

## Integrating Sustainable Business Through the Implementation of Environment, Social, and Governance (ESG) in Accelerating the Realization of a Green Economy

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### ARTICLE INFO

### ABSTRACT

**Keywords:**  
ESG; Green  
Economy;  
Sustainable  
Business; Islamic  
Economic; Sharia;

**Background:** This study examines the influence of ESG dimensions on the realization of a Green Economy in Indonesia, with Sustainable Business as a moderating variable, situated within Islamic economic ethics of khalifah, 'adl, and la darar.

**Method:** A descriptive quantitative approach was employed using national level secondary data from BPS (Central Bureau of Statistics) and the Ministry of Environment and Forestry (KLHK) spanning 2014-2024 (n=10 annual observations). Variables included Environment, Social, and Emission Governance Proxy as independent variables, Green Economy as the dependent variable, and Sustainable Business as the moderating variable. Data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS).

**Results:** Environment ( $\beta=0.884$ ,  $p=0.005$ ) and Social ( $\beta=0.972$ ,  $p=0.003$ ) dimensions exert positive and significant effects on Green Economy outcomes. The Emission Governance Proxy shows no significant direct effect ( $\beta=0.456$ ,  $p=0.431$ ). Sustainable Business significantly moderates the Environment  $\rightarrow$  Green Economy ( $\beta=0.963$ ,  $p=0.002$ ) and Social  $\rightarrow$  Green Economy ( $\beta=0.691$ ,  $p=0.039$ ) relationships, with large practical effect size ( $f^2 = 0.015$ ,  $p=0.863$ ). The model explains 60.5% of variance in Green Economy outcomes ( $R^2 = 0.605$ ).

**Conclusion:** ESG integration particularly environmental and social dimensions positively and significantly advances green economy realization in Indonesia, consistent with Islamic principles of stewardship and justice. Sustainable Business amplifies these effects when properly institutionalized. Policy implications include developing a Sharia compliant ESG rating framework, mandating sustainability disclosure for Islamic financial institutions, expanding green sukuk instruments, and integrating ESG indicators into national PROPER assessments.

Received: 3/25/2026

Revised: 5/17/2026

Accepted: 5/22/2026

### How to cite this article:

Kusumastuti, A.D., Paningrum, D., Rasendriya, L.D. (2026). Integrating Sustainable Business Through the Implementation of Environment, Social, and Governance (ESG) in Accelerating the Realization of a Green Economy. *Sharia Economic and Management Business Journal (SEMBJ)*, 7(2), 428-439. <https://doi.org/10.62159/sembj.v7i2.1929>

## INTRODUCTION

Sustainable development cannot be separated from three main pillars: economy, social, and environment. These three aspects have a cause-and-effect relationship and create sustainable conditions (Hapsoro & Bangun, 2020). The concept of Environment, Social, and Governance (ESG) plays a role in realizing the Sustainable Development Goals (SDGs) through business processes so that companies contribute to sustainable economic development (Minggu et al., 2023). Environmental, Social, and Governance (ESG) is a concept that prioritizes sustainable development and investment activities with three main factors: environment, social, and governance (Setiawati & Hidayat, 2023). ESG is a standard for corporate investment practices that integrates company policies with policies aligned with the concepts of Environmental, Social, and Governance (Noviarianti, 2020).

Environment, Social and Governance (ESG) refers to the ability to maintain the balance and sustainability of the natural environment so that it can support life on Earth both now and in the future. This involves the wise management of natural resources, reducing emissions and waste, preserving biodiversity, and engaging communities in environmental conservation (Morelli, 2011). Companies have a responsibility towards environmental sustainability, therefore sound environmental management by companies is essential. There are several principles that essentially illustrate the relationship between humanity and its creator. These principles are fair sharing, *rahmatan lil alamin* (mercy for all creation), and *maslahah* (the public interest).

