discourse from shareholder primacy to a broader stakeholder obligation (Nirmala et al., 2025).

### *MSME Management and Sustainability*

Managing MSMEs poses unique challenges in adopting structured sustainability practices. Their informal governance structures often lead to ad hoc approaches towards environmental and social responsibilities, driven more by personal ethics than formalized strategies (Aprianti et al., 2025). Yet, despite their informal operations, the aggregate impact of MSMEs in driving sustainable practices is significant due to their prevalence and integration with community dynamics, thus necessitating a focus on how these enterprises can effectively adopt ESG principles (Huda, 2022).

### *Governance in MSMEs*

Governance within MSMEs diverges greatly from that in large corporations, characterized by informal authority centralized in owner-managers. This structure often limits the ability to implement documented policies and formal accountability (Fatchurrohman & Asifa, 2023). Nevertheless, strong ethical leadership and relational governance practices can enhance accountability and stakeholder trust, positioning governance as crucial for effective ESG implementation within these enterprises (Hadiaty & Surya, 2025).

### ***Accountability and Transparency in MSMEs***

Accountability within MSMEs is often intimately tied to personal relationships and community norms rather than formal reporting systems. This creates a tension between transparency and the informal nature of MSME operations (Lestari, 2022). Within the ESG framework, accountability encompasses not merely financial disclosure but also social and environmental impacts, necessitating adaptive strategies that balance simplicity with credibility, particularly for operations with limited capabilities (Raditya & Gustom, 2024).

### ***ESG Integration in MSMEs: Empirical Studies***

Studies indicate that ESG adoption by MSMEs is influenced both by internal values—such as ethical consciousness—and external pressures, including regulatory frameworks and market expectations (Setyaningrum et al., 2024). Internal barriers, such as financial constraints and insufficient institutional support, particularly in the Indonesian context, impede broader ESG adoption (Mukhsin & Suryanto, 2022). This calls for the development of tailored ESG models that acknowledge the distinctive challenges faced by MSMEs in emerging economies, such as Banten (Purnamasari et al., 2023).

### **Conceptual Framework**

This study proposes a conceptual framework wherein ESG principles are viewed as integrative lenses connecting governance and accountability within MSMEs. In this framework, governance serves as the mediating aspect transforming ESG ideals into actionable organizational practices, with accountability emerging as both a result of quality governance and a mechanism that reinforces stakeholder trust (ADRIWATI et al., 2023). This model seeks to capture the dynamic nature of ESG integration in MSMEs, recognizing contextual moderators influencing the implementation process (Raharjo & Irfan, 2025).

Through the examination of ESG principles in MSME management within Banten, Indonesia, this research addresses critical challenges and opportunities for these enterprises. By elucidating the governance structures and accountability practices linked to ESG, it aims to foster a deeper understanding of how small enterprises can gear themselves towards sustainability while navigating local socio-economic landscapes.

## **II. RESEARCH METHODS**

### **Research Design**

This study adopts a qualitative research design characterized by an exploratory and interpretive orientation aimed at examining the integration of Environmental, Social, and Governance (ESG) principles within Micro, Small, and Medium Enterprises (MSMEs). The qualitative approach is particularly suitable, as the study seeks to capture nuanced meanings, perceptions, and practices related to governance and accountability, which are often embedded in informal contexts and socio-cultural frameworks specific to the region Lubis & Rokhim (2021). Unlike quantitative studies that might test predefined hypotheses, this research is focused on generating rich, contextual insights regarding how MSME actors understand and enact ESG principles in their everyday management practices.

Grounded in an interpretivist paradigm, the study recognizes that social reality is constructed through human interactions and interpretations. Thus, the integration of ESG principles is perceived as a context-dependent process shaped by individual managerial actions, local norms, and broader institutional conditions (Ananda, 2022). This paradigm facilitates the exploration of multiple perspectives on ESG as a lived practice, rather than merely a compliance requirement.

### **Research Setting**

The empirical setting for this research is Banten Province, Indonesia, noted for its economic diversity encompassing industrial zones, urban commercial hubs, and rural entrepreneurship. This region provides a fertile ground for MSME research, reflecting a high concentration of micro and small enterprises engaged across various sectors such as manufacturing, trade, services, and agriculture (Mendrofa, 2024). The strategic selection of Banten facilitates an understanding of ESG-related practices within a realistic plan that aligns local economic development strategies with global sustainability agendas (Primadona et al., 2024).

