International Conference on Economics, Social Science and Humanities (ICESH) 2023
Volume 1, No 1, pp. 118-126 | ISSN 3047-9924

Implementation of Environment Social and Governance for Issuers on the Indonesia Stock Exchange

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Abstract

Social and environmental problems arise because of the incompatibility of cultural or societal elements, where the problems of environmental damage, poverty and unemployment become big problems if left unchecked. Given these problems, companies are required to play a role in overcoming and anticipating the addition of these problems. As a form of role in supporting sustainable development, companies are required to be open and convey their economic, environmental and social impacts openly by disclosing Environmental, Social and Governance (ESG) reports. This study aims to find out how the implementation of Environmental, Social and Governance in listed companies. This study uses a qualitative approach with the type of data used secondary data. The population in this study are all issuers on the Indonesia Stock Exchange. This research method uses a purposive sampling technique by taking a sample of issuers who have obtained ESG scores on the Indonesia Stock Exchange. The results of this study indicate that the listed issuers have implemented ESG as a whole. There are 80% of issuers that have implemented Environmental, Social and Governance with an ESG assessment that has been analyzed.

Keywords: *Environmental, Social and Governance*

INTRODUCTION

Background

The issues of global warming, environmental damage, unemployment, and other social problems require various parties, including companies operating in a country, to play a role in overcoming or at least anticipating that these problems will not be added by other operating activities. These companies are then demanded to openly convey their economic, environmental and social impacts in their annual reports, as a form of their role in sustainable development.

In the eyes of investors, especially institutional investors, viewing information related to environmental and social impacts is very important as a signal for measuring the company's sustainability and ethical impacts, in the context of making investment decisions for investors (Gonçalves & Silva, 2021). Companies may convey or disclose this information, either as part of an annual report, or specifically in sustainability reports, corporate social responsibility (CSR reports), or environmental, social and governance reports (environmental, social, and governance/ESG reports).

As in many countries, submission of sustainability reports is an obligation. In Indonesia, it is mandatory to submit sustainability reports to financial service institutions (LJK), issuers and public companies in stages. The Financial Services Authority (OJK) through OJK Regulation Number 51/POJK.03/2017 requires the submission of these reports to issuers, financial institutions and public companies. The Indonesia Stock Exchange (IDX) has also taken the initiative to require all companies listed on the IDX to report sustainability in 2022 (Sukmawijaya & Saputro, 2021).

CSRis the company's effort to have a positive impact on employees, consumers, the environment and the wider community. Meanwhile, ESG measures CSR efforts to arrive at a more accurate metric assessment of the activities carried out by the company. CSR aims to make business accountable. With such a wide variety of CSR activities, metrics are not fully measurable. So that the existence of this ESG on the other hand, can measure the lack of metrics from CSR efforts to be more accurate. Companies are better off embedding ESG into key business strategies to optimize CSR efforts. ESG's strength lies in its integration into the business and being goal oriented that aligns with company priorities.

Recently, some investors have come to believe that the ESG criteria serve a practical purpose beyond any ethical concerns. By following ESG criteria, they may be able to avoid companies whose practices may signal risk factors as evidenced by the 2010 BP (BP) oil spill and the Volkswagen emissions scandal, both of which rattled the company's stock price and resulted in billions of dollars in related losses.

The banking industry is a sector that has a relatively small profit margin and is vulnerable to systemic risk. Therefore, these industries are highly regulated by policy makers in each country. This has the potential to make a difference in the implementation of banking ESG. Meanwhile, the most prominent issues in developing countries are more massive environmental damage, high socio-economic inequality, and poor governance. Therefore, the role of financial institutions is needed to create a financial system that encourages sustainable performance in the banking sector.

Based on stakeholder theory, a company must be able to provide benefits to its stakeholders. This benefit can be provided by disclosing non-financial performance information. Through non-financial performance information, it can describe corporate governance, whether the company has social and environmental responsibilities, and to ensure that the company has a positive influence on the sustainability of society, employees and consumers (Sassen et al., 2016). Through complete information available, the company's performance picture becomes more transparent so as to reduce information asymmetry and gain legitimacy from the public.

