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Sustainable Entrepreneurship: How are Companies Across Industries Implementing ESG Principles in Indonesia?

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Abstract: Sustainable entrepreneurship involves developing and running a business while also creating long-term economic value. Sustainable entrepreneurship and Environmental, Social, and Governance (ESG) principles have evolved rapidly, emphasizing the significance of sustainability and social responsibility in business practices. The ESG principles, which encompass environmental sustainability, social responsibility, and good governance, have become a critical component of sustainable entrepreneurship strategies. This study aims to provide a comprehensive overview of how ESG practices are being adopted in the Indonesian context. This research uses qualitative approach to analyze the phenomena and the finding shows that a diverse range of ESG practices among Indonesian companies, reflecting their commitment to sustainability, social responsibility, and ethical governance. Despite differences in industry and scale, these companies share common themes in their approach to ESG.

Keywords: *ESG principles, ethical business practices, stakeholder satisfaction*

I. INTRODUCTION

Entrepreneurship and business sustainability are interconnected concepts that have gained significant importance in the modern business landscape. Sustainable entrepreneurship refers to the practice of developing and running a business in a way that minimizes harm to the environment and society while creating long-term economic value. This approach not only benefits the business but also contributes to the well-being of the community and the planet (Cohen & Winn, 2007). It emphasizes the importance of environmental sustainability, social responsibility, and good governance. This type of entrepreneurship is driven by the need to address the world's most critical issues, such as climate change, social inequality, and economic instability (Sachs, 2015).

Companies adopt sustainable entrepreneurship practices in terms of environmental sustainability, such as using renewable energy sources, reducing packaging, and implementing recycling programs. Whereas social responsibility adapt in a company includes treating employees fairly, engaging positively with the community, and addressing social issues like diversity and inclusion. Companies that prioritize social responsibility often attract top talent and build strong relationships with stakeholders. Furthermore, in the good governance aspect, it ensures transparency, accountability, and ethical behavior within the organization. Strong governance structures help mitigate risks and ensure that business practices are ethical and compliant with laws and regulations (Carroll & Buchholtz, 2014; Eccles et al., 2014). These are some benefits for companies when implementing sustainable entrepreneurship (Du et al., 2010; Clark et al., 2015; Turban & Greening, 1997; Nidumolu et al., 2009):

1. Brand Reputation

Companies that adopt sustainable practices can improve their brand reputation by demonstrating a commitment to environmental and social responsibility, which can result in greater customer loyalty and a more favorable brand image.

2. Attracting Investors

Investors such as venture capitalists, increasingly consider ESG criteria when making investment decisions. This creates a beneficial relationship between ethical business practices and financial support.

3. Talent Attraction and Retention

A company's commitment to social responsibility can position it as an attractive employer for top talent. Employees are more likely to be motivated and dedicated when they work for a company that prioritizes their shareholders.

4. Innovation and Market Opportunities

Sustainable entrepreneurship encourages innovation, particularly in addressing environmental challenges. Companies that develop sustainable technologies and products can capitalize on emerging market opportunities and gain a competitive edge.

The relationship between sustainable entrepreneurship and Environmental, Social, and Governance (ESG) principles is dynamic and continuously evolving, emphasizing the significance of sustainability and social responsibility in business practices. The ESG principles, which encompass environmental sustainability, social responsibility, and good governance, have become a critical component of entrepreneurial strategies which are influencing the businesses sustainability (Aksoy et al., 2019).

The concept of Environmental, Social, and Governance (ESG) principles has evolved significantly over the years. In The mid-2000s, highlighted by the United Nations' 2004 report, emphasized the importance of integrating ESG principles into business practices, encouraging stakeholders to prioritize sustainability, respect, and diversity. The report's impact was substantial, leading to increased international attention on these issues and the subsequent development of various frameworks and regulations (Ilâ & Sizova, 2023).

One of the earliest frameworks was the Global Reporting Initiative (GRI), established in 1997, provided a framework for companies to report their responsible environmental practices and promote transparency and accountability in ESG reporting. Other frameworks are the Carbon Disclosure Project (CDP), started in 2000, focused on environmental disclosure and risk management, and the Sustainability Accounting Standards Board (SASB), which started in 2011 to develop standards for sustainability and financial fundamentals.