This focused research site aims to reveal insights into how local institutional environments, as opposed to abstract national policies, shape governance and accountability practices among MSMEs. Investigating the dynamics within Banten enables reflections on the broader characteristics of MSMEs in emerging economies, where informal governance forms and community-based enterprises prevail (Marliza, 2024).

### **Research Participants**

A total of 24 participants were involved in the study, comprised of 18 MSME owners and managers alongside 6 supporting stakeholders. The MSME participants represented diverse sectors, including manufacturing, trade, services, and agriculture, demonstrating the variety of governance practices and ESG

experiences present in Banten (Yustisi, 2024). To contextualize these participants further, the supporting stakeholders included representatives from MSME associations, local government bodies, and business development facilitators, which collectively provide a comprehensive view of the institutional environment affecting ESG expectations, governance norms, and accountability mechanisms (Trenggonowati et al., 2021).

Participants were selected using a purposive, criterion-based sampling strategy with the following inclusion criteria: (1) active involvement in managerial decision-making; (2) a minimum of three years of business operation to ensure depth of experience; (3) direct responsibility for financial, social, or operational decisions; and (4) willingness to share insights on governance and accountability practices (Faradisi & Anggara, 2024). This approach ensures data richness rather than mere statistical representation, aligning with qualitative research paradigms.

Data collection was iterative, involving continuous recruitment until thematic saturation was achieved—defined as the moment when additional interviews did not yield new insights regarding ESG understanding, governance practices, or accountability (Tanaya & Ekyawan, 2020). This sampling method emphasizes a focus on information power, allowing depth and diversity to enhance thematic analysis while adhering to qualitative standards frequently seen in ESG and MSME literature published in reputable journals.

**Table 1.** Participant Identification and Sampling Characteristics

Participant Code	Participant Category	Business Sector / Institutional Role	Enterprise Size / Role	Years of Experience	Primary Relevance to Study
MSME-01	MSME Owner-Manager	Manufacturing	Micro Enterprise	5–10 years	Governance practices and financial accountability
MSME-02	MSME Owner-Manager	Trade (Retail/Wholesale)	Micro Enterprise	3–5 years	Social responsibility and stakeholder relations
MSME-03	MSME Owner-Manager	Services	Small Enterprise	>10 years	Ethical leadership and informal governance
MSME-04	MSME Owner-Manager	Agri-based Business	Micro Enterprise	5–10 years	Environmental practices and local compliance
MSME-05	MSME Owner-Manager	Manufacturing	Small Enterprise	>10 years	ESG-related decision-making and governance
MSME-06	MSME Owner-Manager	Services	Micro Enterprise	3–5 years	Employee welfare and social accountability
MSME-07	MSME Owner-Manager	Trade	Small Enterprise	5–10 years	Transparency and customer trust
MSME-08	MSME Owner-Manager	Manufacturing	Micro Enterprise	>10 years	Environmental awareness and operational practices
MSME-09	MSME Owner-Manager	Services	Small Enterprise	5–10 years	Governance adaptation and sustainability orientation
MSME-10	MSME Owner-Manager	Agri-based Business	Micro Enterprise	3–5 years	Community engagement and social responsibility
MSME-11	MSME Owner-Manager	Trade	Micro Enterprise	5–10 years	Informal accountability mechanisms

Participant Code	Participant Category	Business Sector / Institutional Role	Enterprise Size / Role	Years of Experience	Primary Relevance to Study
MSME-12	MSME Owner-Manager	Manufacturing	Small Enterprise	>10 years	Governance maturity and scalability challenges
MSME-13	MSME Owner-Manager	Services	Micro Enterprise	3–5 years	ESG perception and managerial values
MSME-14	MSME Owner-Manager	Trade	Small Enterprise	5–10 years	Market-driven ESG adoption
MSME-15	MSME Owner-Manager	Agri-based Business	Micro Enterprise	>10 years	Environmental compliance and sustainability practices
MSME-16	MSME Owner-Manager	Manufacturing	Micro Enterprise	3–5 years	Resource constraints and ESG barriers
MSME-17	MSME Owner-Manager	Services	Small Enterprise	5–10 years	Accountability to employees and customers
MSME-18	MSME Owner-Manager	Trade	Micro Enterprise	>10 years	Ethical leadership and trust-based governance
STK-01	Supporting Stakeholder	MSME Association Representative	Institutional Role	>10 years	ESG awareness and MSME capacity-building
STK-02	Supporting Stakeholder	Local Government Official	Institutional Role	5–10 years	Regulatory expectations and governance support
STK-03	Supporting Stakeholder	Business Development Facilitator	Institutional Role	>10 years	ESG implementation challenges
STK-04	Supporting Stakeholder	MSME Association Representative	Institutional Role	5–10 years	Governance norms and accountability
STK-05	Supporting Stakeholder	Local Government Official	Institutional Role	>10 years	Policy alignment and sustainability agenda
STK-06	Supporting Stakeholder	Business Development Facilitator	Institutional Role	5–10 years	Institutional support and ESG diffusion

