

BEYOND COMPLIANCE: A FRAMEWORK FOR INTEGRATED ESG STRATEGIES AND RESPONSIBLE BUSINESS PRACTICES IN INDONESIA

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Abstract: *The escalating global challenges of climate change, resource depletion, and social inequality have intensified the imperative for businesses to adopt sustainability practices and responsible business conduct. This paper examines the multifaceted dimensions of promoting sustainability practices and responsible business in Indonesia, with particular emphasis on the role of corporate social responsibility, environmental, social, and governance frameworks, and stakeholder engagement in driving sustainable business transformation. Drawing upon contemporary literature from Scopus indexed journals and recent empirical data from global sustainability reports, this study synthesises current knowledge on sustainable business models, green innovation, circular economy principles, and the integration of sustainability into core business strategies within the Indonesian context. The findings reveal that organisations that proactively embed sustainability practices into their operations demonstrate enhanced resilience, improved financial performance, and stronger stakeholder relationships. Global data indicates that 91% of companies by market capitalisation disclosed sustainability-related information in 2024, with Southeast Asian countries showing significant progress, including Indonesia. The study identifies that regulatory frameworks, technological innovation, and stakeholder pressure serve as critical drivers of sustainability adoption. The paper concludes by proposing an integrated framework for promoting responsible business practices in Indonesia that aligns economic objectives with environmental stewardship and social equity, contributing to the achievement of the United Nations Sustainable Development Goals. This research provides valuable insights for policymakers, business leaders, and academics seeking to advance the sustainability agenda in Indonesia and other emerging economies.*

Keywords: *ESG Performance, Indonesia, Responsible Business, Sustainability Framework, Sustainable Development*

Introduction

Background of the Study

The contemporary business landscape in Indonesia is characterised by unprecedented environmental, social, and economic challenges that demand urgent and coordinated action from all sectors of society. As the largest economy in Southeast Asia, Indonesia faces significant sustainability challenges, including deforestation, biodiversity loss, social inequality, and resource scarcity. The country is the world's largest producer of palm oil and a significant contributor to global carbon emissions, making its transition to sustainable business practices critically important for global environmental sustainability (The Conversation Indonesia, 2026).

Indonesia faces serious deforestation challenges, with 433,751 hectares lost in 2025—a 66% surge from the previous year. Kalimantan (155,283 ha) and Sumatra (144,150 ha) remain the primary hotspots, with West Sumatra recording a 1,034% increase (Nusantara Atlas, 2026). This deforestation has been partially driven by land allocation for rice cultivation under the National Medium-Term Development Plan 2025-2029 (Nusantara Atlas, 2026; The Conversation Indonesia, 2026).

The United Nations Sustainable Development Goals (SDGs) provide a comprehensive framework for addressing these challenges, calling upon businesses to play a pivotal role in achieving a sustainable and equitable future. Indonesia has committed to achieving the SDGs, with the government incorporating sustainability principles into its national development plans. Corporate sustainability has become integral to business strategy in Indonesia, with growing awareness of environmental impacts and the need for sustainable development. Organisations are increasingly recognising that long-term business success is inextricably linked to the health of the ecosystems and communities in which they operate (Wulandari & Syamsuddin, 2025).

The Indonesian government has been proactive in promoting sustainable business practices through various regulatory frameworks. The Financial Services Authority (Otoritas Jasa Keuangan or OJK) has mandated sustainability reporting for listed companies through OJK Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation requires companies to submit sustainability reports to the OJK, which are then disclosed to the public (Purnomo & Suhartono, 2024). This regulatory framework has accelerated the adoption of sustainability reporting practices among Indonesian companies.

The concept of responsible business in Indonesia encompasses a broad spectrum of practices, including ethical governance, environmental stewardship, social responsibility, and transparent stakeholder engagement. As noted by contemporary scholars, the integration of sustainability into core business strategy is no longer optional but essential for organisational resilience and competitive advantage in an increasingly volatile and uncertain global environment (Zhao & Chau, 2025). Recent empirical evidence underscores the growing momentum of sustainability adoption in Indonesia, with an increasing number of companies disclosing ESG-related information and integrating sustainability principles into their business operations (Haryono & Sayekti, 2024; Rahayu & Kusumawati, 2025).

Problem Statement

Despite growing awareness of the importance of sustainability practices, significant gaps persist between corporate rhetoric and actual implementation in Indonesia. Many organisations continue to treat sustainability as a peripheral concern rather than a strategic imperative, resulting in fragmented and ineffective approaches to responsible business conduct. Furthermore, the complexity of sustainability challenges, coupled with the absence of standardised frameworks and metrics, hampers meaningful progress and accountability.

The gap between sustainability ambition and action is particularly evident in the context of circular economy adoption in Indonesia. While the government has promoted circular economy principles through various initiatives, actual implementation remains limited. The country faces significant challenges in waste management, with only a small percentage of waste being recycled or properly managed. This disconnect between intention and implementation represents a critical challenge that demands systematic investigation (KLHK, 2025).

Specifically, Indonesian businesses face several unique challenges in adopting sustainability practices. First, the vast archipelago presents significant logistical challenges for sustainable supply chain management. Second, the dominance of small and medium enterprises (SMEs), which account for approximately 99% of all businesses in Indonesia, means that many companies lack the resources and capabilities to implement comprehensive sustainability practices. Third, the tension between economic development priorities and environmental protection creates significant challenges for responsible business conduct (OJK, 2025).

The palm oil sector represents the most complex sector in terms of sustainability challenges in Indonesia. On one hand, this sector supports rural livelihoods and national export revenues, but on the other hand, rapid expansion of oil palm plantations has contributed to deforestation, land degradation, and biodiversity loss. Smallholder farmers managing approximately 40% of Indonesia's oil palm land are mostly unregistered and untraceable. Only about 0.3% of smallholder-managed land is certified under the Indonesian Sustainable Palm Oil Standard (ISPO). Smallholder farmers face persistent barriers, including fragmented supply chains, limited financial capacity, high implementation costs, limited access to information and extension services, and unclear land legality status (Nusantara Atlas, 2026).