From an Islamic perspective, the obligation to implement CSR is not merely a matter of fulfilling legal and moral duties, but a strategy to ensure the long term survival of both companies and society. The objective of Islamic law (*Maqashid Al-Shariah*) are to promote the public good, thus business is an endeavour to create public good, not merely to seek profit. Conducting business in accordance with Islamic law must take into account environmental sustainability and the impacts it causes. Environmental conservation is a *fardhu kifayah*, meaning that all elements, without exception have a responsibility to preserve the environment. When the preservation of the natural world is not maintained, all humanity will incur sin (Erianto et al., 2023).

From the perspective of Islamic economics, ESG disclosure is not merely a corporate governance tool but is deeply noted in Islamic ethical obligations toward society and the natural world. The principle of *khalifah* (stewardship) establishes that humans are trustees of God's creation and are therefore morally obligated to preserve the environment and promote social justice (Chapra, 2016). This directly corresponds to the Environmental pillar of ESG, wherein companies are expected to manage natural resources responsibly and minimize ecological harm. The principle of *'adl* (justice) demands equitable treatment of all stakeholders, including workers, communities, and future generations mirroring the Social dimension of ESG that encompasses human development, labor practices, and community welfare. Furthermore, the principle of *la darar wa la dirar* (no harm shall be inflicted or reciprocated), derived from a well known Hadith, imposes an explicit prohibition against corporate activities that generate harm to the environment or society, providing the ethical basis for governance and accountability mechanisms (Dusuki & Abdullah, 2007). The concept of *Maqashid Al-Shariah* (objectives of Islamic law) further supports ESG integration by emphasizing the preservation of life (*hifz al-nafs*), intellect (*hifz al-aql*), lineage (*hifz al-nasl*), property (*hifz al-mal*), and religion (*hifz al-din*) all of which require a sustainable economic system (Mohammed, 2006). These foundational Islamic principles converge with the objective of the green economy, suggesting that ESG oriented sustainable business is not merely compatible with Islamic economics but may be considered an operationalization of its normative framework.

It is important for companies to shift to a business model that prioritizes profit, social welfare, and environmental sustainability. In facing increasingly complex global challenges, the integration of ESG and sustainable business plays an important role as a strategic approach not only to generate profits, but also as a force to create sustainable positive impact. The application of a green economy has a positive impact on sustainable business, such as increasing sales, profitability, and competitive advantage. Companies can reduce greening costs by improving environmental efficiency. However, poor environmental performance reflects resources that are used incompletely, inefficiently, and ineffectively, which will increase costs and reduce company profits (Ramlah, 2020).

The green economy is a macro policy aimed at achieving sustainable development targets by emphasizing the alignment of economic, social, and environmental goals (Yuan et al., 2024). Achieving

a sustainable green economy through green development encompasses regulation, government, finance, technology, education, culture, and habits (Aviyanti, 2022). The influence of the green economy on financial decision-making not only improves the company's overall economic performance, but also contributes to the achievement of the Sustainable Development Goals (SDGs). The application of the green economy has a positive impact on sustainable business, such as increasing sales, profitability, and competitive advantage.

Financial performance is the financial condition of a business after being examined with financial analysis tools to determine whether the financial performance of the business is rated very good or poor (Fabiola & Khusnah, 2022). According to Nitro (2020), financial performance is an analysis conducted to see the extent to which a company has implemented the rules of financial implementation properly and correctly. Financial performance affects the financial stability and long-term survival of the company and has become a concern of international researchers and policy makers (Astari & Candraningrat, 2022). When companies perform better, investors will invest, which will increase revenue and share price. In addition, company performance and company value can increase as a result of product innovations that do not pollute the environment (Firdausyi et al., 2023).