## Data Collection Methods

Data collection utilized multiple qualitative approaches to fortify the validity and depth of findings. The primary method consisted of in-depth semi-structured interviews, allowing participants to convey their comprehension of ESG principles, governance practices, and accountability mechanisms in their terms (Azizah & Haron, 2024). An interview guide was developed to maintain consistency while permitting flexibility to invite discussion on emerging themes.

In conjunction with interviews, non-participant observations were conducted across selected MSME locations, targeting the context around operational practices and the environments in which these businesses operate. Document analysis was also incorporated, reviewing foundational documents such as financial records and any available materials relating to social or environmental initiatives to enrich the empirical basis for analysis (Iqbal & Subhan, 2022).

## Data Analysis Technique

The analysis adhered to a thematic analysis approach, allowing for the identification of patterns across qualitative datasets. Initial open coding was employed to determine key concepts and recurrent issues with respect to ESG, governance, and accountability. These codes were subsequently organized into broader categories via axial coding to discern relationships among themes. Selective coding further integrated the themes into coherent analytic narratives reflecting the research objectives (Purwoko et al., 2023).

Constant comparison strategies were implemented to refine categories and ensure consistency across various data sources. Throughout this process, reflexive memos were employed to maintain transparency in the interpretative decisions, aided by qualitative data analysis software for data organization (Astro, 2022).

## Trustworthiness and Rigor

The study applied rigorous criteria to ensure methodological trustworthiness, including credibility, transferability, dependability, and confirmability. Credibility was secured through data triangulation across interviews, observations, and documents, along with sustained engagement within the research context (Firdiyansyah, 2025). Transferability was enhanced by presenting rich, detailed context descriptions, enabling readers to evaluate the applicability of findings to other similar settings (Cahyani et al., 2023).

Dependability and confirmability were addressed by systematically documenting research protocols, coding decisions, and analytical processes. Engaging in peer debriefing among the research team encouraged challenging interpretations and minimizing individual biases during analysis (Ilham & Sudarmiatin, 2024). Emphasizing reflexivity allowed acknowledgment of the researchers' positionality and its potential effects on data interpretation (Saifurrahman & Kassim, 2023).

## Ethical Considerations

Ethics played a pivotal role throughout the research process. Prior to data collection, participants were informed about the study's aim, the voluntary character of their participation, and their rights to withdraw without repercussions. Informed consent was secured from every participant, while confidentiality was preserved by utilizing pseudonyms and omitting identifying details from transcripts and publications (Wicaksono et al., 2024).

Data security was enforced, with access restricted to the research team. Special attention was paid to addressing power dynamics and sensitivity during discussions relevant to governance and accountability practices (Darsono & Ma'la, 2024). By adhering to these ethical standards, the research aims to uphold scholarly integrity and respect the dignity of all participants (Sudarmo, 2021).

## III. RESULTS AND DISCUSSION

### Findings

This section presents the empirical findings derived from in-depth interviews, observations, and document analyses conducted among MSMEs in Banten Province. The findings are structured into four thematic sub-sections that align with the study's analytical framework: understanding of ESG, governance practices, accountability mechanisms, and the drivers and barriers to ESG integration.

### Understanding of ESG among MSME Actors

The findings indicate that the awareness and understanding of ESG principles among MSME actors in Banten remain heterogeneous and fragmented. While most participants were not familiar with ESG as a formal framework, they exhibited some implicit understanding of its components when discussed in practical contexts. Common environmental concerns among participants were tied to waste reduction, cleanliness, and compliance with local environmental norms rather than relating to broader sustainability or climate strategies Koe et al. (2024).