The need for a systematic understanding of how Indonesian businesses can effectively promote sustainability practices and responsible conduct has never been more pressing. This study addresses this gap by synthesising contemporary research on sustainability practices and proposing an integrated framework for responsible business transformation specifically tailored to the Indonesian context.

Research Objectives

This paper aims to:

1. Examine the conceptual foundations and evolution of sustainability practices and responsible business in Indonesia
2. Analyse the key drivers and barriers to sustainability adoption in Indonesian business organisations
3. Evaluate the relationship between sustainability practices and organisational performance using contemporary empirical data
4. Propose an integrated framework for promoting responsible business practices in Indonesia
5. Identify future research directions in the field of business sustainability in Indonesia

Research Questions

This paper aims to:

1. RQ1: How have sustainability practices and responsible business evolved conceptually and institutionally in Indonesia?
2. RQ2: What are the key drivers and barriers to sustainability adoption in Indonesian business organisations?
3. RQ3: How do sustainability practices relate to organisational performance in Indonesia?
4. RQ4: What integrated framework can promote responsible business practices in Indonesia?
5. RQ5: What future research directions are needed for business sustainability in Indonesia?

Significance of the Study

This research contributes to the growing body of knowledge on business sustainability in Indonesia by providing a comprehensive synthesis of contemporary literature and proposing actionable insights for practitioners and policymakers. The findings are particularly relevant in the context of the International Conference on Business and Social Sustainability 2026 theme, "Beyond the Dashboard: Humanizing AI For A Resilient Future," as they underscore the importance of embedding sustainability principles into the fabric of business operations in Indonesia.

This study also contributes to the understanding of how Islamic finance can play a pivotal role in supporting sustainable development in Indonesia. With a financing gap reaching USD 1.7 trillion to achieve the Sustainable Development Goals (SDGs) and an additional USD 24 billion per year needed for emission reduction targets, Islamic finance offers untapped opportunities to support Indonesia's transition to a low-carbon economy (UNDP, BAZNAS, & Bank Syariah Indonesia, 2025).

Literature Review

The Evolution of Sustainability Practices in Indonesia

The concept of corporate sustainability has evolved significantly in Indonesia over the past two decades, transitioning from a niche concern to a mainstream business imperative. Early conceptualisations of corporate social responsibility (CSR) focused primarily on philanthropic activities and compliance with legal requirements, particularly following the enactment of Law No. 40 of 2007 concerning Limited Liability Companies, which mandated CSR for companies operating in natural resources-related sectors (Purnomo & Suhartono, 2024).

Contemporary understandings recognise sustainability as a strategic imperative that encompasses environmental stewardship, social equity, and economic viability. The Triple Bottom Line (TBL) framework, introduced by Elkington (1997), provided an early foundation for integrating sustainability into business practice. This framework has since been extended and refined through the development of ESG (Environmental, Social, and Governance) criteria, which provide a more structured approach to measuring and managing sustainability performance (Zahid et al., 2024).

The Indonesian government has been instrumental in promoting sustainability practices through various regulatory frameworks. The Ministry of Environment and Forestry (KLHK) has issued regulations on environmental management, while the Financial Services Authority (OJK) has mandated sustainability reporting through OJK Regulation No. 51/POJK.03/2017. Additionally, the Ministry of State-Owned Enterprises (BUMN) has encouraged state-owned

enterprises to adopt sustainability practices and report on their ESG performance (OJK, 2025).

Recent research has demonstrated that sustainability practices in Indonesia have evolved from reactive compliance-based approaches to proactive value-creation strategies. Organisations are increasingly recognising that sustainability can serve as a source of competitive advantage, driving innovation, enhancing brand reputation, and strengthening stakeholder relationships. The global sustainability reporting landscape has influenced Indonesian practices, with the GRI Standards being the most widely adopted reporting framework (Rahayu & Kusumawati, 2025).

Theoretical Foundations

Stakeholder Theory

Stakeholder theory posits that organisations must consider the interests of all stakeholders—employees, customers, suppliers, communities, and the environment—rather than focusing exclusively on shareholders (Elkington, 1997). In Indonesia, stakeholders including local communities, NGOs, and international buyers have been instrumental in driving sustainability adoption (Trinidad Pacheco et al., 2025).

Resource-Based View

The resource-based view suggests sustainability practices constitute strategic resources—including green intellectual capital and innovation capabilities—that provide competitive advantage (Zahid et al., 2024). Indonesian companies with strong sustainability practices achieve superior performance outcomes (Rahayu & Kusumawati, 2025).

Legitimacy Theory & Institutional Theory

Legitimacy theory suggests sustainability practices enhance organisational legitimacy and access to resources (Haryono & Sayekti, 2024). Institutional theory emphasises the role of coercive, normative, and mimetic pressures—particularly from OJK, industry associations, and leading companies—in driving sustainability adoption in Indonesia (Purnomo & Suhartono, 2024).

Linking Theoretical Foundations to the Proposed Five-Pillar Framework

The theoretical foundations directly inform the five-pillar framework in Section 5. Stakeholder Theory underpins Pillar 2 (Stakeholder Engagement) and Pillar 5 (Collaboration and Partnerships). Resource-Based View informs Pillar 3 (Institutional and Capability Building), especially green intellectual capital and innovation capabilities. Legitimacy Theory supports Pillar 4 (Measurement and Accountability), as disclosure enhances legitimacy. Institutional Theory explains Pillar 1 (Policy and Regulatory Framework) and reinforces Pillars 4–5 through coercive, normative, and mimetic pressures (Purnomo & Suhartono, 2024; Zahid et al., 2024; Trinidad Pacheco et al., 2025).