Research on the implementation of environment, social, and governance (ESG) in supporting the green economy has been widely conducted and is not a new topic. The analysis methods used in previous studies have also been varied. Ahmad et al. (2020) conducted research related to the analysis of ESG disclosure on company market value. The research results showed that environmental, social and governance (ESG) performance, stakeholder engagement, and the publication of sustainability reports are determining factors in encouraging SDG disclosure at the company level. SDG disclosure at the company level has a positive impact on company market value. Consistent with the research conducted by Gujrati et al. (2023), which concluded that sustainability reports are used by investors as information that provides added value in investment decision-making. Investors today do not only focus on short-term profits or company profits but also on the sustainability and long-term profits of the company in order to satisfy all stakeholders.

In contrast to the research by Chopra et al. (2021) with the topic of whether companies have opportunities in adopting green behavior, which can be useful for better meeting customer needs. The results showed that companies often cannot clearly respond to customer needs in ecologically sustainable outcomes. Companies need to formulate appropriate value propositions and disclose green economic value to the market and customers.

Despite the growing body of ESG literature, three critical gaps remain unaddressed. First, most studies examining ESG's impact on the green economy are conducted in conventional financial contexts (Ahmad et al., 2020; Kasayanond et al., 2019), with limited attention to settings governed by Sharia based regulatory frameworks, as in Indonesia the world's largest Muslim majority economy. Second, prior research has examined ESG either as a direct predictor of financial performance (Lathifah, 2024; Minggu et al., 2023) or as a moderator of profitability (Setiawati & Hidayat, 2023), but no study has investigated sustainable business as a moderating variable in the ESG green economy relationship at the national macro policy level. Third, the alignment between ESG dimensions and Islamic ethical principles specifically *khalifah*, *'adl*, and *la darar* has not been empirically examined in relation to green economy outcomes. This study addresses gaps by: (1) using national level macro data from Indonesia (2014-2024) within a Sharia governance disclosure; (2) introducing sustainable business as a novel moderating variable between ESG and green economy outcomes; (3) situating the findings within Islamic economic theory to generate policy implications relevant to Sharia compliant ESG framework.

Based on the above phenomena, this research aims to determine the effect of profitability on company value in maintaining sustainable business, determine the effect of environment, social and governance (ESG) in strengthening the relationship between profitability and company value, and understand the importance of ESG implementation as the basis of business sustainability.

## METHOD

The type of research used is descriptive with a quantitative approach. Operational measurement of variables is carried out through data on environmental, social, and governance aspects. Secondary data obtained describes the indicators of each variable studied. The secondary data is sourced from BPS

(Central Bureau of Statistics) data and the Annual Report of the Ministry of Environment and Forestry (KLHK). This study employs annual time series data spanning 10 years, from 2014 to 2024 (n= 10 annual observation periods) selection of secondary data from BPS and KLHK is justified on three grounds. First, these are the only systematically collected, nationally representative annual datasets available in Indonesia for the 2014 -2024 period, ensuring temporal consistency and minimizing self reporting bias inherent in firm level ESG disclosure. Second, the selected proxies reflect internationally recognized measurement conventions: forest are (Lingkungan\_1\_LH) is a standar indicator within the Environmental Performance Index (EPI) framework for ecosystem vitality (Wendling et al., 2020); emission reduction from BAU (Lingkungan\_2\_Emisi) aligns with UNFCCC national mitigation reporting standars; life expectancy (Sosial\_1\_AHH) is the primary human development indicator recommended by the UNDP Human Development Report for the Social dimension; average years of education (Sosial\_2\_IS) refers to the average number of years spent by the population aged 15 and over in the various levels of education they have completed aligns with Ministry of National Development Planning/Bappenas, 2020 because it is vital to ensure that green development can contribute to the advancement of education in Indonesia; open unemployment rate (Sosial\_3\_TPT) serves as a proxy for social equity and labor welfare, consistent with ILO decent work indicators; emission governance proxy (GOV\_EGP) refers to as green house gas emission inventory data captures as a proxy to governance. Third, the use of macro level national proxies is consistent with prior studies employing country level ESG indicators (Hardiningsih et al., 2020; Kasayanond et al., 2019).

