

Strategic Performance Measurement of MSMEs Based on ESG in Sudajaya Girang Village

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ABSTRACT

This study aims to analyze the measurement of strategic performance of Micro, Small, and Medium Enterprises (MSMEs) using the *Environmental, Social, and Governance* (ESG) approach in Sudajaya Girang Village, Sukabumi Regency. MSMEs play a vital role in driving local economic growth, creating employment opportunities, and improving community welfare. However, performance measurement systems of MSMEs have largely focused on financial aspects, while sustainability dimensions have received less attention. The implementation of the ESG framework is expected to provide a more comprehensive perspective in assessing MSMEs' performance, covering environmental responsibility, social contribution, and good governance practices.

This study employs a descriptive-qualitative approach with a case study of MSMEs in Sudajaya Girang Village. Data were collected through interviews, observations, and document analysis, and analyzed using data reduction, presentation, and conclusion drawing techniques. The findings indicate that the level of understanding of ESG principles among MSME actors is varied, with implementation mostly concentrated on social and governance aspects, while environmental considerations remain limited. By applying ESG-based measurement, this study proposes a more inclusive strategic performance evaluation framework, which can serve as a guideline for developing sustainability-oriented MSMEs and supporting the achievement of the *Sustainable Development Goals* (SDGs).

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy, playing a strategic role in supporting national economic growth. MSMEs contribute significantly to Gross Domestic Product (GDP), absorb labor, and promote equitable social welfare. The crucial role of MSMEs in supporting the economy is evident in their contribution to national GDP. Data from the Ministry of Cooperatives and SMEs in 2019 indicates that MSMEs contributed 60.51% to the national Gross Domestic Product (GDP), while large businesses contributed only 39.49% (DJPb Kemenkeu, 2023). This is in line with the findings of Simanjuntak and Putri (2025) who emphasized that MSMEs play an important role in driving the national economy and creating jobs.

At the local level, MSMEs are not only a primary source of income but also serve as key drivers of the village economy, leveraging the potential of existing resources while fostering community economic independence. Sudajaya Girang Village, Sukabumi Regency, is one such village with a diverse range of MSME activities, spanning sectors such as agriculture and trade, and the creative home industry. This potential presents a significant opportunity to strengthen village competitiveness and sustainably improve community welfare. However, the challenges faced by MSMEs today are increasingly



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complex. In addition to limited capital, market access, and managerial skills, demands for sustainable business practices are also increasingly prominent. The orientation of MSME performance measurement has so far been predominantly financial, neglecting non-financial dimensions related to business sustainability, such as environmental awareness, social responsibility, and good governance. However, to maintain long-term competitiveness, MSMEs need to integrate sustainability principles into their business strategies. In line with these needs, the implementation of environmental accounting can be a strategic step for MSMEs to improve operational efficiency, regulatory compliance, and competitiveness in the global market (Pratama & Sisdianto, 2024).

The concept of Environmental, Social, and Governance (ESG) provides a comprehensive framework for assessing a business entity's performance, not only from an economic perspective but also from an environmental, social, and governance perspective. For MSMEs in rural areas, implementing ESG-based performance measurement is crucial because it can increase business value, build consumer trust, and ensure business continuity aligned with sustainable development. By implementing ESG, MSMEs can position themselves as responsible and progressive business actors that pursue not only financial profit but also positively contribute to the environment and surrounding communities.

In the context of Sudajaya Girang Village, the implementation of an ESG framework for measuring the strategic performance of MSMEs is highly urgent. First, the village is striving to optimize local potential within the framework of sustainable village development. Second, the implementation of ESG can strengthen the role of MSMEs in supporting the achievement of the Sustainable Development Goals (SDGs), particularly Goal 8 (inclusive economic growth), Goal 9 (industry, innovation, and infrastructure), and Goal 12 (responsible consumption and production).

Therefore, this study focuses on ESG-based strategic performance measurement of MSMEs in Sudajaya Girang Village, Sukabumi Regency. The objectives of this study are to analyze the understanding of the ESG concept among MSMEs in Sudajaya Girang Village, identify supporting and inhibiting factors in its implementation, and formulate an ESG-based performance measurement model to improve MSME competitiveness and sustainability. The results are expected to provide a more comprehensive, sustainability-oriented MSME performance evaluation model that is relevant to the needs of inclusive and sustainable village economic development.