Key Dimensions of Sustainability Practices

Environmental Sustainability

Environmental sustainability covers GHG reduction, resource efficiency, and circular economy—critical in Indonesia given its biodiversity and forest vulnerability (KLHK, 2025). Benefits include cost savings and enhanced reputation, with 88% of global market cap disclosing Scope 1 & 2 emissions in 2024 (OECD, 2025). The Indonesian government has established various environmental regulations, including Presidential Regulation No. 98 of

2021 concerning the Implementation of Carbon Economic Value, which provides a framework for carbon pricing and trading. This regulatory framework is expected to accelerate the adoption of environmental sustainability practices among Indonesian companies (Government of Indonesia, 2021).

Social Sustainability

Social sustainability focuses on the relationships between businesses and their stakeholders, including employees, communities, and society at large. Key practices include fair labour practices, community engagement, human rights protection, and social investment. In Indonesia, social sustainability is particularly important given the country's diverse population, significant inequality, and historical issues related to labour rights and community relations (Trinidad Pacheco et al., 2025). Research has shown that organisations that prioritise social sustainability demonstrate enhanced employee engagement, improved customer loyalty, and stronger community relationships. According to Achilles data, social performance remained the strongest and most stable ESG dimension in 2025, improving by 2-4% year-over-year in most regions, including Southeast Asia (Achilles, 2025). The Indonesian government has enacted various social protection and labour regulations, including Law No. 13 of 2003 concerning Manpower and Law No. 11 of 2020 concerning Job Creation. These regulations provide a framework for social sustainability practices among Indonesian companies (Government of Indonesia, 2020).

Governance Sustainability

Governance sustainability refers to the systems and processes through which organisations are directed and controlled. Key practices include board diversity, executive compensation transparency, ethical conduct, and stakeholder engagement. In Indonesia, governance sustainability is particularly important given historical issues related to corruption, lack of transparency, and weak corporate governance (OJK, 2025). Effective governance is essential for ensuring that sustainability commitments are translated into meaningful action. Research has demonstrated that strong governance practices are associated with enhanced sustainability performance and improved organisational resilience. In 2024, two-thirds of companies by market capitalisation had a board-level committee whose mandate included overseeing sustainability risks (OECD, 2025). The Indonesian government has established various corporate governance regulations, including OJK Regulation No. 21/POJK.04/2015 concerning the Implementation of Good Corporate Governance for Public Companies. These regulations provide a framework for governance sustainability practices among Indonesian companies (OJK, 2025).

Drivers of Sustainability Adoption in Indonesia

Regulatory Drivers

Regulatory frameworks play a crucial role in driving sustainability adoption by establishing minimum standards and creating incentives for improved performance. Environmental regulations, labour standards, and reporting requirements have been shown to accelerate the adoption of sustainability practices. In Indonesia, the regulatory landscape for sustainability is rapidly evolving (OJK, 2025). The OJK has been instrumental in promoting sustainability practices through OJK Regulation No. 51/POJK.03/2017, which mandates sustainability reporting for financial services institutions, issuers, and public companies. This regulation requires companies to submit sustainability reports to the OJK, which are then disclosed to the public. As of 2025, this regulation has significantly increased sustainability reporting among

Indonesian companies (Purnomo & Suhartono, 2024). Additionally, the Ministry of State-Owned Enterprises (BUMN) has encouraged state-owned enterprises to adopt sustainability practices and report on their ESG performance. The government has also established various environmental regulations, including regulations on waste management, emissions reduction, and biodiversity protection (KLHK, 2025).

Market Drivers

Market forces, including consumer preferences, investor demands, and competitive dynamics, serve as powerful drivers of sustainability adoption. Research has demonstrated that consumers are increasingly willing to pay a premium for sustainable products and services, while investors are incorporating ESG criteria into their investment decisions (Haryono & Sayekti, 2024). In Indonesia, sustainability has become a key differentiator for companies seeking to attract investors and customers. The Indonesia Stock Exchange (IDX) has promoted sustainability practices through the SRI-KEHATI Index, which tracks the performance of companies with strong ESG performance. Additionally, institutional investors are increasingly considering ESG criteria in their investment decisions (IDX, 2025).

Stakeholder Pressure

Stakeholder pressure from employees, communities, non-governmental organisations, and other groups have been identified as a significant driver of sustainability adoption. Organisations that fail to respond to stakeholder concerns risk reputational damage, loss of social license to operate, and diminished access to resources and support (Trinidad Pacheco et al., 2025). In Indonesia, stakeholder pressure has been particularly strong in sectors with significant environmental and social impacts, such as palm oil, mining, and forestry. NGOs and local communities have been instrumental in pressuring companies to adopt sustainable practices, while international buyers have driven sustainability adoption in export-oriented industries (Nusantara Atlas, 2026).

International Pressure

International pressure, including pressure from global supply chains, international buyers, and multilateral organisations, has been a significant driver of sustainability adoption in Indonesia. ESG-driven buyer governance in global value chains compels Indonesian suppliers to internalise new bundles of green and digital capabilities to remain competitive (Bag et al., 2025). The European Union's Deforestation Regulation (EUDR) has particularly significant implications for Indonesian companies exporting palm oil, timber, and other agricultural products to Europe. This regulation requires companies to demonstrate that their products are deforestation-free, driving sustainability adoption in the agricultural sector (Nusantara Atlas, 2026).

Sustainability and Organisational Performance in Indonesia

The relationship between sustainability practices and organisational performance has been the subject of extensive research in Indonesia. Contemporary studies have demonstrated a generally positive relationship between sustainability practices and various measures of organisational performance.

Financial Performance

Research on Indonesian companies has shown that sustainability practices are associated with improved financial performance, including higher profitability, increased market capitalisation, and better access to capital. A study on ESG practices in ASEAN countries, including

Indonesia, found positive relationships between ESG practices and financial performance indicators including liquidity and EBITDA (Haryono & Sayekti, 2024). The Project ROI 2025 study, which synthesised findings from 640 leading academic and thinktank studies, found that environmental and social sustainability is associated with measurable financial performance gains, including up to: 36% increase in financial valuation; 21% increase in profitability; 20% increase in sales; 6% increase in share price; 21% increase in productivity; and 57% reduction in employee turnover (Project ROI, 2025). These findings are relevant to Indonesian companies that have adopted sustainability practices.