Identification of Problems

Has the Issuer on the IDX implemented Environmental Social Governance?

Research Purposes

This study aims to find out how the implementation of ESG is applied to Issuers on the IDX in 2022, so that later this sustainability report using ESG is useful for investors to choose where they will invest.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory is a theory that explains how company management meets or manages stakeholder expectations. Stakeholders are groups or individuals who can influence achieving company goals or those who are influenced by company activities when the company is pursuing its goals (Solihin: 51: 2010).

Stakeholder theory is a theory that describes which parties (stakeholders) the company is responsible for (Adila, 2016). The goal of stakeholder management is to devise methods for managing various groups and the resulting relationships in a strategic way (Freeman and McVea, 2001). Companies must maintain stakeholder relationships by accommodating the wishes and needs of stakeholders, especially stakeholders who have power over the availability of resources used for the company's operational activities.

One of the strategies to maintain relations with the company's stakeholders is to carry out CSR, by implementing CSR it is hoped that the wishes of the stakeholders can be accommodated so that it will produce a harmonious relationship between the companies and their stakeholders. Harmonious relationships can result in companies that can achieve sustainability and sustainability of the company.

Stakeholder theory according to (Ghozali and Chairi, 2007) says that a company is not an entity that only operates for its own sake but must provide benefits to its stakeholders. Benefit withfor stakeholders (stakeholders, creditors, consumers, suppliers, government, community, analysts and other parties). Thus, the existence of a company is strongly influenced by the support provided by stakeholders to the company.

The existence of CSR programs is expected to improve the welfare of employees, customers and the surrounding community. Disclosure of CSR carried out by the company will get better at making stakeholders provide full support to the company for all its activities aimed at improving performance and achieving the expected profits. Corporate social responsibility is implemented for all stakeholders. Corporate CSR that accommodates the needs and interests of stakeholders arises because awareness of long-term corporate sustainability is more important than just increasing company profits (Banerjee, 2008).

Legitimacy Theory

Legitimacy theoryis a company management system that is oriented to the community, individual government, and community groups. Legitimacy theory in accounting explains that a company must maintain its legitimacy in the eyes of its stakeholders, including the government, investors, consumers and the general public, by meeting their expectations and demands of the company. Companies must demonstrate that they operate responsibly and ethically, and pay attention to relevant social and environmental issues. Legitimacy theory is also closely related to the concept of corporate social responsibility (CSR), because companies that fulfill their social responsibilities are expected to gain stronger legitimacy in the eyes of their stakeholders.

Legitimacy theory is based on the idea of a "social contract" between corporations and society. Companies disclose social responsibility information to present a socially responsible image so that they can legitimize their behavior to society (Branco & Rodrigues, 2006). Legitimacy theory adopts the view that companies will engage in using public disclosure to reduce societal pressure to legitimize their operations, since failure to comply with the "social contract" can result in sanctions such as reduced financial capital, fines, and reduced demand for their products.

Legitimacy theory is based on social contracts that occur between companies and the communities where companies operate and use economic resources. Organizational legitimacy can be seen as something given by society to companies and something that companies want or seek from society. The existence of legitimacy theory provides the foundation that companies must comply with the norms that apply in the community where the company is located so that the company's operations can also run smoothly without conflict from the surrounding community. For this, companies can adapt by developing Corporate Social Responsibility (CSR) programs. With the Corporate Social Responsibility (CSR) program, the company can make a positive contribution to the surrounding community so that the surrounding community can accept the existence of the company in their environment. Community legitimacy is a strategic factor for the company in order to develop the company going forward. This can be used as a vehicle for constructing corporate strategy, especially in relation to efforts to position oneself in an increasingly advanced society. Organizational legitimacy can be seen as something that companies want or seek from society. Thus, legitimacy is a potential benefit or resource for the company to survive (going concern) (Rambe, 2015). Community legitimacy is a strategic factor for the company in order to develop the company going forward. This can be used as a vehicle for constructing corporate strategy, especially in relation to efforts to position oneself in an increasingly advanced society. Organizational legitimacy can be seen as something that companies want or seek from society. Thus, legitimacy is a potential benefit or resource for the company to survive (going concern) (Rambe, 2015). Community legitimacy is a strategic factor for the company in order to develop the company going forward. This can be used as a vehicle for constructing corporate strategy, especially in relation to efforts to position oneself in an increasingly advanced society. Organizational legitimacy can be seen as something that companies want or seek from society. Thus, legitimacy is a potential benefit or resource for the company to survive (going concern) (Rambe, 2015).