Those frameworks were developed because of the awareness of preserving the environment. The importance of ESG principles cannot be overstated. ESG principles also highlight the importance of respecting human rights, conducting ethical business practices, and managing risks effectively. These principles are crucial for driving sustainable and responsible business practices, as they help organizations understand and manage their impact on the environment and society.

The implementation of ESG principles is critical towards sustainable investing. It develops a strong portfolio that attracts investment. Companies that are implementing ESG are often seen as performing better and safer for all stakeholders, including investors, employees, customers, and the society (Türke & Avrilia, 2024; Figge et al., 2002). Furthermore, it helps organizations understand and manage their impact on society and environment, identify and mitigate risks, capture new opportunities, and enhance brand value and trust (Anis & Avrilia, 2024; Fatemi et al., 2018)).

According to Aksoy et al. (2019), firms in emerging markets often face significant hurdles in environmental management, social inclusiveness, and governance practices due to regulatory gaps, economic constraints, and socio-political complexities. However, these markets also offer substantial opportunities for growth and development through sustainable practices (Tanaka, 2017).

Fernandez-Feijoo et al. (2014) highlighted that stakeholder pressure significantly influences the transparency and effectiveness of ESG reporting in emerging markets. Companies that proactively engage in ESG practices often gain competitive advantages, including enhanced reputation, better risk management, and increased investor confidence (Ioannou & Serafeim, 2017).

In Indonesia, Environmental, Social, and Governance (ESG) are increasingly recognized as essential components of sustainable business practices. The integration of ESG principles is becoming a focal point for business leaders aiming to enhance corporate responsibility and sustainability. The relevance of ESG in Indonesia is underscored by the country's distinctive environmental and social challenges. As an emerging economy, Indonesia faces significant issues such as deforestation, social inequality, and governance-related concerns.

However, Aksoy et al. (2021) pointed out that service firms in particular, face difficulties in communicating their ESG initiatives to customers. This often happens because ESG metrics are typically designed to meet the needs of investors and regulators rather than customers, who may not perceive these initiatives are relevant to their needs (Peloza et al., 2012; Aksoy et al., 2022).

Despite these challenges, there are notable opportunities for Indonesian businesses to lead in ESG practices. Companies that successfully integrate ESG into their core operations not only have the ability to mitigate risks but also capitalize on new market opportunities, attract and retain talent, and build stronger relationships with stakeholders (Aksoy et al., 2019).

This study aims to provide a comprehensive overview of how ESG practices are being adopted in the Indonesian context, offering insights into the effectiveness of these practices. It also investigates how Indonesian business leaders implement ESG practices within their companies.

II. METHODOLOGY

This study employs a qualitative research approach to explore how Indonesian business leaders implement the context of Environmental, Social, and Governance (ESG) principles into their corporate strategies and business practice. Qualitative research is used to develop and capture the essence of phenomena by exploring its nature, quality, and context. It seeks to understand why certain behaviors or attitudes exist, rather than merely describing their frequency or prevalence. Thus, qualitative approach involves collecting and analyzing non-numerical data, such as text, video, or audio, to gain in-depth insights into concepts, opinions, or experiences. This approach is particularly useful in the social sciences for answering questions that are not easily quantifiable, such as understanding the lived experiences of individuals or groups, or examining the cultural practices within a community, human behavior, social interactions, and cultural practices (Busetto et al., 2020).

Qualitative research utilizes a variety of data collection methods to gather rich and detailed information. These methods include (Busetto et al., 2020):

Observations: This involves recording what is observed in detailed field notes. Observations can be participant or non-participant, depending on the level of involvement the researcher wishes to have. For instance, in a study on classroom dynamics, a researcher might observe both the teacher and students to understand how they interact with each other (Busetto et al., 2020).

Interviews: Semi-structured interviews are commonly used in qualitative research. These interviews allow for both structured questions and the opportunity for the interviewee to provide additional information not covered by the researcher. For example, in a study on job satisfaction, semi-structured interviews can provide detailed insights into employees' experiences and perceptions.

