The Implementation of the Environmental, Social, and Governance Program to Support the Business Sustainability: A Case Study of Indonesian Companies

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Abstract. This study analyzes the implementation of environmental, social, and governance in Indonesia to support long-term business continuity. This research anticipates government policies to support sustainable programs, activities, and performance. This research method applied a qualitative approach through interviews with company employees directly involved in implementing environmental, social, and governance programs. Interviews were conducted with 24 manufacturing, government, service, NGO, and education employees using question-based environmental, social, and governance indicators. The research results show that several companies have implemented environmental, social, and governance-oriented programs. However, program optimization and performance achievement have not been optimal because it requires a long time, organizational learning, and the support of all stakeholders.

Keywords: business sustainability · environmental · social · governance

1 Introduction

Business sustainability is an important goal for companies to be able to support business activities in the long term. One of the aspects of achieving sustainability is supporting government policies related to implementing environmental, social, and governance (ESG). ESG regulations by the Government of Indonesia are regulated sectorally and are returned to the organization's internal policies. The Financial Services Authority (OJK) has also held ESG management. One of them is OJK Regulation No. 51/POJK.03/2017 regarding implementing Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. The purpose of this regulation is to support the realization of sustainable development that can maintain economic stability by prioritizing harmony between economic, social, and environmental aspects. The Ministry of Finance also proposes ESG principles for business management with criteria that have positive implications for ecological, social, and governance.10 ESG standards needed to be known 1) Standard 1: pollution prevention and waste management; 2) Standard 2: biodiversity

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conservation; 3) Standard 3: management of natural resources and energy efficiency; 4) Standard 4: mitigation and adaptation to climate change and disaster risk; 5) Standard 5: employment and work environment; 6) Standard 6: diversity, equity, inclusion, and access; 7), Standard 7: social interests; 8) Standard 8: cultural heritage; 9) Standard 9: leadership and governance, and 10) Standard 10: risk and control. These achievements also intend to assist the government in meeting the SDG targets [1].

Companies currently managing daily activities not only aim to seek profitability. Companies are faced with a demand to pay attention to balance in running a business and to focus attention on all stakeholders to support company activities. It is realized that companies can only optimize profits by sharing with company stakeholders. The focus of this activity can be carried out as part of marketing activities used as the company's activities as a whole [2].

Few previous studies have examined the application of ESG [3]. The focus of prior research has prioritized stakeholder engagement, the definition of CSR [4]; C,R and competitive advantage [5]; the impact of CSR disclosure [6]; the role of CSR in the quality of work-life [4]; CSR literature from a consumer perspective [5]; CSR & customer loyalty. This research has two objectives. First, to analyze the company's mechanism to support the company's long-term performance. Second, to analyze the application of the ESG program to companies in the manufacturing, government, service, NGO, and education sectors. This research is a novelty in applying ESG in Indonesia using several companies. ESG aspects and existing indicators from a combination of Thomson Reuters, MSCI, and Bloomberg are used to analyze implementation. This ESG indicator is a pillar of implementing policies and programs within the company. So, the research questions are, first, how do companies create mechanisms to support the company's long-term performance? and, second, what is your company's ESG-environmental, social, and governance orientation?

2 Literature Review

The organization's business continuity is supported by several aspects that are considered essential. Dhanda & Shrotryia mapped out the supporting elements of business sustainability and business models that support sustainability [5]. Boffo et al. [3] developed a spectrum of social and financial investments [7]. First is philanthropy. Philanthropy has two aspects: traditional and venture. Traditional focuses on giving grants, while venture philanthropy focuses on the investment approach. Second, social impact investing. This includes social investing and impact investing. Social investment focuses on social and environmental outcomes and expects financial results. Impact investing focuses on assets that measure environmental and social effects, expecting a financial product. Third, sustainable and responsible investing. This aspect focuses on ESG investments. The goal is to increase long-term value by focusing on ESG factors and mitigating risks while identifying growth opportunities. Fourth conventional financial investing. This aspect only focuses on investment. The right business continuity strategy will affect performance in the long term. This also occurs in SME management. The strategy in question is, first, a strategy that has an orientation to aspects of innovation and creativity. Second, having a focus on customer satisfaction becomes essential. Third, the company consistently builds a corporate image to provide good services and products. Fourth, companies must strengthen differentiation and create products for consumers as the target market [4]. Companies are expected to have strategic flexibility [8]. This strategic flexibility is a company's capability to act proactively and quickly against changing competitive conditions to develop competitive advantages [7, 9, 10].

Understanding ESG can also be seen in Latané's Social Impact Theory. This theory consists of strength (S), immediacy (I), and the number of actors involved (N). Social impacts affect all the consequences, both directly and indirectly, caused by the actions of public or private organizations to fulfill the organization's interests [3]. The social impact of business and the tools used by various actors (including government, public institutions, companies, and NGOs) have been analyzed by several researchers [11]. In addition, the involvement of all actors in stakeholders is also a business decision that can have social impacts [3]. Economic size includes financial and non-financial aspects. This can be seen in revenue, productivity, and return on investment [12]. The social part contributes to public health [13]. On the other hand, social aspects are measured from employee satisfaction, health, and safety in the work environment, customer satisfaction, and the organization's contribution to society in general. Other measures also include the environment, which is related to company activities that impact the environment, especially emissions.

3 Research Methods

This study applied a qualitative approach that focuses on defining aspects. Data were collected through interviews with 24 employees working in various sectors: manufacturing, government, services, NGOs, and education. The consideration for selecting the informants is that they are managerial employees who have worked for more than five years in the current organization. They already have an administrative position and are capable of making decisions. The analysis of this research used thematic analysis. This study combined Thomson Reuters, MSCI, and Bloomberg measurements. This combination of measures is considered because of the complementarity of the indicators that are not present in the other measurements.