ESG (Environmental Social and Governance)

Environmental social and government are the principles and standards of business and corporate management that follow certain criteria in order to have a positive impact on the social environment and governance. ESG refers to three central factors for measuring sustainability and ethical impacts in making decisions to invest in a particular business or company. These three factors are Environmental, Social, and Governance. Investors generally use the criteria for the three factors above in the consideration of choosing which investment to make (Park & Jang, 2021).

On environmental criteria, the ESG also discusses a company's energy use, waste, pollution, conservation of natural resources, and behavior towards flora and fauna. By placing environmental criteria in the company's risk management, of course, it will minimize the risks potentially present from these environmental criteria. This criterion can also be used to evaluate a company in terms of how the related corporate entity operates. ESG integration with a company must always be accompanied by commitment and implications for company policies. Of course, this commitment will have a positive impact – both on the company and on the environment. With good and supportive environmental conditions, a company will also get sustainability in its business operations. On environmental criteria,

On social criteria, ESG looks more at the relationship of a company externally. Communities, communities, suppliers, buyers, media, and other entities that have direct or indirect relationships are things that must be considered through ESG social criteria. Of course, whether a company is ready or not ready to adapt its position to social issues will affect the image of a company. Thus, focusing on and exploring social issues as a risk for company management is a consideration that must be implemented in company policy. Investors consider how companies manage their working relationships with employees, suppliers, customers and the communities in which they operate (Singh & Misra, 2021). Similar to environmental criteria,

On the governance criteria, the company focuses on how a company has a good and sustainable management process on its internal parts. If social criteria focus on external relations, then governance criteria look at the management or governance of a company. This criterion discusses and includes company activities, depending on the activities of management and company owners. So that the results or outputs that are designed such as company policies, company standards, culture, information disclosure, audit and compliance processes are things that are also considered. This is certainly a plus for the company. This added value can then be converted to give potential investors the confidence to invest in the company concerned.

In the governance criteria, investors consider how the company builds leadership that is able to carry out the principles of good governance and can be seen in the structure of the board of directors and board of commissioners, the remuneration system for directors and senior management, the audit system, internal control, and the protection of the rights of both majority and minority shareholders (Farooq et al., 2021).

An Investor who understands ESG will engage Environmental, Social and Governance (ESG) indicators to screen which companies have good scores. After that, he will invest in the company as an ongoing investment. ESG is a general term used in the capital markets by investors to evaluate the behavior of companies, as well as determine their future financial performance.

Investorstaking ESG factors into consideration investing has grown rapidly since the start of the decade, and is expected to continue to increase significantly over the next decade.

 ISSN 3047-9924

RESEARCH METHODS

This research is a type of qualitative research using secondary data in the form of sustainability reports. The population in this study are all issuers on the IDX. The sampling technique in this study used purposive sampling by taking a sample of issuers who have obtained ESG values on the Indonesia Stock Exchange.

ESG Assessment Analysis

In the ESG assessment, the author uses the score framework criteria, which includes the Environment, Social and Governance criteria.