The social dimensions of ESG were more readily recognized, notably concerning employee welfare, customer trust, and community engagement. These aspects were often framed not as formal responsibilities, but as moral or ethical obligations driven by personal values or cultural norms. Governance was the least explicitly recognized component, with many participants equating it primarily with personal integrity, honesty, and ethics in leadership rather than formal governance structures, policies, or accountability systems. This suggests that ESG is interpreted as a set of loosely connected practices rather than an integrated managerial framework, highlighting a gap between global ESG discussions and local business realities in MSMEs (Triono et al., 2021).

### Governance Practices in MSMEs

Governance practices observed among the studied MSMEs were predominantly informal and centralized. Decision-making authority was typically concentrated in the hands of owner-managers, who operated without formal governance mechanisms such as written policies, standard operating procedures, or internal audits. Trust-based relationships, family ties, and verbal agreements constituted the core of governance (Tanjung, 2023).

Despite the lack of formal structures, ethical leadership emerged as a significant feature of governance. Owner-managers emphasized fairness in employee treatment, transparency in customer relations, and compliance with basic legal requirements—a moral practice rather than a structural arrangement. However, this personalization of governance led to vulnerabilities including limited checks and balances, succession risks, and challenges in scaling ESG-related practices beyond individual values (Amalia et al., 2023).

### Accountability Mechanisms

Accountability mechanisms within the MSMEs studied were characterized by informality and a relational orientation. Financial accountability tended to be restricted to basic bookkeeping focused on monitoring immediate cash flows and profitability. Formal financial reporting for external stakeholders was rare and typically required only to access credit or government programs. Social accountability emerged more explicitly in relationships with employees and local communities, framed around the maintenance of trust and reputational considerations (Chong et al., 2024). Environmental accountability was identified as the weakest aspect, with many practices being reactive—primarily based on compliance with local regulations rather than driven by proactive strategic sustainability goals. The absence of standardized accountability tools constrained MSMEs' capacity to measure and communicate their ESG performance, reinforcing the perception of ESG as an abstract concept removed from daily operations (Hadiyati & Hendrasto, 2021).

### Drivers and Barriers to ESG Integration

The integration of ESG principles within MSMEs was influenced by a mix of internal and external factors. Internally, owner values, ethical orientations, and long-term business visions served as significant drivers for MSMEs led by owners deeply committed to social or environmental considerations. They often adopted ESG-aligned practices, even when formal incentives were lacking (Sarma et al., 2022).

Conversely, significant barriers to ESG integration included resource limitations, such as insufficient financial capital and managerial capacity. Participants articulated the complexity of ESG terminologies and a deficiency in accessible guidance tailored specifically for MSMEs as additional obstacles. Institutional barriers, including fragmented support systems and inconsistent regulatory enforcement, further compounded the challenges of ESG adoption. These barriers contributed to a pragmatic orientation among MSMEs where immediate survival often superseded considerations for long-term sustainability (Sari et al., 2024).

### Discussion

The findings of this study enhance our understanding of ESG integration within MSMEs by emphasizing the importance of governance and accountability as contextually embedded practices rather than formalized systems. This aligns with stakeholder and legitimacy theories, which suggest that MSMEs in Banten prioritize social acceptance and trust through ethical conduct and relational accountability rather than compliance with standardized ESG reporting frameworks (Legowo & Sorongan, 2022).

The limited explicit understanding of ESG highlights a critical mismatch between the frameworks promoted globally and the operational realities faced by MSMEs in emerging economies. Although ESG is typically presented as a comprehensive governance model, MSMEs tend to selectively adopt elements that resonate more closely with their capacities and immediate stakeholder expectations. In this regard, governance emerges as a mediating mechanism, translating environmental and social concerns into everyday practices, albeit informally (Soegoto et al., 2022).

The notion of accountability reveals both strengths and limitations in the context of these enterprises. Relational accountability builds trust and fosters social cohesion, yet it often lacks the transparency required for broader institutional legitimacy. This finding aligns with academic calls for adaptive ESG frameworks that acknowledge the significance of informality while gradually moving toward scalable accountability mechanisms (Sugangga et al., 2023).

The identified drivers and barriers indicate that ESG integration within MSMEs is not merely a managerial choice; instead, it is heavily influenced by structurally constrained processes within their institutional environments. Ultimately, effective ESG implementation necessitates reconceptualizing governance and accountability practices that balance ethical leadership with gradual formalization. For policymakers and support institutions, these insights suggest the necessity for streamlined, context-sensitive ESG tools that leverage existing values and practices instead of imposing corporate-centric models. By embedding ESG principles within the lived realities of MSMEs, this study promotes a more inclusive understanding of sustainable governance frameworks within the unique context of emerging economies like Indonesia (Setyaningrum et al., 2023).