The data analysis technique used is multivariate analysis with a structural equation modeling (SEM-PLS) model at a 5% tolerance level. The SEM-PLS method can be used in this study because it provides information related to which indicators are able to explain the influence of the green economy variable. That a sample of n = 10 annual observations poses limitations for the generalizability of SEM-PLS results and statistical power. SEM-PLS is known to perform adequately with small samples (Sarstedt et al., 2021).

## RESULTS AND DISCUSSION

### PLS (Partial Least Square)

This study uses environment, social, and emission governance proxy variables as independent variables; the Green Economy variable as the dependent variable; and the sustainable business variable as the moderating variable.

### Measurement Model (Outer Model)

#### Convergent Validity and Discriminant Validity

Three tests are considered to test the measurement model (indicators of research variables): convergent validity, discriminant validity, and composite reliability. Each test has parameters that must meet the specified requirements.

#### Convergent Validity

Convergent validity is performed to determine the validity between a construct or its latent variable and its indicators.

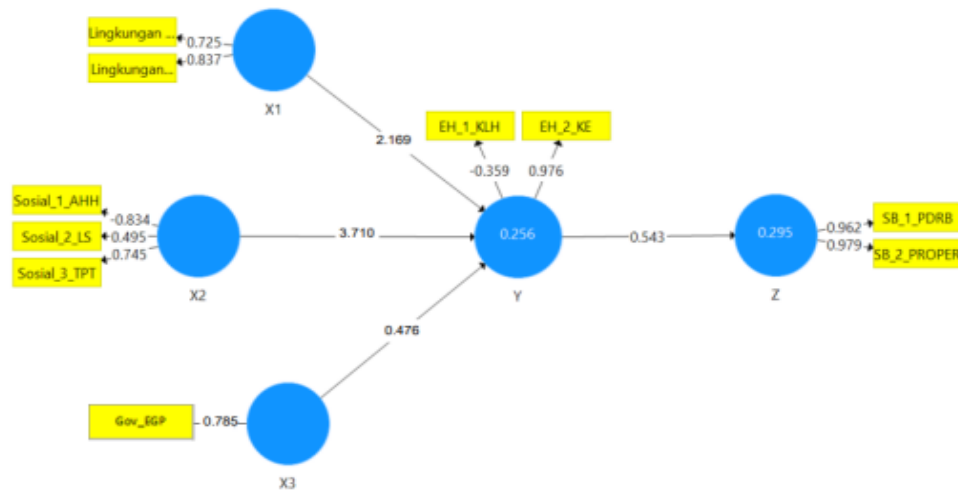


Figure 1. Initial Model Test Results with Path Analysis (SEM-PLS)

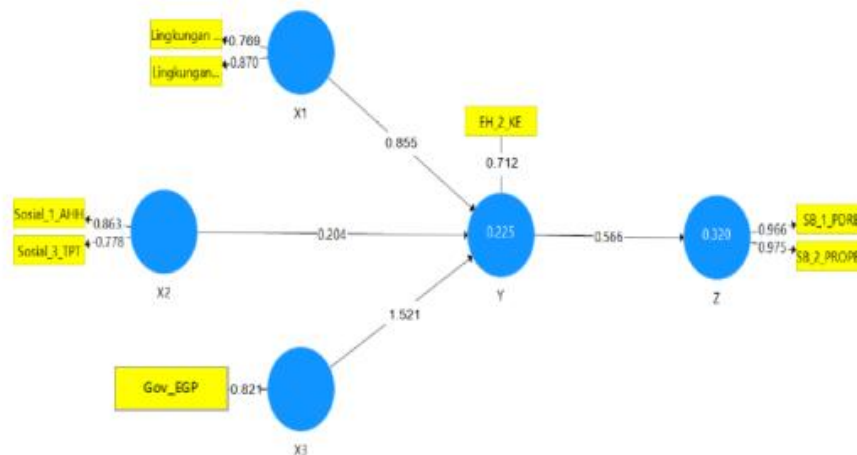
As seen for the Environment, Social, and Emission Governance Proxy variables, there are 2 indicators whose outer loading or loading factor values do not meet the requirements. Meanwhile, the Green Economy variable has 1 indicator that does not meet the requirements, so the model must be modified by eliminating indicators that do not meet the criteria. The outer loading values are shown in Table 1.