4 Discussion

Based on the business sustainability model, a company's sustainability can be oriented toward business logic: seeking profit, offering products, and meeting consumer needs. In addition, a business model is a system that aims to solve problems by identifying consumers, understanding needs, creating satisfaction, and monetizing value [14]. The business model is considered capable of supporting the organization's long-term sustainability. However, in existing developments, companies need to have a spectrum orientation of social and financial investment. Social investment is a form of organizational business orientation focusing on social and environmental outcomes. In the long run, this orientation can support the company in getting better performance outcomes. In other words, companies also consider the sustainability aspect by including the triple bottom line component in business processes, which will further strengthen business performance in the long term by supporting business success in the face of competitors and other business demands [9].

The criteria that are in line to support the organization's sustainability in the long term is having an orientation towards the application of ESG. This research has mapped out the supporting mechanisms for implementing ESG: holistic marketing, business practices, management systems, top-down approaches, and GSG-based culture. Related to holistic marketing, companies need to prioritize the concepts of integrated marketing, relationship marketing, performance marketing, and internal marketing. This is done because the company realizes that the company's orientation to support long-term business continuity requires implementing a holistic marketing mechanism. Exposure to holistic marketing strengthens the company's inner side so that it has a good consumer orientation. This inner orientation applied to competitive companies such as banking.

Another mechanism to support business continuity is business practices which include several strategies, namely reengineering, outsourcing, supplier partnering, merging, diversification, flattening, line-stretching, brand rejuvenation, brand repositioning, and brand extension. This does not need to be implemented at all but will be adjusted to the conditions of the company. These business practices are not all implemented by the company but are considered to the company's requirements. This strategy has considerable business risks, so companies need to consider the consequences based on business decisions. For companies engaged in the consumer goods sector, considerations for implementing marketing strategy decisions which include line stretching, brand rejuvenation, brand repositioning, and brand extensions, need to be considered because this can extend the life cycle of a brand or product.

To support business sustainability, a management system is also needed. This will be much needed to keep the system in the organization. This system shows the management of the organization as a whole. Government and private organizations also implement this as a supporting capacity to carry out business activities properly. This management system includes planning, monitoring, checking, reviewing, and rewarding. In addition, the organization also implements a Key Performance Indicator system to be able to assess performance. There needs to be more than planning and implementation; organizations must formulate indicators to support good performance achievement.

The top-down approach and implementation of a governance-based culture also support business sustainability mechanisms. Companies can maintain the organization's continuity if they have a clear vision, including strategies to achieve it. This strategy also includes tactical aspects in the form of operational elements to carry out organizational activities properly. In addition, implementing activities is also expected to be based on a culture of good governance. This includes aspects of integrity, transparency, and accountability. These aspects ease companies to monitor aspects of the use of resources so that they can adequately support the achievement of organizational strategy. Regarding implementing programs to support ESG, the company has prioritized environmental protection, social aspects related to strengthening employee well-being and company conditions, and governance aspects, namely enforcing rules and ethics. These three ESG aspects can create more value for consumers and become a roadmap for developing products and marketing activities that lead to a better life, such as reducing carbon emissions, preventing deforestation, improving air and water quality, and sustainability. It is believed that the value and awareness of Go Green have been formed in society as part of the implications of the environmental aspect. The ecological safety aspect continues to grow because of the massive campaigns to save the environment from various sectors so that it becomes a general understanding for companies that implement it and will add value to the products they launch. The social aspect is similar to the environmental element in that consumers will tend to be more essential and increase value when using brands that reflect proper social activities, so companies are required to always be correct and appropriate in their operations and avoid the following things, namely paying low wages, employing children in underage. The governance aspect is essential in that violating the provisions can put the company at risk of revoking its license or not operating normally. Hence, compliance with this aspect is vital.

5 Conclusion

In principle, every business is closely related to all issues and challenges from an environmental, social, and governance perspective—and that is why running an ESG-oriented business is very important for every company in any field. The adoption of ESG-oriented business practices has a significant impact on establishing a social license. Social support will positively impact customers and the brands or products owned by the company.

First, when a company implements business practices that are oriented towards environmental aspects, where the company tries to give a good image that they are directly involved in helping address issues related to the environment. Second, when a company implements business practices that have an orientation to have a tangible impact on the local community or the wider community, that will also become added value, namely in the form of a positive reputation. Investors will understand that the company has a good vision that is important to the broader community. Third, when a company carries out business practices that implement good governance, it will take the company's image more into account because accountable companies that implement ESG orientation in their companies will automatically get a social license from their customers. In other words, customers will feel they are getting added value when they buy or use a product or brand from the company. This becomes one of the motivations to buy, which is no less important and can also be very significant in encouraging loyal consumers to the company.

5.1 Managerial Implications

ESG orientation is one of the ways companies can show commitment to social and environmental responsibility, increase stakeholder trust and improve company reputation. In addition, ESG orientation can also help companies manage risk and enhance long-term financial performance. ESG (Environmental, Social, and Governance) orientation can help create consumers who love the brands launched by the company in the following ways—first, showing commitment to social responsibility. Today's consumers are increasingly concerned with social and environmental issues and tend to value companies that firmly commit to social responsibility. A strong ESG orientation can help companies demonstrate this commitment so that consumers are more likely to love the brands launched by the company. Second, establish trust and transparency. Consumers also tend to trust and be loyal to brands recognized as trusted and transparent companies.

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