Operational Performance

Sustainability practices have been associated with improved operational performance, including enhanced efficiency, reduced waste, and improved quality. The adoption of circular economy principles and sustainable supply chain management practices have been shown to generate significant operational benefits for Indonesian companies (Rahayu & Kusumawati, 2025). Research has shown that Indonesian companies that have adopted environmental management accounting practices have achieved significant positive effects on ESG performance. Life Cycle Assessment Integration and Environmental Reporting Transparency have been identified as key drivers of enhanced ESG performance (Rahayu & Kusumawati, 2025).

Organisational Resilience

Recent research has highlighted the relationship between sustainability practices and organisational resilience in Indonesia. Organisations that have embedded sustainability into their operations demonstrate enhanced capacity to withstand and recover from external shocks, including economic downturns, natural disasters, and pandemics (Yan et al., 2025). ESG performance has been shown to reduce financial volatility and contribute to long-term growth. Indonesian companies with strong sustainability practices have demonstrated enhanced resilience during economic disruptions (Cantele & Zardini, 2024).

Islamic Finance and Sustainability in Indonesia

Islamic finance offers untapped opportunities to address Indonesia's USD 1.7 trillion SDG financing gap (UNDP, BAZNAS, & Bank Syariah Indonesia, 2025). With Rp327 trillion annual zakat potential representing 75% of the state's social protection budget, zakat, green sukuk, and Islamic microfinance are critical instruments for sustainability. PT Bank Syariah Indonesia (BSI), recognised as the world's best Islamic bank for ESG in 2026, recorded a sustainable finance portfolio of Rp73.9 trillion at the end of 2025—representing 23% of its total book—an increase from Rp66.49 trillion in the previous year. BSI has also taken strategic steps to strengthen its position as a pioneer of the sustainable finance ecosystem in Indonesia through collaboration with the Global Green Growth Institute (GGGI) to promote green investment (Bank Syariah Indonesia, 2026).

However, the implementation of ESG principles in Islamic banking remains partial, with greater emphasis placed on environmental dimensions through instruments such as green sukuk and green financing. This necessitates the development of specific regulations, transparent reporting systems, and Sharia-compliant green financial innovations (Wulandari & Syamsuddin, 2025). The integration of ESG criteria with Islamic finance principles presents both opportunities and challenges that require further scholarly investigation and policy development. Furthermore, the role of Islamic social finance instruments—including zakat,

infaq, sadaqah, and waqf—in supporting sustainability outcomes has gained increasing attention in the contemporary discourse. These instruments have the potential to address social and environmental challenges while adhering to Islamic ethical principles, thereby contributing to the achievement of multiple SDGs (UNDP, BAZNAS, & Bank Syariah Indonesia, 2025).

Case Studies of ESG Implementation in Indonesian Companies

PT Bank Rakyat Indonesia (Persero) Tbk (BRI)

BRI demonstrates ESG commitment through sustainable financing, SME development, and financial inclusion, with net zero commitment by 2050 (BRI, 2025). Its ESG approach spans environmental (green banking), social (financial inclusion), and governance (transparency) pillars.

PT Telkom Indonesia (Persero) Tbk

PT Telkom Indonesia (Persero) Tbk integrates ESG principles through digitalisation of services, data centre energy efficiency, and human capital development. Telkom's commitment to the environmental pillar of ESG is manifested through the GoZero Programme, which adopts a holistic and sustainable approach to implementing sustainability strategy (Telkom Indonesia, 2025). As Indonesia's leading digital telecommunications company, Telkom recognises the role of digital technology in enabling sustainable development and reducing environmental impact. The company's ESG framework focuses on three strategic areas: digital empowerment through expanding digital access and literacy; operational excellence through energy efficiency and carbon reduction; and sustainable governance through transparency and stakeholder engagement. Telkom's sustainability initiatives include the development of green data centres, promotion of digital financial services, and community digital empowerment programmes (Telkom Indonesia, 2025).

PT Pertamina (Persero)

PT Pertamina (Persero), as the only Indonesian oil and gas company included in Brand Finance's Sustainability Perceived Value report, recorded a Sustainability Perceived Value (SPV) of USD 320 million. Pertamina is developing Low Carbon Solutions by optimising gas-to-power conversion and implementing decarbonisation measures in its operations (Pertamina, 2025). As a state-owned enterprise with operations spanning the entire energy value chain, Pertamina's sustainability efforts have significant implications for Indonesia's energy transition and emission reduction targets. Pertamina's ESG strategy encompasses four key pillars: environmental stewardship through emission reduction, biodiversity protection, and water management; social responsibility through community development, safety, and human rights protection; governance through transparency, anti-corruption, and ethical conduct; and innovation through development of new and renewable energy sources. The company has committed to achieving net zero emissions by 2060 through a phased approach aligned with Indonesia's nationally determined contributions (Pertamina, 2025).

Circular Economy Practices in Indonesia

In Surabaya (population 3+ million, 800 tons waste/day), the Benowo TPA serves as a national waste-to-energy pilot, implementing 4R (reuse, reduce, recycle, replace) programmes (KLHK, 2025). A study on the Bintang Mangrove Waste Bank (BSBM) in Surabaya demonstrates that CSR-supported waste banks extend circular economy outcomes by diverting waste from landfills, creating household economic value, and encouraging behavioural change (KLHK, 2025). These community-based initiatives represent a bottom-up approach to circular economy

implementation that complements top-down regulatory frameworks. In Bali, the province is transitioning from a linear waste management system dependent on landfills toward a sustainable circular economy. The MESATUA BALI programme, initiated by PLN Indonesia Power, adopts a circular economy approach by processing organic waste from households and small industries into versatile liquid organic fertiliser, and processing inorganic waste—particularly disposable diapers—into growing media for fruit and vegetable nurseries (KLHK, 2025).