Table 1 presents the outer loading or loading factor values for each indicator. Some indicators do not meet the requirements: the Social variable (Sosial\_2\_LS) has a loading factor value of 0.495, and the Green Economy (Y) indicator EH\_1\_KLH has a loading factor value of -0.359. The loading factor values do not meet the required threshold of 0.70; therefore the model in Figure 1 must be modified by eliminating indicators that do not meet the 0.70 threshold.

Table 1. Outer Loading Values of the Initial Measurement Model

Indicator	Environment (X1)	Social (X2)	Emission Governance (X3)	Green Economy (Y)	Sustainable Business (Z)
Lingkungan_1_LH	0.725				
Lingkungan_2_Emisi	0.837				
Sosial_1_AHH		0.834			
Sosial_2_LS		0.495*			
Sosial_3_TPT		0.745			
Gov_EGP			0.785		
EH_1_KLH				-0.359*	
EH_2_KE				0.976	
SB_1_PDRB					0.962
SB_2_PROPER					0.979

Source: Processed Data (2025)



**Figure 2. Modified Model Test Results with Path Analysis (SEM-PLS)**

The figure shows the outer loading results for each indicator of the modified model. It can be seen that each indicator has met the convergent validity requirement of 0.70.

**Table 2. Outer Loading Values of the Measurement Model (Modified)**

Indicator	Environment (X1)	Social (X2)	Emission Governance (X3)	Green Economy (Y)	Sustainable Business (Z)
Lingkungan_1_LH	0.769				
Lingkungan_2_Emisi	0.870				
Sosial_1_AHH		0.863			
Sosial_3_TPT		0.778			
Gov_EGP			0.821		
EH_2_KE				0.712	
SB_1_PDRB					0.966
SB_2_PROPER					0.975

Source: Processed Data (2025)

As shown in Table 2, the loading factor value of each variable indicator has met the requirements of the SEM-PLS path analysis. Therefore, no constructs across all variables need to be eliminated.

### Discriminant Validity

Discriminant validity is performed to ensure that each latent variable is conceptually distinct and must show adequate differences. This means that a set of combined indicators is not undimensional.

**Table 3. Discriminant Validity Test Results Based on Average Variance Extracted (AVE)**

Variable	Average Variance Extracted (AVE)	Note
Environment	0.640	Valid
Social	0.679	Valid
Emission Governance	0.531	Valid
Green Economy	0.588	Valid
Sustainable Business	0.665	Valid

Source: Processed Data (2025)

Based on Table 3, each variable Environment, Social, Emission Governance Proxy, Sustainable Business, and Green Economy, as a whole has an AVE value > 0.5, so the variables in this study are declared valid and meet the discriminant validity criteria.

### Reliability Test

## Composite Reliability

This test uses composite reliability testing with a threshold value of  $> 0.6$ . The test results are as follows:

**Table 4. Composite Reliability Test Results**

Variable	Composite Reliability	Note
Environment	0.713	Valid
Social	0.785	Valid
Emission Governance	0.694	Valid
Green Economy	0.888	Valid
Sustainable Business	0.871	Valid

Source: Processed Data (2025)

Based on Table 4, it can be seen that the composite reliability test values are all  $> 0.6$ , meaning all variables have a very high reliability value.

## Cronbach Alpha

Cronbach Alpha is used as a form of testing to reinforce the results already tested in composite reliability, so that research variables will be declared fully reliable or not depending on the Cronbach Alpha test. The criteria for Cronbach Alpha values declared reliable is  $> 0.6$ ; if the Cronbach Alpha value is  $< 0.6$ , it is declared unreliable.