To support the research focus, a clear understanding of the key concepts underlying the study is required, including the definition of MSMEs, ESG, strategic performance, and their relationship to the Sustainable Development Goals (SDGs). MSMEs (Micro, Small, and Medium Enterprises) are a business sector that plays a vital role in the national economy. The definition of MSMEs is clearly regulated in Government Regulation (PP) No. 7 of 2021 concerning the facilitation, protection, and empowerment of cooperatives and MSMEs. This regulation divides MSMEs into three categories: Micro Enterprises, Small Enterprises, and Medium Enterprises. Micro Enterprises are productive businesses owned by individuals and/or individual business entities that meet the micro business criteria as stipulated in the regulation (Permata et al., 2025). Small Enterprises are independent productive economic enterprises, run by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or part of, directly or indirectly, Medium Enterprises or Large Enterprises and meet the established criteria (Putri, 2025). Meanwhile, Medium Enterprises (MSMEs) are productive economic enterprises that are also independent and run by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or affiliated, either directly or indirectly, with Small or Large Enterprises, in accordance with the criteria stipulated in the PP.

According to (Serafeim & Yoon, 2022) in (Putra & Asfiah, 2024), ESG (Environmental, Social, and Governance) is an evaluation framework used to assess and guide companies in conducting their business activities sustainably and responsibly. ESG

serves not only as a non-financial performance indicator but also as a guideline for balancing the achievement of economic profit with social and environmental responsibility. The environmental aspect emphasizes managing business impacts on ecosystems, emissions, energy, waste, and resource conservation (Nabila & Purwanti 2025). The social aspect emphasizes respect for human rights, fair labor practices, diversity, social engagement, and healthy relationships with consumers (Fathoni & Nugrahanti, 2025). Meanwhile, according to Broadstock et al. (2021) in Nugroho et al. (2023), corporate governance represents company information related to good governance practices, the application of business ethics, and issues or controversies related to corporate governance.

Strategic performance is the ability of an organization, including MSMEs, to select and adapt to its environment to achieve long-term goals effectively and efficiently. This performance not only reflects the extent to which an organization is able to implement its formulated strategies but also emphasizes the organization's responsiveness to the dynamics of an ever-changing business environment (Hutuely, 2024). In other words, strategic performance is closely related to an organization's adaptability and sustainability in facing challenges, both internal and external. The process of determining and implementing strategic policies is generally the responsibility of high-level management or organizational leaders, as decisions at this level significantly determine the direction of the organization's future development. Measuring strategic performance allows us to determine the extent to which implemented strategies contribute to the achievement of the organization's overall vision, mission, and goals. Strategic performance also ensures that organizations focus not only on achieving short-term targets but also on resilience, competitive advantage, and the ability to continuously grow and innovate in the face of global competition.

Furthermore, the Sustainable Development Goals (SDGs) are a program formulated and agreed upon by member states of the United Nations (UN) in 2015. The SDGs have 17 global goals to be achieved by 2030, including poverty eradication, hunger eradication, good health and well-being, providing quality education, strengthening gender equality, fulfilling access to clean water and sanitation, clean and affordable energy, economic growth and decent work, industrial innovation and infrastructure, reducing inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, strong judicial institutions and peace, and partnerships to achieve the goals (Ishatono & Raharjo, 2016).

METHODS

Research Type and Approach

This research uses a descriptive-qualitative approach with a case study method on MSMEs in Sudajaya Girang Village. This approach was chosen because it allows for in-depth exploration of MSMEs actors' understanding of the concept of Environmental, Social, and Governance (ESG), business management practices, and the formulation of an ESG-based strategic performance measurement model.

Research Location and Subjects

The research location is Sudajaya Girang Village, Sukabumi Regency, a village with potential for MSMEs development in the agriculture, trade, and home industry sectors. The research subjects are MSMEs actors actively running businesses in Sudajaya Girang Village, as well as village officials, village institutions, and related parties who play a role in developing the people's economy.

Data Types and Sources: Primary Data (Interviews and Observations) and Secondary Data (Village Documents, MSMEs Data, Policy Documents).