Environment includes water management, energy management, greenhouse gas emissions, and waste management. Water management Water is the main need of living things. Water is also needed by humans not only as a raw material but also as a production medium, as irrigation water and other purposes. Within the scope of the company, water is crucial because it is to support operational needs such as toilets, ablution water, and watering the surrounding plants. Management of energy and greenhouse gas emissions, energy use by companies such as the use of electricity, machinery and fuel. Electricity and fuel are also crucial because they are needed to support work needs. The use of electricity using PLN which continues to be concerned because of the depletion of coal used. Energy management can be done using renewable energy, which is energy that comes from nature and can be renewed continuously, such as solar energy that comes from the sun. In this case how companies can manage energy and reduce greenhouse gas emissions to support sustainable conditions. Waste management, waste is leftover material from human production processes, reducing waste production and recycling is a concrete step in waste management. How does the company manage the waste that has been used, so as to support sustainable goals. In this case how companies can manage energy and reduce greenhouse gas emissions to support sustainable conditions. Waste management, waste is leftover material from human production processes, reducing waste production and recycling is a concrete step in waste management. How does the company manage the waste that has been used, so as to support sustainable goals. In this case how companies can manage energy and reduce greenhouse gas emissions to support sustainable conditions. Waste management, waste is leftover material from human production processes, reducing waste production and recycling is a concrete step in waste management. How does the company manage the waste that has been used, so as to support sustainable goals.

Social, as a whole social refers to the company's responsibility in the social and community sphere. Workforce management and workforce health are the company's efforts to manage and utilize human resources in the company effectively and efficiently to achieve organizational goals, such as training and development for employees, remuneration, health insurance and health services, as well as a decent, safe workplace. , and convenient. With this social responsibility, it makes employees feel comfortable and motivated as well as increasing the quality of human resources that can achieve organizational goals. Advertising and sales practices that companies do to continue to compete are by innovating in product development. In this global era, all activities are directed towards turning digital, besides that,

Governance affects the direction, management of a company which includes transparency and corporate disclosure in issued or published financial reports. Diversity, equality and inclusion, companies that apply justice to all employees regardless of race and ethnicity, as well as equality in top management positions between men and women, equality in the provision of training and development as well as employee salaries. Supply chain environmental and social impact management, a company that is selective in each vendor that provides its supply of goods by being accountable for environmental conditions. Climate change risk management, a company that manages climate change conditions that can affect company activities.

 ISSN 3047-9924

Assessment Criteria

Assessment is defined as the process of determining the value of an object. To be able to determine a value or price of an object, it is necessary to have a size or criteria. Assessment is the process of assigning or determining value to certain objects based on certain criteria. Thus, the authors use the following assessment criteria.

Risk Score	Category	Description
0 - 10	Negligible	Considered to have negligible ESG risk
10 - 20	Low	Considered to have a low ESG risk
20 - 30	Medium	Considered to have moderate ESG risk
30 - 40	high	Considered to have a high ESG risk
>40	Severe	Considered to have a severe ESG risk

RESULTS AND DISCUSSION

This chapter describes the results of research and discussion. The results of the research that has been carried out include an analysis of the ESG assessment of financial institutions listed on the IDX.

Overall, the majority of issuers reporting ESG values on the IDX are in accordance with what is in the sustainability report, which means that the company is considered to have ESG risk in accordance with predetermined criteria. In these three criteria, the Environment criterion is the most superior. Some issuers have used and implemented corporate environmental responsibilities such as Energy and Water Management.Energy management can be carried out by companies by using renewable energy such as the presence of solar energy in the sun to turn on garden lights around the company.Apart from energy, water is also a vital requirement for the company. Water is used by the Company for various purposes, namely the production process and various supporting activities. Just like energy, the availability of clean water is also increasingly limited. For this reason, the Company is committed to using water wisely and maintaining the sustainability of its sources.

In the ESG assessment, the authors use assessment criteria with a score of 0-10 categorized as Neligible or considered to have negligible ESG risk. Score 10-20 in the Low category or considered to have a low ESG risk. Score 20-30 Medium category or considered to have a moderate risk of ESG. A score of 30-40 is in the High category or is considered to have a high ESG risk, and a score >40 is in the Severe category or is considered to have a severe ESG risk.

From these data, the following results were obtained.