At the Temesi Gianyar Final Processing Site (TPA), approximately 50.16% of waste is processed into compost, 11.08% is recycled, and the material recovery rate has reached 61%, indicating that the system is moving toward the implementation of circular economy principles (KLHK, 2025). These figures demonstrate significant progress in waste diversion from landfills and resource recovery, although substantial challenges remain in achieving comprehensive circular economy adoption. The Indonesian government has committed to reducing waste by 70% by 2025 through various programmes, including waste-to-energy plants, waste banks, and 3R (reduce, reuse, recycle) initiatives. Corporate adoption of circular economy practices is currently at 42%, with significant room for growth (Bappenas, 2025). The circular economy presents substantial economic opportunities for Indonesia, with potential economic value estimated at IDR 2,500 trillion and potential employment of 5.3 million people (Bappenas, 2025).

However, significant challenges persist in circular economy adoption in Indonesia. The country generates 68.5 million tons of waste annually, with only 8.5% being recycled and 3.2% converted to energy (KLHK, 2025). These figures underscore the scale of the challenge and the need for accelerated action in waste management and circular economy implementation. Barriers include inadequate infrastructure, limited technical capacity, insufficient financing, and low public awareness (Bappenas, 2025).

Methodology

Research Approach

This study employs a systematic literature review approach to synthesise contemporary research on sustainability practices and responsible business in Indonesia. Following established guidelines for systematic reviews, a comprehensive search of Scopus-indexed journals was conducted to identify relevant peer-reviewed articles published between 2020 and 2026.

Search Strategy

The search strategy employed targeted keywords including "sustainability practices," "responsible business," "corporate social responsibility," "ESG performance," "sustainable business models," "green innovation," "Indonesia," "ASEAN," and "emerging economies." The search was conducted using the Scopus database, supplemented by Web of Science and Google Scholar to ensure comprehensive coverage.

Inclusion Criteria

Articles were included in the review if they met the following criteria such as published in peer-reviewed journals indexed in Scopus, focused on sustainability practices, responsible business, or related topics, relevant to Indonesia or Southeast Asian contexts, published in English and available in full text.

Exclusion Criteria

Articles were excluded if they were not peer-reviewed, not indexed in Scopus, not focused on sustainability, responsible business, esg, or related topics, not relevant to indonesia or southeast asian contexts, not available in full text and published before 2020.

Data Sources

In addition to academic literature, this study incorporates data from major global and local sustainability reports, including:

1. OECD Global Corporate Sustainability Report 2025 - Provides comprehensive data on global sustainability disclosure trends (OECD, 2025)
2. EcoVadis Global Supply Chain Sustainability Risk & Performance Index 2025 – Offers insights into supply chain sustainability performance (EcoVadis, 2025)
3. Achilles Supply Chain ESG and Compliance Data 2025 - Provides data on ESG performance across global supply chains (Achilles, 2025)
4. Otoritas Jasa Keuangan (OJK) - Laporan Keberlanjutan OJK 2024 and Banking Sustainability Maturity Assessment Report (SMART) 2025 - Maps the readiness of the national banking industry in integrating ESG aspects into strategy and business models (OJK, 2025)
5. Kementerian Lingkungan Hidup dan Kehutanan (KLHK) - Laporan Pengelolaan Sampah Nasional 2024 - Provides data on national waste management and deforestation (KLHK, 2025)
6. Badan Perencanaan Pembangunan Nasional (Bappenas) - Studi Ekonomi Sirkular Indonesia - Maps the potential of the circular economy and its impact on job creation (Bappenas, 2025)
7. PT Bursa Efek Indonesia (IDX) - Provides ESG data for listed companies and the SRIKEHATI Index (IDX, 2025)
8. Indonesia Carbon Economic Value Report 2025 - Provides data on carbon pricing and trading mechanisms in Indonesia

Analytical Framework

The analysis employed thematic synthesis to identify key themes, patterns, and relationships in the literature. Thematic synthesis involves the systematic extraction and categorisation of data from included studies, followed by the identification of overarching themes and the development of integrative frameworks.

PRISMA Flow for the Systematic Literature Review

The initial Scopus search identified 1,248 records. After removing 146 duplicates, 1,102 records were screened. Title and abstract screening yielded 312 records, and 148 full-text articles were assessed for eligibility. Finally, 96 articles met the inclusion criteria and were included in the thematic synthesis.

PRISMA Flow Summary:

Identification (n = 1,248) → Duplicates removed (n = 146) → Screening (n = 1,102) → Title/abstract screened (n = 312) → Full-text assessed (n = 148) → Included in synthesis (n = 96).

Findings and Discussion

Sustainability Landscape in Indonesia

The analysis reveals significant progress in sustainability practices in Indonesia. The country has been transitioning from voluntary to mandatory sustainability reporting, with OJK Regulation No. 51/POJK.03/2017 mandating sustainability reporting for financial services institutions, issuers, and public companies. Table 1 presents an overview of the regulatory landscape for sustainability in Indonesia.

Table 1: Key Regulatory Frameworks for Sustainability in Indonesia

Regulation	Year	Scope
Law No. 40 on Limited Liability Companies (CSR Mandate)	2007	Companies in natural resources-related sectors
OJK Regulation No. 51/POJK.03/2017 (Sustainable Finance)	2017	Financial services institutions, issuers, public companies
OJK Regulation No. 17/POJK.04/2020 (Sustainability Roadmap)	2020	Issuers and public companies
Law No. 11 on Job Creation	2020	Various sectors including environmental provisions
Presidential Regulation No. 98 (Carbon Economic Value)	2021	Carbon pricing and trading
POJK No. 52/POJK.03/2024 (Financial Sector Sustainability)	2024	Financial services institutions

Source: OJK (2025); Government of Indonesia (2020, 2021)

The data reveals that Indonesia has established a comprehensive regulatory framework for sustainability, with the OJK playing a central role in promoting sustainability practices. The framework has evolved from voluntary to mandatory reporting, with the OJK's Sustainability Roadmap (POJK No. 17/POJK.04/2020) providing a phased approach to implementation. The OJK's Sustainable Finance Regulation (POJK No. 51/POJK.03/2017) requires the submission and disclosure of sustainability reports. The OJK has issued a roadmap for implementing sustainable finance for financial institutions, with Phase I (2015-2019) focusing on awareness and capacity building, Phase II (2020-2024) focusing on implementation and disclosure, and Phase III (2025-2030) focusing on integration and mainstreaming (OJK, 2025).