Data Collection Techniques: Semi-structured Interviews, Participatory Observation, Documentation Study
Research Stages

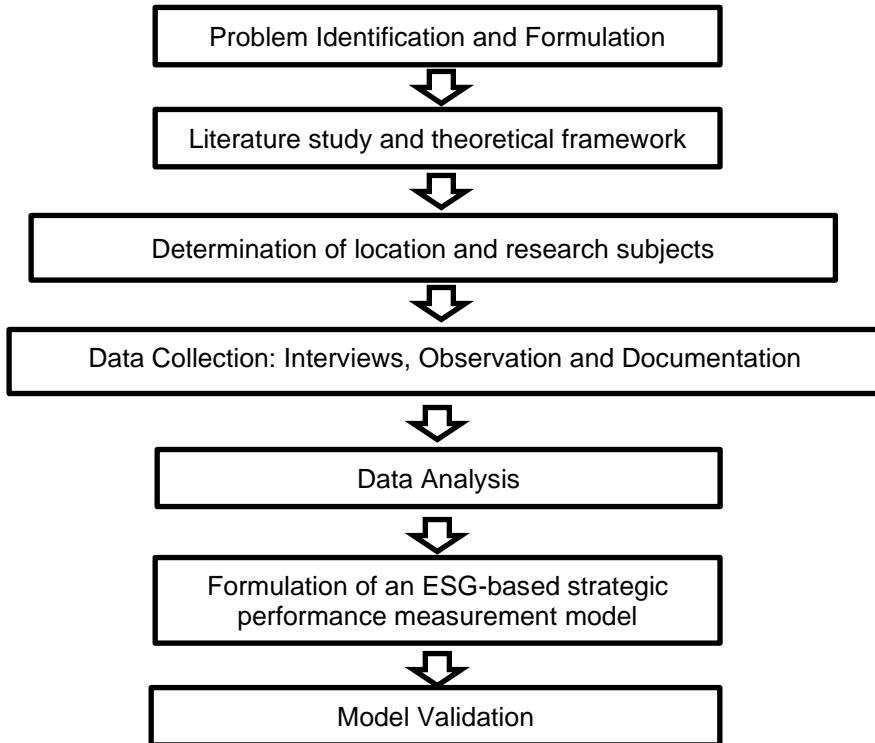


Figure 1. Stages of ESG-Based Strategic Performance Measurement Model Development
Source : Kaplan, R. S., & Norton, D. P. (1996) – Balanced Scorecard

Data Analysis Technique: Data is analyzed using qualitative analysis with an interactive approach which includes three stages: data reduction, data presentation and conclusions

RESULT AND DISCUSSION

RESULTS

The level of understanding of the concept of Environmental, Social, and Governance (ESG) in Sudajaya Girang Village among MSMEs remains limited. In terms of business accounting, most MSMEs simply record income and expenses without preparing routine financial reports, and environmental costs are not even factored into their records. In terms of environmental awareness, although some MSMEs have heard of the term green accounting and expressed the importance of considering environmental impacts, their practices remain traditional and incomplete. Meanwhile, in measuring business performance, evaluations are still conducted simply, focusing on profits and production, without considering customer aspects, innovation, or the social dimension. This limited understanding is inseparable from factors that support and hinder the implementation of ESG in measuring MSMEs performance. Supporting factors include MSMEs awareness of the importance of environmental protection, simple practices such as the use of local materials and waste utilization for agriculture or livestock, and potential support from village officials, universities, and related institutions in the form of mentoring. However, ESG implementation also faces a number of obstacles, including simplistic financial management that has not integrated environmental and social costs into financial reports, additional costs for environmental management that are considered burdensome, minimal

training and access to capital, and a lack of understanding of the Balanced Scorecard (BSC) based strategic performance evaluation system.

To address these challenges, an ESG-based strategic performance measurement model is needed that can serve as a guide for MSMEs in integrating sustainability aspects into business activities. This model refers to the four main perspectives of the Balanced Scorecard: financial, customer, internal process, and learning and innovation. The financial perspective emphasizes operating profit, cost efficiency, and the integration of environmental and social costs into financial statements. The customer perspective focuses on satisfaction, loyalty, and preference for environmentally friendly products. The internal process perspective covers production waste management, the use of local energy or raw materials, and the implementation of environmentally friendly production standards. Meanwhile, the learning and innovation perspective emphasizes human resource skills development, sustainability-based product innovation, and the ability to adapt to regulations and green market trends. The following figure shows the design of an ESG-based strategic performance measurement model for MSMEs in Sudajaya Girang Village:

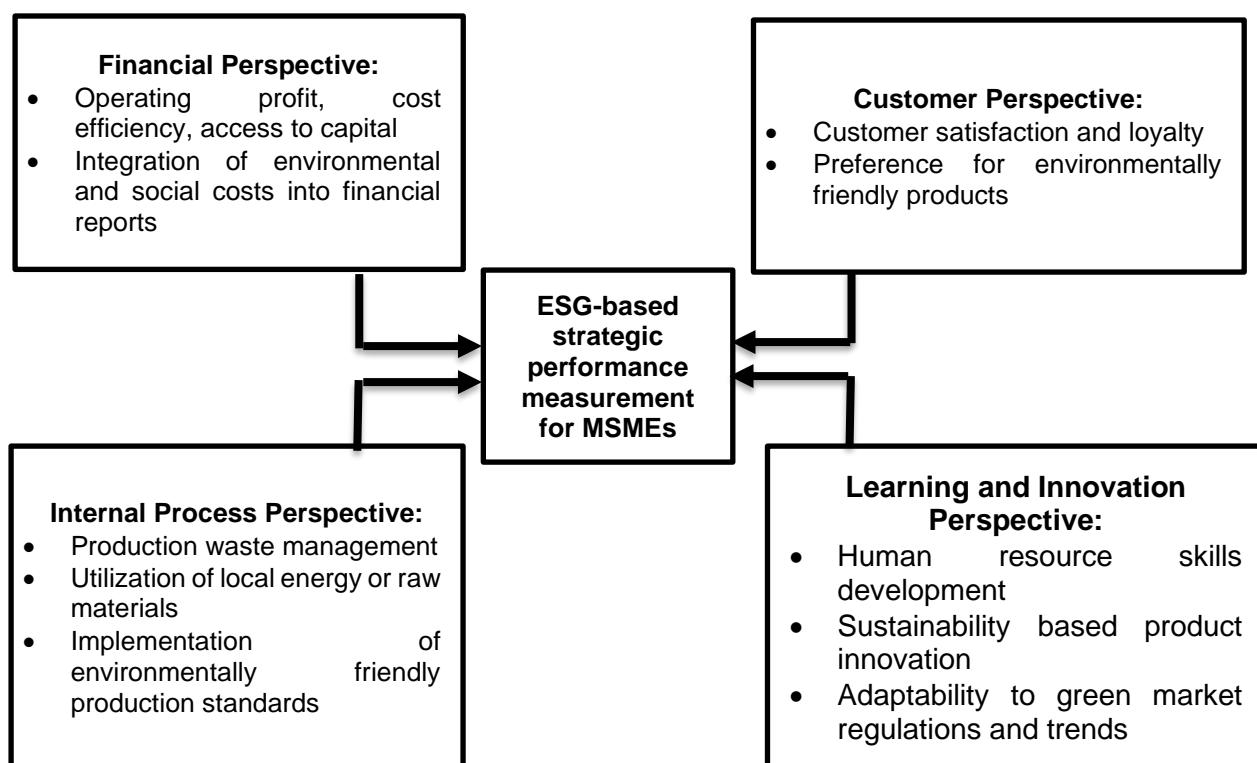


Figure 2. ESG-based strategic performance measurement model for MSMEs
source: Kaplan & Norton (1996)

DISCUSSION

MSMEs already have an initial awareness of the importance of sustainability, but remain weak in terms of technical capacity and systematic implementation. This aligns with previous research stating that the main obstacles for MSMEs in implementing ESG principles are limited knowledge, resources, and access to training. Existing supporting factors can actually serve as the basis for encouraging ESG implementation, as MSMEs already have an awareness of the importance of sustainability. However, inhibiting factors such as limited knowledge, costs, and institutional capacity need to be addressed through interventions such as training, capital facilitation, and technical assistance. In this context,

an ESG-based strategic performance measurement model is relevant because it combines the advantages of the Balanced Scorecard (BSC) in measuring strategic performance with sustainability-oriented ESG principles. Through the implementation of this model, MSMEs in Sudajaya Girang Village are expected to increase competitiveness, expand market access, and support the achievement of the Sustainable Development Goals (SDGs), particularly Goal 8 on inclusive economic growth, Goal 9 on innovation and infrastructure, and Goal 12 on sustainable production and consumption.

CONCLUSION

MSMEs understanding of ESG remains limited. Although sustainability practices exist, their implementation remains rudimentary. While environmental awareness and support from various institutions are supporting factors, limited capital, knowledge, and technical skills in business management are also inhibiting factors. Therefore, implementing an ESG-BSC based measurement model can be a strategic solution to improve MSME performance, enabling them to develop into more competitive and sustainable businesses.

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