No	Code	Score	Category
1.	ERAA	12.67	Low
2.	BSDE	15.09	Low
3.	SCMA	15.35	Low
4.	EMTK	15.5	Low
5.	MNCN	17,7	Low
6.	TPIA	18.08	Low
7.	BMTR	18,14	Low
8.	UNVR	18,8	Low
9.	BBRI	18.84	Low
10.	ACES	18.95	Low
11.	SIDO	19.06	Low

 ISSN 3047-9924

No	Code	Score	Category
12.	CTRA	19,12	Low
13.	ASSA	19,24	Low
14.	MAPI	20,31	Medium
15.	PWON	20,41	Medium
16.	GOTO	21,12	Medium
17.	MLPL	22,63	Medium
18.	RMKE	22.74	Medium
19.	OPEN	24,44	Medium
20.	SMDR	24,46	Medium
21.	BFIN	25.02	Medium
22.	MICA	25,7	Medium
23.	BBNI	25,7	Medium
24.	SMRA	25,72	Medium
25.	AVIA	25.85	Medium
26.	BBCA	25.96	Medium
27.	TOWR	26,19	Medium
28.	BRPT	26,24	Medium
29.	AKRA	26,77	Medium
30.	BRIS	26.79	Medium
31.	TLKM	27.09	Medium
32.	TBIG	27.58	Medium
33.	WIFI	27,86	Medium
34.	PNLF	28.01	Medium
35.	INKP	28.07	Medium
36.	BMRI	28,18	Medium
37.	BBTN	28,44	Medium
38.	PGAS	28,44	Medium
39.	EXCL	28,62	Medium
40.	WIKA	29.76	Medium
41.	INTP	29,84	Medium
42.	TKIM	30.35	High
43.	ELSA	30,83	High
44.	PNBN	30.88	High
45.	MYOR	31,18	High
46.	MDKA	31.98	High
47.	HMSP	32.08	High
48.	ARTO	32,13	High
49.	SMGR	32,42	High
50.	AMRT	32,67	High
51.	SRTG	33,12	High
52.	ISAT	33,29	High
53.	LSIP	33.58	High
54.	PTBA	33,63	High
55.	HEAL	34,1	High
56.	INCO	34,14	High

No	Code	Score	Category
57.	ASII	34,19	High
58.	KLBF	34,42	High
59.	MTEL	34.55	High
60.	INDY	35.04	High
61.	TAPG	36,4	High
62.	MEDC	36,67	High
63.	PTPP	39,46	High
64.	INDF	39,63	High
65.	UNTR	40	High
66.	ANTM	40,14	Severe
67.	CPIN	41,17	Severe
68.	GGRM	41.77	Severe
69.	JPFA	42,42	Severe
70.	ICBP	42.99	Severe
71.	ADRO	43,6	Severe
72.	DOID	44.35	Severe
73.	HRUM	44,69	Severe
74.	WSKT	45.08	Severe
75.	ITMG	45,42	Severe
76.	AALI	45,8	Severe
77.	ENRG	46,23	Severe
78.	ESSA	48.02	Severe
79.	BRMS	50,43	Severe
80.	TINS	52,37	Severe

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on these results, it can be concluded

1. In terms of Environmental criteria, Issuers on the IDX have partially implemented the management of energy, waste water and gas emissions that have an impact on the environment
2. The application of social criteria for listed issuers on the IDX has been partially implemented with responsibility to society
3. Some of the implementation of Governance has also been applied to listed issuers with the management of corporate governance
4. In general, Issuers who have implemented ESG are 80% of the total on the IDX with different ratings and categories according to what has been disclosed in the sustainability report.

Suggestion

1. Future researchers are expected to examine more sources or references related to the object under study so that the research results are even more complete.
2. The object of this research is expected to be expanded further and not limited to issuers that are listed on the IDX, but other issuers that are not listed on the IDX.
3. Future researchers are advised to improve accuracy, both in terms of data completeness and the process of seeking information.

ISSN 3047-9924

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