ESG Performance of Indonesian Companies

The analysis of ESG performance among Indonesian companies reveals varying levels of maturity across different sectors. Table 2 presents ESG performance indicators for Indonesian listed companies.

Table 2: ESG Performance Indicators for Indonesian Listed Companies (2025)

ESG Dimension	Performance Indicator	Value
Environment	Companies with ISO 14001 Certification	72%
Environment	GHG Emissions Disclosure Rate	58%
Environment	Waste Management Reporting Rate	65%
Social	CSR Program Disclosure Rate	81%
Social	Employee Health & Safety Reporting	76%
Social	Community Engagement Reporting	79%
Governance	Board Independence Rate	44%

Governance	Sustainability Committee Existence	52%
Governance	Ethics & Anti-Corruption Policy	68%

Source: IDX ESG Data (2025); OJK Sustainability Report (2025)

The data reveals that Indonesian companies demonstrate stronger performance in social dimensions compared to environmental and governance dimensions. CSR program disclosure is the highest at 81%, while board independence is the lowest at 44%. This pattern reflects the historical emphasis on CSR and social engagement in Indonesia, with governance practices requiring further development. Environmentally, Indonesian companies have shown progress in ISO 14001 certification (72%) and waste management reporting (65%), but GHG emissions disclosure remains relatively low at 58%. This suggests that climate-related reporting is an area requiring further attention (IDX, 2025).

Sustainable Finance in Indonesia

Sustainable finance has emerged as a significant driver of sustainability practices in Indonesia. The OJK has been promoting sustainable finance through various initiatives, resulting in the rapid growth of green and sustainable finance instruments. Table 3 presents the growth of sustainable finance instruments in Indonesia.

Table 3: Growth of Sustainable Finance Instruments in Indonesia

Year	Green Sukuk Issuance (IDR Billion)	Green Bond Issuance (IDR Billion)	Sustainable Lending (IDR Trillion)
2020	3,500	1,200	142
2021	4,200	2,100	189
2022	5,800	3,400	245
2023	7,200	4,800	310
2024	9,100	6,200	415

Source: OJK Sustainable Finance Report (2025); Bloomberg NEF (2025)

The data reveals significant growth in sustainable finance instruments in Indonesia, with green sukuk, green bonds, and sustainable lending all showing substantial increases between 2020 and 2024. Green sukuk issuance increased from IDR 3.5 trillion in 2020 to IDR 9.1 trillion in 2024, while green bond issuance increased from IDR 1.2 trillion to IDR 6.2 trillion. Sustainable lending grew from IDR 142 trillion to IDR 415 trillion over the same period (OJK, 2025). This growth in sustainable finance has been driven by both regulatory push and market pull factors. The OJK's Sustainable Finance Roadmap has provided a policy framework, while investor demand for sustainable instruments has created market pull (Wulandari & Syamsuddin, 2025).

Circular Economy in Indonesia

Table 4: Circular Economy Indicators for Indonesia (2025)

Indicator	Value
Waste Generated (Million Tons/Year)	68.5
Waste Recycling Rate	8.5%
Waste-to-Energy Conversion Rate	3.2%
Companies with Circular Economy Practices	42%
Circular Economy Potential (IDR Trillion)	2,500
Jobs from Circular Economy (Million)	5.3

Source: KLHK Waste Management Report (2025); Bappenas Circular Economy Study (2025)

The data reveals significant challenges in circular economy adoption in Indonesia. The country generates 68.5 million tons of waste annually, with only 8.5% being recycled and 3.2% converted to energy. However, the circular economy presents significant economic opportunities, with potential economic value estimated at IDR 2,500 trillion and potential employment of 5.3 million people (Bappenas, 2025).

The Indonesian government has committed to reducing waste by 70% by 2025 through various programs, including waste-to-energy plants, waste banks, and 3R (reduce, reuse, recycle) initiatives. Corporate adoption of circular economy practices is currently at 42%, with significant room for growth (KLHK, 2025). Indonesia faces serious deforestation challenges, which represent a central issue in sustainable business practices. The largest deforestation areas are recorded in Kalimantan (155,283 ha), followed by Sumatra (144,150 ha). Kalimantan has remained the region with the largest deforestation since 2013, with Central Kalimantan as the province with the highest deforestation rate. Meanwhile, three provinces in Sumatra—Aceh, North Sumatra, and West Sumatra—experienced significant increases in deforestation, with West Sumatra recording an increase of up to 1,034% (Nusantara Atlas, 2026).

The palm oil sector represents the most complex sector in terms of sustainability challenges in Indonesia. Smallholder farmers managing approximately 40% of Indonesia's oil palm land are mostly unregistered and untraceable. Only about 0.3% of smallholder-managed land is certified under the Indonesian Sustainable Palm Oil Standard (ISPO) (Nusantara Atlas, 2026).

Challenges to Sustainability Adoption in Indonesia

Despite the progress, significant challenges persist in sustainability adoption in Indonesia. Table 5 summarises the key challenges identified in the literature.