**Table 5. Cronbach Alpha Test Results**

Variable	Cronbach Alpha	Note
Environment	0.702	Reliable
Social	0.773	Reliable
Emission Governance	0.726	Reliable
Green Economy	0.714	Reliable
Sustainable Business	0.798	Reliable

Source: Processed Data (2025)

Based on Table 5, each variable Environment, Social, Emission Governance Proxy, Sustainable Business, and Economy as a whole has a Cronbach Alpha value  $> 0.6$ , meaning the variables in this study meet the composite reliability criteria as supported by the Cronbach Alpha test, and all variables are declared reliable.

## Testing the Structural Model of Direct and Indirect Effects

The hypothesis test results use the bootstrapping method to assess the influence between constructs, based on parameter coefficients and t-statistics or p-values. The path coefficient is used to see the influence of constructs on other constructs by paying attention to the parameter coefficients and p-value  $< 0.05$  or t-statistics  $> 1.96$  (Ghozali & Latan, 2015). The t-statistics value is used to test the significance of the effect of exogenous variables on endogenous variables by comparing the t-statistics value with the t-table. Meanwhile, p-value is the significance level used to test whether a hypothesis is accepted or rejected/not supported.

This study uses a significance level of 0.05 as indicated by the p-value. If the path coefficient test result has a p-value  $< 0.05$ , the hypothesis is accepted; conversely, if the p-value  $> 0.05$ , the hypothesis is not supported.

**Table 6. Path Coefficient Test Results**

Variable Influence	Original Sample	t-Statistics	P-Value
Environment (X1) $\rightarrow$ Green Economy (Y)	0.884	2.824	0.005
Social (X2) $\rightarrow$ Green Economy (Y)	0.972	3.019	0.003
Emission Governance Proxy (X3) $\rightarrow$ Green Economy (Y)	0.456	0.788	0.431
Moderation: Sustainable Business (Z) on X1 $\rightarrow$ Y	0.963	3.106	0.002
Moderation: Sustainable Business (Z) on X2 $\rightarrow$ Y	0.691	2.066	0.039
Moderation: Sustainable Business (Z) on X3 $\rightarrow$ Y	0.077	0.172	0.863

Source: Processed Data (2025)

The structural model test results show that the R Square value for the dependent variable (Green Economy) is 0.605, which means approximately 60.5% of the variability can be explained by the independent variables (Environment, Social, and Emission Governance Proxy). This indicates a fairly strong relationship, although there is 39.5% of the variability that cannot be explained by the model. First, regulatory and enforcement factors including carbon tax policy, PROPER compliance stringency, and environmental law enforcement may independently drive green economy outcomes beyond ESG disclosure (Dogaru, 2021). Second, macroeconomic conditions such as GDP growth rate, energy price volatility, and foreign direct investment in green sectors could account for a portion of the residual variance. Third, cultural and ethical dimensions, including Islamic ethical compliance, halal business certification, and Sharia based corporate responsibility norms, represent variables not captured by conventional ESG indicators yet potentially relevant in the Indonesia context (Dusuki & Abdullah, 2007). Fourth, technological diffusion and digital infrastructure which have been shown to driven green economic transformation (Yuan et al., 2024).

**Table 7. Effect Size**

Structural Path	$\beta$	$\beta^2$	$f^2$	Category	Interpretation
<b>Direct Effect</b>					
Environment (X1) → Green Economy (Y)	0.884	0.781	1.978	Large	Substantively strong direct contribution
Social (X2) → Green Economy (Y)	0.972	0.945	2.392	Large	Strongest direct contribution among all paths
Emission Governance Proxy (X3) → Green Economy (Y)	0.456	0.208	0.526	Large	Large $f^2$ but no significant ( $p=0.431$ ), proxy limitation
<b>Moderation Effects (Sustainable Business as Moderator)</b>					
Moderation: SB (Z) on X1→Y	0.963	0.927	2.348	Large	Practically strong SB amplifies environment ESG effect significantly
Moderation: SB (Z) on X2→Y	0.691	0.477	1.209	Large	Practically meaningful SB amplifies social ESG effect
Moderation: SB (Z) on X3→Y	0.077	0.006	0.015	Negligible	No practical effect consistent with $p=0.863$