Focus Groups: These involve asking questions and generating discussion among a group of people. Focus groups can be used to gather diverse perspectives and to explore how different individuals respond to the same questions. For instance, in a study on consumer behavior, focus groups can help identify common themes and opinions among different demographic groups.

Surveys: Unlike quantitative surveys, qualitative surveys often use open-ended questions that allow respondents to provide detailed responses in their own words. This method is particularly useful for gathering nuanced information that might not be captured through closed-ended questions.

Secondary Research: This involves collecting existing data in the form of texts, images, audio or video recordings, etc. Secondary research can provide valuable background information and context for the primary data collected. For example, in a study on historical events, secondary research can provide primary sources such as documents and interviews that offer firsthand accounts.

This study uses primary data collected through semi-structured interviews with leaders from nine different companies across various industries in Indonesia. The companies were selected based on their prominence in their respective industries and their commitment to ESG principles. The selected companies are in the industry area of Apparel & Fashion, Food and Beverage, Manufacturing, Services, Technology, and Woodworking.

The interviews were conducted using a standardized protocol to ensure consistency and reliability. The interview questions were divided into three main categories: Environmental, Social, and Governance criteria. Each category included specific questions tailored to obtain detailed responses about the company's practices, challenges, and strategies related to ESG

The interviews were recorded (with the interviewee's consent) and transcribed for analysis. Detailed notes were also taken during the interviews to capture key points and insights.

The data collected from the interviews were analyzed using thematic analysis. The steps involved in the analysis included:

Transcription: Transcribing the recorded interviews to create a text-based dataset.

Coding: Identifying and coding key themes and patterns related to ESG practices across the different companies.

Thematic Analysis: Grouping the coded data into broader themes to identify common practices, challenges, and strategies in ESG implementation.

Synthesis: Synthesizing the findings to draw conclusions about the effectiveness of ESG practices among Indonesian business leaders.

III. ANALYSIS AND RESULTS

Environmental Practices

Apparel & Fashion

The company has integrated several environmentally friendly practices into its operations. The company focuses on sustainable material sourcing and energy efficiency. The Co-Founder mentioned that they have implemented processes to reduce waste and ensure compliance with environmental regulations. They have also engaged in community initiatives to promote environmental awareness.

Food and Beverage

Company uses sustainable materials and implements energy-efficient practices in its restaurants and delivery services. The Founder highlighted their efforts to minimize waste and adhere to environmental regulations. The company has also initiated innovative approaches to food packaging and logistics to reduce their environmental footprint.

The other company focuses on sustainability through the use of renewable energy and waste reduction in their operations. They emphasize their commitment to integrating sustainable practices across all aspects of the business.

Manufacturing

The company employs innovative technologies to minimize its environmental impact. The President Director, shared examples of how the company integrates sustainability into its long-term plans and engages with local communities to mitigate their environmental impact.

The other company also prioritizes transparency and accountability in resource consumption. The Founder described their efforts to reduce the company's carbon footprint through ethical waste disposal and proactive environmental practices.

The other company has been proactive in integrating sustainable practices such as using waste oil in their production processes and engaging in extensive tree planting initiatives. Their efforts include building green-certified infrastructure and conducting community-based environmental programs.

Services

The company implements eco-friendly practices in their pet care services. The company has adopted sustainable grooming products and practices, and they actively engage in community initiatives to promote environmental responsibility.

Technology

The company utilizes blockchain technology to facilitate carbon credit trading, making it easier for businesses to reduce their carbon footprints. They also engage in educational initiatives to raise awareness about climate change.

Woodworking

The company emphasizes the use of sustainable materials, efficient energy usage, and local sourcing. They also have initiatives to reduce waste and support community welfare through employment and charitable activities.

Social Practices

Apparel & Fashion

The company promotes employee welfare, diversity, and inclusion through various initiatives. The Co-Founder provided examples of programs aimed at enhancing employee well-being and fostering a diverse workplace. The company also engages in community partnerships to create long-term societal value.

Food and Beverage

The company ensures the well-being of its employees and fosters a culture of inclusion. The Founder highlighted their commitment to creating positive societal impacts through community engagement and ethical sourcing practices. The other company engages in community partnerships and promotes social equality within their operations. The

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Founder described their efforts to foster a diverse and inclusive workplace.