## IV. CONCLUSION

### Summary of Key Findings

This study aimed to explore the understanding and integration of Environmental, Social, and Governance (ESG) principles within the management practices of Micro, Small, and Medium Enterprises (MSMEs) in Banten

Province, Indonesia, focusing specifically on governance and accountability. The findings illustrate that the integration of ESG principles in these MSMEs tends to be implicit, fragmented, and heavily context-dependent. While recognition of ESG as a comprehensive framework remains limited, numerous MSME actors engage in practices resonant with ESG values, especially within social and ethical spheres.

Governance emerged as the primary mediating dimension influencing ESG integration. The governance of MSMEs was predominantly characterized by informality, personalization, and centralization in owner-managers, whose ethical orientations and leadership values significantly shape organizational behavior. Rather than depending on formal structures and documented procedures, governance practices were enacted through trust-based relationships, personal moral commitments, and adherence to basic legal and social norms. The mechanisms of accountability were found to mirror this informal structure, with financial accountability focused primarily on basic operational oversight, social accountability grounded in community relationships, and environmental accountability primarily driven by compliance rather than proactive strategies.

Additionally, the study identified various internal and external drivers and barriers influencing the adoption of ESG principles. Internal drivers included owner values, ethical leadership, and a long-term business perspective, whereas external drivers consisted of regulatory expectations, market pressures, and the stipulations of supply chains. In contrast, significant barriers were identified as resource limitations, the complexity of ESG terminology, and the fragmented nature of institutional support, which collectively exacerbate the pragmatic approach to ESG integration among MSMEs, often privileging immediate operational necessities over long-term sustainability considerations.

### Theoretical Implications

From a theoretical standpoint, this study enriches the existing ESG and governance literature by extending the analytical focus to MSMEs within an emerging economy context. The findings challenge conventional corporate-centric assumptions that equate effective ESG integration with formal governance structures and standardized reporting systems. Instead, this research emphasizes governance as a socially embedded practice shaped by personal ethics, relational accountability, and local institutional conditions. By foregrounding the significance of informality and managerial agency, this study facilitates a more nuanced understanding of the interpretation and operationalization of ESG principles within small-scale enterprises.

Moreover, the study contributes to the fields of stakeholder and legitimacy theories by highlighting that MSMEs seek legitimacy primarily through relational trust and moral accountability, rather than through formal disclosure mechanisms. This indicates a need for theoretical frameworks capable of accommodating the hybridity present between formal and informal governance structures in sustainability research.

### Practical Implications

The implications of the findings hold significant relevance for policymakers, development agencies, and institutions supporting MSME development. To effectively promote ESG adoption among MSMEs, efforts should move beyond standardized, corporate-oriented models towards the development of simplified, context-sensitive approaches that acknowledge the unique challenges and resources of these enterprises. Capacity-building initiatives should focus on enhancing ethical leadership, developing essential governance practices, and creating incrementally scalable accountability mechanisms.

For MSME owners and managers, the study also highlights the strategic importance of embedding ESG principles into everyday decision-making, presenting a pathway towards enhanced trust, resilience, and long-term sustainability of their operations. Policymakers should consider integrating ESG principles within MSME development frameworks, access to financing programs, and local regulatory environments to foster supportive ecosystems that facilitate gradual ESG institutionalization without imposing excessive administrative burdens.

### Limitations and Future Research

Despite its contributions, this study has several limitations worth noting. The qualitative design and the specific focus on Banten Province may limit the generalizability of the findings to other contexts. Additionally, the reliance on self-reported data might introduce biases linked to social desirability affecting the authenticity of the insights. Future research could overcome these limitations through comparative studies across various regions or countries, incorporating quantitative methodologies to assess ESG performance outcomes quantitatively, or employing longitudinal designs to observe the evolution of ESG practices over time.

Further investigations should also consider sector-specific dynamics, the influence of digital tools in enhancing accountability among MSMEs, and the impact of targeted policy interventions on the adoption of ESG principles. Such research would deepen the understanding of how ESG practices can be effectively integrated and supported within MSME ecosystems in emerging economies.

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