Source: Processed Data (2025)

Beyond statistical significance, the practical strength of the moderation effects was evaluated using Cohen’s  $f^2$  effect size (Cohen, 2013). The moderation of Sustainable Business on the Environment → Green Economy pathway produced a large effect ( $f^2 = 2.348$ ), as did the moderation on the Social → Green Economy pathway ( $f^2 = 1.209$ ), indicating that Sustainable Business contributes substantively not merely statistically to amplifying in the influence of environmental and social ESG dimensions on green economy outcomes. In contrast, the moderation on the Governance → Green Economy pathway yielded a negligible effect size ( $f^2 = 0.015$ ), consistent with its non significant p-value ( $p=0.863$ ), confirming that Sustainable Business does not meaningfully strengthen the governance dimensions on green economy relationship under the current proxy operationalization.

## Discussion

### Environment Has a Positive and Significant Effect on Green Economy

Increasingly modern economic activities continuously affect environmental conditions. The environment has become a primary concern as an effort to prevent climate change and maintain industrial sustainability. The development of global commitments and initiatives firmly reduces and manages waste, uses resources efficiently, reduces pollution, and takes action to address climate change. The concept of the green economy implies a definition of improving quality of life and social equity to reduce environmental risks and ecological deficits. Therefore, specific public policy steps are needed to execute the green economy system and green growth to be developed and implemented as soon as possible.

Dogaru (2021) stated that green growth is an important path to achieving sustainable development goals, meaning that by implementing a green economy system, it can drive economic growth and development while still ensuring that natural assets always provide resources and environmental services. The results of this study are consistent with the research of Kasayanond et al. (2019), which found that green economy knowledge and awareness (Green Economy Awareness) leads to improved environmental conservation. A green economy can consequently encourage improved environmental conservation through increased moral commitment to environmental health.

### **Social Has a Positive and Significant Effect on Green Economy**

Based on stakeholder theory, the survival of a company cannot only prioritize shareholders, but also involves the interests of stakeholders such as society, employees, and others to create a better corporate environment, thereby promoting good corporate performance. This indicates that social aspects have begun to be considered in company operations, as the results of this study are consistent with the research of Hardiningsih et al. (2020).

### **Emission Governance Proxy Does Not Have a Significant Effect on Green Economy**

This finding is in contrast with the concept of Good Corporate Governance (GCG), where a well-established relationship between the company and its stakeholders in the governance scope—such as top management, the board of commissioners, or government should support the company's continuity to improve its performance. These findings may be caused by the low level of governance disclosure in aspects of transparency and accountability, regulatory compliance, business ethics, risk management, and decision-making structure. This indicates that companies have not yet discussed these topics further or disclosed more supportive governance information. This could also indicate that companies have not yet fully implemented GCG properly.

### **Sustainable Business Strengthens the Effect of Environment, Social and Emission Governance on Green Economy**

The results of this study reveal a statistically positive and significant relationship between the disclosure of environmental, social, and emission governance factors on the green economy, moderated by sustainable business. This finding goes beyond a simple interpretation of ESG as a compliance exercise. On the contrary, it indicates that proactive engagement with environmental, social, and governance issues is viewed by stakeholders as a strong signal of superior management quality, long-term strategic vision, and reduced risk exposure (Alodat et al., 2024). Within the legitimacy theory framework, a company's commitment to environmental stewardship through transparent reporting on energy efficiency, emission reduction, and responsible waste management secures the social license to operate (Deegan, 2014).