Manufacturing

The company has implemented policies to promote social equality and support employee development. The President Director, shared initiatives aimed at improving employee welfare and fostering positive relationships with local communities.

The other company focuses on creating a safe and healthy working environment, such as programs for continuous employee learning and development, as well as their community engagement activities.

The other company engages in various community development projects, including urban agriculture and educational initiatives, to enhance social well-being and economic opportunities in local communities.

Services

The company promotes social responsibility through initiatives that support employee well-being and community involvement. The company also ensures ethical practices in their supply chain to protect human rights.

Technology

The company runs social programs aimed at educating young adults about climate change and the role of blockchain technology in environmental sustainability.

Woodworking

The company focuses on employee well-being, inclusive hiring practices, and community engagement. Their initiatives include creating job opportunities for local residents and supporting local suppliers.

Governance Practices

Apparel & Fashion

The company emphasizes ethical leadership and decision-making. They provide examples of how the company ensures that ethical considerations are ingrained in their processes. They also have robust risk assessment procedures to identify and mitigate potential issues.

Food and Beverage

The company upholds high standards of corporate ethics and governance. They conduct a continuous learning and adaptability in response to emerging sustainability challenges.

The other company ensures the board accountability and agility in problem-solving. They highlighted their communication channels between the board and management to facilitate quick and effective responses to challenges.

Manufacturing

The company fosters a culture of transparency and ethical conduct. They shared their processes for managing risks related to sustainability and maintaining accountability within the organization.

The other company integrates transparency into their operations and has effective procedures for reporting unethical practices. They discussed their approach to managing conflicts of interest and ensuring compliance with regulations.

The other company demonstrates strong governance through compliance with both local and international environmental laws, and by integrating sustainability into their corporate strategy.

Services

The company maintains robust governance practices, focusing on transparency and ethical decision-making. The company also emphasizes the importance of continuous improvement and adaptability in their sustainability strategy.

Technology

The company emphasizes transparency and compliance with international standards in their carbon credit trading activities, ensuring ethical governance and stakeholder trust.

Woodworking

The company maintains high standards of transparency and ethical procurement practices, ensuring compliance with human rights and fair-trade standards.

IV. DISCUSSION

The findings reveal a diverse range of ESG practices among Indonesian companies, reflecting their commitment to sustainability, social responsibility, and ethical governance. Despite differences in industry and scale, these companies share common themes in their approach to ESG.

Environmental Practices: Companies are increasingly adopting sustainable practices, with a strong focus on reducing waste, improving energy efficiency, and ensuring compliance with environmental regulations. Innovation in environmental protection is evident, particularly in the adoption of new technologies and practices.

Social Practices: Employee welfare, diversity, and community engagement are key priorities. Companies are implementing various initiatives to promote a positive working environment and contribute to societal well-being. Ethical sourcing and supply chain transparency are also emphasized.

Governance Practices: Ethical leadership and decision-making are central to governance practices. Companies have established robust procedures for risk assessment and compliance, ensuring that ethical considerations are integrated into their operations. Continuous learning and adaptability are critical for responding to sustainability challenges.

V. CONCLUSION

This study highlights the commitment of Indonesian business leaders to implement ESG principles into their sustainable entrepreneurship strategies. The findings demonstrate that while there are industry-specific challenges and opportunities, common themes in environmental, social, and governance practices emerge across different industry.

There are several key contributions, which are in environmental aspect, company in Indonesia context focus on adoption of sustainable practices and innovation in environmental protection.

Whereas in social aspect, the issues are in the promotion of employee welfare, diversity, and community engagement. The last, in governance aspect, the issues emphasize on the ethical leadership, transparency, and continuous improvement.

These practices not only contribute to the sustainability and ethical standing of the companies but also enhance their competitiveness and stakeholder relationships.

Future research could expand on these findings by exploring the quantitative impact of ESG practices on company performance and stakeholder satisfaction. Additionally, examining the role of regulatory frameworks and industry standards in shaping ESG practices would provide valuable insights for policymakers and business leaders.

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