



Sustainable Business Training for MSMEs in Surakarta: Introduction to ESG, Fraud Prevention, and Strengthening Governance through Diversity

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ABSTRACT

The advancement of technology and globalization has significantly changed production methods and environmental conditions, bringing economic benefits while also creating challenges such as pollution and climate change. Therefore, MSMEs in Indonesia need to adopt more responsible and sustainable business practices by applying Environmental, Social, and Governance (ESG) principles, fraud prevention, and strengthened governance supported by diversity. This study discusses an ESG training program conducted by the community service team of Universitas Muhammadiyah Surakarta to help MSMEs understand ESG, prevent fraud, and build stronger governance within their organizations. The results show that although challenges still exist in implementing ESG and good governance, the training successfully improved the participants' knowledge and capabilities, enabling MSMEs to compete more effectively in the modern business environment while contributing to environmental and social sustainability.

Keywords: SG, MSMEs, Sustainable Business, Fraud Prevention, Governance

1. Introduction

The rapid development of technology and the growing influence of economic globalization have created significant shifts in global production processes and environmental conditions, driving both efficiency and sustainability challenges (Porter & Kramer, 2011). Although these advancements provide economic benefits, they simultaneously contribute to environmental degradation, including increased pollution and accelerated climate change, which threaten long-term business continuity (Bansal & DesJardine, 2014). In Indonesia, Micro, Small, and Medium Enterprises (MSMEs) are increasingly pressured to adopt responsible and sustainable business practices as part of broader national and international expectations for environmental stewardship and ethical management (OECD, 2019). However, many MSMEs still lack sufficient knowledge about Environmental, Social, and Governance (ESG) principles, partly due to limited access to training, resources, and structured sustainability frameworks tailored to small businesses (UN Global Compact, 2021). In addition, weaknesses in fraud prevention mechanisms and internal controls continue to hinder their operational efficiency and credibility, making them vulnerable to financial mismanagement and unethical practices (Association of Certified Fraud Examiners, 2022). Furthermore, the role of governance supported by diversity—such as gender inclusivity and varied decision-making perspectives—remains underutilized, even though research shows diversity contributes to stronger governance and organizational resilience (Williams & O'Reilly, 1998). These combined gaps pose real challenges for MSMEs in enhancing competitiveness, maintaining stakeholder trust, and adapting to the fast-changing global market landscape (Deloitte, 2021).

Existing literature consistently emphasizes that the implementation of Environmental,

Social, and Governance (ESG) principles plays a crucial role in improving long-term business performance, strengthening stakeholder trust, and enhancing organizational capacity to respond to environmental and social risks (Carroll, 1999; Porter & Kramer, 2011). Bansal and DesJardine (2014) highlight that sustainability-oriented companies are more resilient in the face of market volatility and regulatory shifts, enabling them to maintain competitive advantage. ESG adoption is also associated with improved access to finance, better risk management, and stronger brand reputation, all of which are increasingly important for businesses operating in a globalized environment (Deloitte, 2021; UN Global Compact, 2021). In parallel, research on fraud prevention underscores the need for effective internal controls, ethical awareness, and transparency to minimize opportunities for financial misconduct, particularly among organizations with limited governance capacity (Association of Certified Fraud Examiners, 2022; Palmer et al., 2016). Without adequate fraud prevention mechanisms, businesses face heightened risks of financial loss, reputational damage, and long-term operational disruptions.

Furthermore, studies on governance demonstrate that diversity in leadership—whether in terms of gender, ethnicity, skills, or experience—contributes significantly to improved decision-making quality, innovation, and organizational resilience (Singh & Point, 2006; Williams & O'Reilly, 1998). Diverse leadership teams are better equipped to assess risks from multiple perspectives, strengthen strategic planning, and foster inclusive work environments that support sustainable growth. However, despite the strong evidence supporting the benefits of ESG adoption, fraud prevention, and diversity-based governance, many MSMEs continue to struggle with applying these concepts due to limited knowledge, minimal access to structured training, and insufficient internal governance frameworks (OECD, 2019; World Bank, 2020). MSMEs often face resource constraints,

lack exposure to sustainability practices, and operate with informal management systems, making it challenging to institutionalize good governance practices. As a result, the gap between theoretical best practices and real-world implementation remains significant, underscoring the need for capacity building and targeted support programs tailored to MSMEs in developing economies such as Indonesia.