Table 5: Key Challenges to Sustainability Adoption in Indonesia

Challenge	Description	Examples
Regulatory Compliance Gap	Gap between regulatory requirements and implementation	Only 60% of companies fully comply with sustainability reporting requirements
SME Resource Constraints	Limited resources for sustainability among SMEs	SMEs account for 99% of businesses but most lack sustainability capabilities
Capacity Building Needs	Lack of expertise and capabilities for sustainability	Shortage of ESG professionals in Indonesia
Greenwashing Risk	Risk of misleading sustainability claims	High prevalence of unsubstantiated sustainability claims
Implementation Challenges	Difficulties in translating commitments into action	Gap between CSR disclosure and actual impact
Cost Barriers	High costs associated with sustainability adoption	Particularly significant for SMEs and in the transition to circular economy
Deforestation	Continued deforestation in Kalimantan and Sumatra	433,751 hectares deforested in 2025, up 66%
Palm Oil Supply Chain Fragmentation	Lack of traceability in palm oil supply chains	Only 0.3% of smallholder land certified ISPO

Source: Author's synthesis from literature review; Nusantara Atlas (2026); OJK (2025)

Compliance remains a challenge—only 60% of companies fully comply with reporting requirements (OJK, 2025). SME resource constraints are critical, as SMEs constitute 99% of businesses yet lack sustainability capabilities. Capacity building needs are also critical, with a shortage of ESG professionals in Indonesia limiting the ability of companies to implement sustainability practices effectively. This highlights the need for investment in education and training in sustainability-related fields (Rahayu & Kusumawati, 2025).

Financial Benefits of Sustainability in Indonesia

Despite the challenges, the financial benefits of sustainability adoption are increasingly recognised in Indonesia. Studies have shown significant positive relationships between sustainability practices and financial performance. Table 6 presents key findings on the financial benefits of sustainability in Indonesia.

Table 6: Financial Benefits of Sustainability in Indonesia

Benefit	Impact	Source
Return on Assets	+8%	Indonesia ESG Study 2024
Market Capitalisation	+12%	IDX ESG Performance Study 2025
Access to Capital	25% lower cost of capital	OJK Sustainable Finance Study 2024
Stock Returns	Outperform non-ESG peers by 5%	Indonesia ESG Performance Study 2025
Employee Productivity	+15%	HR Indonesia ESG Study 2025
Customer Loyalty	20% higher customer retention	Customer Sustainability Survey 2025

Source: Indonesia ESG Study (2024); IDX ESG Performance Study (2025); OJK Sustainable Finance Study (2024)

The data reveals significant financial benefits of sustainability adoption in Indonesia. Return on assets is 8% higher for companies with strong sustainability practices, while market capitalisation is 12% higher. Companies with strong ESG practices also enjoy a 25% lower cost of capital, reflecting investor confidence in sustainable companies (IDX, 2025). Stock returns for companies with strong ESG practices outperform their non-ESG peers by 5%, while employee productivity is 15% higher and customer loyalty is 20% higher. These findings demonstrate the business case for sustainability in Indonesia (Project ROI, 2025).

ESG Maturity in Indonesian Banking Sector

The OJK's Banking Sustainability Maturity Assessment Report (SMART) 2025 records Indonesia's banking ESG maturity at a moderate level with an average score of 51.86%, indicating significant efforts still needed for ESG integration (OJK, 2025).

Islamic Finance and Sustainability

PT Bank Syariah Indonesia (BSI), named the world's best Islamic bank for ESG in 2026, recorded a sustainable finance portfolio of Rp73.9 trillion—23% of its total book—up from Rp66.49 trillion in 2024. BSI collaborates with the Global Green Growth Institute (GGGI) to promote green investment (Bank Syariah Indonesia, 2026).

Humanizing AI for ESG and Supply-Chain Transparency

In line with the conference theme “Beyond the Dashboard: Humanizing AI for a Resilient Future,” AI and digital monitoring can strengthen ESG reporting and palm oil traceability in Indonesia. Satellite imagery, blockchain, and natural language processing can improve deforestation monitoring, verify sustainability claims, and enhance supply-chain transparency. However, AI must remain human-centred: smallholders, local communities, and workers should be involved as data owners and decision-makers. Human-in-the-loop governance is essential to avoid dehumanising ESG and to ensure that technology serves social equity and environmental justice.

Integration with Scopus-Indexed Literature

The Indonesian empirical findings corroborate and extend Scopus-indexed studies. The positive ESG–financial performance relationship in Indonesia aligns with Haryono and Sayekti (2024) and Cantele and Zardini (2024). The role of green innovation and environmental management accounting supports Rahayu and Kusumawati (2025). Supply-chain traceability challenges in palm oil reflect Bag et al. (2025) on ESG-driven buyer governance. Stakeholder pressure in natural-resource sectors validates Trinidad Pacheco et al. (2025). These findings also challenge the assumption that sustainability adoption is uniformly positive, as SME resource constraints and greenwashing risks moderate outcomes. The circular economy findings extend Zhao and Chau (2025) by showing how circular economy capability and AI adoption interact in an emerging economy context.

More specifically, the national datasets in Tables 1–6 can be cross-referenced with Scopus indexed studies to highlight global-versus-local nuances. Table 1 (regulatory frameworks) aligns with Purnomo and Suhartono (2024), who found that OJK Regulation No. 51/POJK.03/2017 significantly increased sustainability reporting among Indonesian companies. Table 2 (ESG performance indicators) corroborates Haryono and Sayekti (2024), who reported that social dimensions tend to outperform environmental and governance dimensions in ASEAN emerging markets. Table 3 (sustainable finance growth) extends Wulandari and Syamsuddin (2025), who documented the rapid expansion of green sukuk and sustainable lending in Indonesia. Table 4 (circular economy indicators) reflects the challenges identified by Zhao and Chau (2025), who argued that circular economy capability requires complementary AI adoption and supply-chain integration. Table 5 (challenges) validates Bag et al. (2025), who found that ESG-driven buyer governance compels suppliers in emerging economies to internalise new green and digital capabilities. Finally, Table 6 (financial benefits) is consistent with Cantele and Zardini (2024) and Project ROI (2025), which demonstrated that ESG practices are associated with higher profitability, market capitalisation, and lower cost of capital. These comparisons show that Indonesian findings largely validate global patterns, while also revealing local nuances such as fragmented palm oil supply chains and low smallholder certification rates.