Based on signaling theory, companies that disclose positive information about ESG practices send good signals to investors about long-term prospects and commitment to sustainability. Effective ESG management, such as reducing environmental and social risks, enhances corporate transparency and reputation, which in turn strengthens investor confidence in the company's ability to generate sustainable returns. These positive signals can boost organizational value as shareholders are more interested in companies considered to have stability and long-term growth potential (Cheng et al., 2024; Tang et al., 2024).

Research by Tang et al. (2024) shows a positive and significant correlation because ESG implementation can strengthen public trust, manage risks more efficiently, attract investor interest, and improve financial performance and employee participation, which ultimately supports the long-term sustainability and development of the company. Other research by Lathifah (2024) shows that ESG implementation with environmental, social, and governance indicators affects profitability (ROA and ROE), but ESG with environmental and governance indicators does not affect firm value (Tobin's Q). Companies listed in the ESG index have higher firm values and there is a positive relationship between higher company rankings in the index and firm value (Aboud & Diab, 2018).

## CONCLUSION

This study examined the influence of Environment, Social, and Governance (ESG) dimensions on the realization of a Green Economy in Indonesia, with Sustainable Business as a moderating variable, using national level secondary data from 2014 to 2024 analyzed through SEM-PLS. Theoretical synthesis of the findings confirm that Environment and Social ESG dimensions exert positive and significant effects on Green Economy outcomes, while the Emission Governance Proxy shows no significant direct effect. Furthermore, Sustainable Business significantly moderates the relationship between Environment and Social dimensions and Green Economy outcomes, but not for the Governance dimension. These results extend stakeholder theory and signaling theory by demonstrating that ESG's macro level impact on green economy outcome is not uniform across dimensions and is contingent upon the robustness of sustainable business practices as an institutional mediating mechanism. From an Islamic economics perspective, the compatibility of ESG integration with Sharia objectives is strongly affirmed by these findings. The significant positive effects of Environment and Social ESG dimensions are entirely consistent with the Islamic obligations of *kalifah* (stewardship), *'adl* (justice), and *la darar* (prohibition of harm). The non-significant governance finding, however, may partly reflect the dominance of *riba* based and *gharar* prone structures in conventional firms, which are inherently misaligned with the transparency and accountability proxies of Islamic governance.

Specific policy recommendations based on these findings are (1) Development of Sharia Compliant ESG Screening Criteria should collaboratively develop an Indonesia Sharia ESG rating framework, integrating conventional ESG metrics with *Maqashid Al-Shariah* indicators, halal supply chain assessments, and Islamic corporate governance standards, (2) Mandatory sustainability disclosure for Islamic Financial Institutions, (3) Green Sukuk framework expansion, and (4) Integration of ESG indicators into PROPER Assessments.

This study is subject to several limitations that should be acknowledged. First, the use of national level macro data ( $n = 10$  annual observations) limits statistical power and generalizability, the findings reflect aggregate national trends rather than firm level or sector specific dynamics. Second, the proxy validity of the Emission Governance Proxy is limited, as green house gas emission inventory data captures only one dimension of governance and does not represent board structure, transparency, or ethics. Third, the study does not incorporate Islamic economic variables such as *Maqashid Al-Shariah* compliance scores, *zakat* ratios, or Sharia governance effectiveness indices, which may be relevant moderating factors in the Indonesian context. Future research directions should: (1) Conduct comparative analyses of ESG to Green Economy linkages between Islamic and conventional financial institutions or between Sharia compliant and non-compliant firms listed on the Indonesian Stock Exchange; (2) Incorporate *Maqashid* based indicators as additional ESG dimensions or as moderating variables; (3) Extend the time horizon and adopt panel data methodologies using provincial level disaggregated data to improve statistical robustness; (4) Examine the role of green sukuk proceeds in mediating the ESG to Green Economy relationship; and (5) Integrate cultural and Islamic ethical compliance dimensions as boundary conditions of the ESG to Green Economy relationship.

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