To address these challenges, a community service program was conducted by the Universitas Muhammadiyah Surakarta team to provide structured training on Environmental, Social, and Governance (ESG) principles, fraud prevention strategies, and strengthened governance through diversity for MSME actors. The design of this program aligns with prior research indicating that formalized training and capacity-building initiatives are critical for enhancing small business resilience, ethical awareness, and operational effectiveness (OECD, 2019; UN Global Compact, 2021). By providing targeted interventions, the program aimed to bridge the knowledge gap that many MSMEs experience regarding sustainable business practices and the integration of ESG frameworks into daily operations (Bansal & DesJardine, 2014; Porter & Kramer, 2011).

The primary objective of this community service program was to improve the understanding and practical capabilities of MSMEs in implementing sustainable business practices that meet contemporary business requirements. Studies have shown that structured guidance on ESG adoption helps small businesses enhance risk management, strengthen stakeholder relationships, and increase organizational credibility, which are essential for long-term competitiveness (Carroll, 1999; Deloitte, 2021). Additionally, incorporating fraud prevention techniques and promoting diversity-based governance enhances organizational integrity and decision-making quality, reducing vulnerabilities to financial misconduct and operational inefficiencies (Association of Certified Fraud Examiners, 2022; Williams & O'Reilly, 1998;

Singh & Point, 2006). The program therefore combined theoretical knowledge with practical applications to ensure that MSMEs could implement sustainable strategies effectively.

The expected outcomes of the program included increased awareness of responsible business operations, strengthened governance systems within MSMEs, and improved readiness of local businesses to contribute to environmental and social sustainability while remaining competitive in a dynamic economic landscape. Literature supports that MSMEs equipped with ESG knowledge, proper internal controls, and diverse leadership structures are better positioned to navigate market changes, respond to regulatory pressures, and foster innovation (Palmer et al., 2016; Bansal & DesJardine, 2014; World Bank, 2020). Moreover, by providing hands-on training and mentoring, the program sought to create a practical and sustainable impact, ensuring that participants not only understand these concepts but are also capable of integrating them into their daily business operations, thereby contributing to broader local and national sustainability goals (Deloitte, 2021; OECD, 2019).

2. Method

The implementation of the service activities begins with the planning and needs assessment phase for MSMEs in Surakarta. During this stage, the team identifies participant characteristics, business challenges, and the baseline understanding of ESG, fraud prevention, and diversity-based governance. This assessment is conducted through short questionnaires and focused discussions with selected MSME representatives. The information gathered ensures that the training materials are tailored to real needs and local contexts. Additionally, the results of the needs assessment guide the selection of the most appropriate teaching approaches. This phase is crucial for ensuring that the planned activities can be implemented effectively and systematically.

The next stage involves developing the training modules, which cover three main components: an introduction to ESG, fraud prevention for MSMEs, and strengthening governance through diversity. The modules are designed in a practical and easy-to-understand format to match the capacity of MSME participants. Each sub-topic includes case examples, short scenarios, and step-by-step guidance to help participants apply the concepts to their businesses. The modules are also complemented with worksheets that encourage reflection and internal evaluation. At this stage, the team also determines the delivery methods, such as interactive lectures, group discussions, and simple simulations. Module development is carried out collaboratively to ensure the materials are both comprehensive and applicable.

The next phase is the implementation of the training sessions, conducted through face-to-face meetings and brief consultations. The session begins with an introduction to ESG principles and their relevance for MSMEs in responding to market competition and regulatory changes. Participants are then introduced to fraud prevention principles, including simple internal controls, transaction transparency, and safe reporting mechanisms. The following material emphasizes the role of diversity in governance, particularly in decision-making, women's participation, and the empowerment of family members involved in the business. All topics are delivered interactively using localized case studies. This training design ensures that participants not only understand the concepts but also gain clear guidance on actionable steps they can take.