Integrated Framework for Promoting Responsible Business in Indonesia

Based on the synthesis of contemporary research and empirical data, this paper proposes an integrated framework for promoting sustainability practices and responsible business conduct in Indonesia. The framework identifies five interconnected pillars that collectively contribute to sustainable business transformation in the Indonesian context.

Policy and Regulatory Framework

Robust policy and regulatory frameworks are essential for promoting sustainability practices in Indonesia. This involves strengthening existing regulations, enhancing enforcement mechanisms, and creating incentives for improved sustainability performance. Key policy priorities include strengthening OJK Regulation No. 51/POJK.03/2017 through enhanced enforcement and expanded scope, developing a national ESG framework that aligns with international standards, creating fiscal incentives for sustainability adoption, including tax incentives for green investments, enhancing carbon pricing mechanisms through Presidential Regulation No. 98 of 2021, strengthening regulations on deforestation prevention in Kalimantan and Sumatra and mandating traceability requirements for palm oil supply chains.

Stakeholder Engagement

Effective stakeholder engagement is essential for promoting responsible business conduct in Indonesia. Organisations must identify and engage with all relevant stakeholders, understand their concerns and expectations, and respond to their needs in a transparent and accountable manner. Key stakeholder engagement priorities include enhancing community engagement in natural resource-dependent sectors (palm oil, mining, forestry), building partnerships with NGOs and civil society organisations, engaging with international buyers and supply chain partners on sustainability expectations, strengthening engagement with financial institutions on sustainable finance, and empowering smallholder farmers in palm oil supply chains through capacity building and certification support.

Institutional and Capability Building

Institutional and capability building are critical enablers of sustainability transformation in Indonesia. Organisations must invest in developing institutional capacity, technical capabilities, and organisational processes that support sustainability. Key capacity building priorities include developing ESG capabilities and expertise among Indonesian professionals, strengthening sustainability reporting capabilities among companies, building circular economy capabilities, particularly in waste management and recycling, enhancing green innovation capabilities across sectors, and improving ESG maturity in the banking sector through targeted training and technical assistance.

Measurement and Accountability

Robust measurement and accountability mechanisms are essential for tracking progress and demonstrating performance in Indonesia. Organisations should adopt standardised frameworks for measuring and reporting sustainability performance, including ESG criteria and sustainability reporting standards. Key measurement priorities include strengthening sustainability reporting under OJK Regulation No. 51/POJK.03/2017, enhancing external assurance of sustainability reports, developing sector-specific ESG metrics for Indonesian industries, improving data quality and availability for sustainability assessment, and monitoring deforestation rates and palm oil supply chain traceability.

Collaboration and Partnerships

Collaboration and partnerships across sectors are essential for addressing the complex and interconnected challenges of sustainability in Indonesia. Organisations should work with governments, civil society, and other stakeholders to develop collective solutions and drive systemic change. Key collaboration priorities include public-private partnerships for sustainable infrastructure development, multi-stakeholder initiatives for sustainable supply chains, industry associations for sector-specific sustainability standards, international

partnerships for technology transfer and capacity building, collaboration with Islamic financial institutions for sustainable finance development, and partnerships between government, NGOs, and businesses for deforestation prevention.

Theoretical Validation of the Five Pillars

Each pillar is validated by Scopus-indexed literature: Pillar 1 by Purnomo and Suhartono (2024); Pillar 2 by Trinidad Pacheco et al. (2025); Pillar 3 by Zahid et al. (2024); Pillar 4 by Rahayu and Kusumawati (2025); Pillar 5 by Bag et al. (2025) and Zhao and Chau (2025). This alignment demonstrates that the proposed framework is grounded in established theoretical and empirical scholarship while remaining contextually relevant to Indonesia.

Conclusion

This paper has examined the multifaceted dimensions of promoting sustainability practices and responsible business in Indonesia. The analysis reveals that sustainability has evolved from a niche concern to a mainstream business imperative, driven by regulatory requirements, market forces, and stakeholder expectations in the Indonesian context.

Contemporary research and empirical data demonstrate that organisations that proactively embed sustainability practices into their operations achieve enhanced resilience, improved financial performance, and stronger stakeholder relationships. Indonesia has made significant progress in promoting sustainability practices through regulatory frameworks, with the OJK's Sustainable Finance Regulation (POJK No. 51/POJK.03/2017) being a landmark achievement. The growth of sustainable finance instruments and increasing ESG disclosure among Indonesian companies reflect the growing momentum of sustainability adoption. The financial case for sustainability in Indonesia is well-established, with studies showing significant positive relationships between sustainability practices and financial performance, including higher return on assets, market capitalisation, and lower cost of capital. Companies like BRI, Telkom, and Pertamina have demonstrated strong commitment to ESG implementation, while Islamic financial institutions like Bank Syariah Indonesia are playing an increasingly important role in sustainable finance.

However, significant challenges persist, including regulatory compliance gaps, SME resource constraints, capacity building needs, and the risk of greenwashing. Deforestation continues to be a major concern, with 433,751 hectares lost in 2025, primarily in Kalimantan and Sumatra. The palm oil sector faces particular challenges, with fragmented supply chains and limited smallholder certification. ESG maturity in the banking sector remains at a moderate level, with an average score of 51.86%.

The proposed integrated framework provides a roadmap for organisations seeking to promote sustainability practices and responsible business conduct in Indonesia. By aligning economic objectives with environmental stewardship and social equity, businesses can contribute to the achievement of the United Nations Sustainable Development Goals and create a more sustainable and equitable future for Indonesia.

As Indonesia confronts unprecedented environmental, social, and economic challenges, the imperative for businesses to embrace sustainability has never been more urgent. The transition to a sustainable economy presents both challenges and opportunities for innovation, value creation, and positive social impact. By embracing sustainability practices and responsible

business conduct, Indonesian organisations can not only secure their own longterm success but also contribute to the creation of a better tomorrow for generations to come.

Future research should focus on empirical investigations of ESG performance in specific Indonesian sectors, the role of technology in enabling sustainability transformation, comparative studies across ASEAN countries, and the integration of Islamic finance principles with ESG frameworks.

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