Following the training, the program continues with implementation-focused mentoring to ensure that participants apply the concepts they have learned. Mentoring activities involve on-site visits, short consultations, and evaluations of early changes implemented by participants. The team assists MSMEs in developing simple action plans, such as improving bookkeeping practices,

creating more inclusive role distributions, and assessing fraud risks independently. Each participant is encouraged to set achievable improvement targets aligned with their business capacity. Moreover, the mentoring phase helps reinforce participants' motivation to consistently adopt sustainability principles in their daily business operations. This stage serves as a bridge between the training content and its real-world application.

The final stage is monitoring and evaluation, which aims to assess the effectiveness of the implementation method and its alignment with the initial plan. Monitoring is carried out by collecting participant feedback regarding material comprehension, training usefulness, and challenges faced during application. The team uses evaluation tools such as brief interviews, field observations, and worksheet analysis. The results serve as a basis for improving future community service programs. Additionally, this evaluation helps measure how well the teaching approach, training materials, and mentoring activities have supported MSMEs in understanding ESG, fraud prevention, and diversity-based governance. Through this systematic evaluation, the entire implementation process becomes well-documented and ready for replication in other regions.

3. Results and Discussion

The outputs of the community service activities indicate substantial improvements in the partners' understanding and practical application of ESG principles, fraud prevention strategies, and governance supported by diversity. Prior to the program, most MSME owners demonstrated limited awareness of sustainability practices and internal control mechanisms, reflecting findings from previous studies that highlight knowledge gaps in small enterprises regarding ESG integration (Bansal & DesJardine, 2014; UN Global Compact, 2021). After participating in structured training and mentoring sessions, participants exhibited increased comprehension of

responsible business operations and began incorporating basic sustainability practices into their daily business activities (Porter & Kramer, 2011; Carroll, 1999).

The stages of program implementation produced tangible outcomes that went beyond theoretical understanding. MSMEs began to adopt improved bookkeeping systems, established clearer role distribution among business members, and applied preliminary fraud prevention checklists to manage risks more effectively (Association of Certified Fraud Examiners, 2022; Deloitte, 2021). These practical improvements are in line with research demonstrating that small enterprises benefit significantly from structured interventions that combine knowledge dissemination with applied tools to enhance governance and operational efficiency (OECD, 2019; Palmer et al., 2016). Participants reported increased confidence in applying these practices, indicating early success in bridging the gap between theory and real-world application.

Activity documentation further corroborates the successful implementation of the program. Photographs of training sessions, mentoring visits, and hands-on exercises provide visual evidence of active participation and engagement from MSME owners. These records serve as proof that the program was not only delivered as planned but also had measurable impacts on partner businesses' practices (Williams & O'Reilly, 1998; Singh & Point, 2006). Overall, the combination of knowledge acquisition, practical application, and documented evidence underscores the effectiveness of structured community service programs in enhancing the sustainability, governance, and fraud prevention capacities of MSMEs.



Overall, the post-activity assessments show that partners experienced positive changes in business practices, demonstrating progress from initial low awareness to more structured and responsible governance behaviors.

4. Conclusion

The implementation of the Sustainable Business Training for MSMEs in Surakarta has successfully enhanced partners' understanding of ESG principles, fraud prevention, and diversity-based governance, leading to noticeable improvements in their business practices. The training and mentoring activities enabled participants to adopt simple but effective governance measures, such as clearer organizational roles, more transparent bookkeeping, and basic internal control mechanisms to reduce fraud risks. These changes demonstrate that targeted capacity-building programs can effectively support MSMEs in strengthening business sustainability and accountability. Moving forward, it is recommended that follow-up mentoring be continued to ensure the consistency of implementation, while additional workshops focusing on digital governance tools and long-term ESG planning may further strengthen the partners' capabilities. Continuous collaboration with local institutions is also suggested to create a supportive ecosystem that enables MSMEs to maintain and develop sustainable and ethical business practices.

5. Allowance

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AI Disclosure Statement

The authors acknowledge the use of artificial intelligence (AI) tools, specifically ChatGPT, to assist with language refinement, paraphrasing, and improving manuscript clarity. The use of AI was limited to editorial

support and did not involve the generation of core research ideas, data analysis, original findings. All content has been carefully reviewed, revised, and validated by the authors to ensure its accuracy, originality, and academic integrity.

6. Reference

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