



Identifying Environmental, Social, and Governance (ESG) Implementation towards Growth and Sustainability: A Case Study at Assisted Micro, Small, and Medium Enterprise (MSME) by Bank Indonesia

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ABSTRACT: As one of the financial institutions in Indonesia which also has important role in determining the direction of Indonesia Economy, Bank Indonesia currently already assist 1.143 MSMEs within several sectors. Previously known that approximately 59,1% of total assisted MSMEs are dominantly still not adapting the environmentally friendly practice into their business. With the requirement of Environmental, Social, Governance (ESG) implementation within every organization as well as enterprises become necessary since already stated in the provision POJK No. 51/POJK.03/2017. Whereas Environmental is one of the elements on ESG itself. Through the ESG implementation particularly for enterprises, it offers added-value for the business itself. Not only added-value, ESG implementation could also lead to the growth and sustainability which also become important for the enterprises. The research aims to provide portrait/mapping the condition of assisted MSMEs based on ESG elements. Through the literature review, author enrich the rubrication measurement tool of assisted MSMEs with the ESG standard that already used internationally i.e. Sustainable Accounting Standards Board (SASB) and Climate Disclosure Standards Board (CDSB). all of the ESG elements have significant impact on Growth and Sustainability. The result also shown that there is one sub-indicator which comes from Social element regarding pension insurance which has high influence to the assisted MSMEs business but most of the respondent haven't concerned about it yet. There are other items with high influence to the business but still need to be improved which are leave for employee, health facilities guarantees, diversity and stakeholder support. Other than that, since the dominant of respondent are coming from Processing Industry, the subindicator regarding guarantee for consumer health and safety need to be considered. The result of this research could be the recommendations both for Bank Indonesia and assisted MSMEs which requires special concern for ESG elements if the enterprises want to achieve growing and sustainable business ahead.

KEYWORDS: Environmental, Growth, Sustainability, Micro, Small and Medium Enterprise (MSME), Social and Governance (ESG).

I. INTRODUCTION

A. Background

Micro, Small and Medium Enterprises (MSMEs) offer big contribution in nation economy in the amount of 60.51% contribution of GDP. Indonesia MSMEs itself is showing growth with the particular 1.98% increase of the total MSMEs at the year 2019 compare to the previous year which reached 64,19 million units. This shows that MSMEs is a very potential market. MSMEs are seen as the 'backbone' of economy in Indonesia due to their specific contribution to economic growth. Since the MSMEs put necessary role to Indonesian economy, provide a lot of employment, disclose the access for entrepreneurship, there must be some concern on the development of MSMEs itself, either internally or externally. As stated before, MSMEs in Indonesia is very potential market to develop, Ministries as well institutions in Indonesia conduct several attempt to support the small and medium enterprises to develop, unexceptionally Bank Indonesia. One form of Bank Indonesia's empowerment of MSMEs is through the development of green MSMEs. The creation of green MSMEs business model by Bank Indonesia adapting what (Koirala, 2019) wrote at the paper that the OECD typology distinguishes between 3 (three) types of green MSMEs; (i) Eco-adopters, (ii) Eco-entrepreneurs, (iii) Eco-innovators.

B. Business Issue

The previous research which conducted by DUPK Bank Indonesia using measurement tool that had been compiled on 14 selected MSMEs in agricultural and craft sector from fulfilling environmentally friendly practices, it was found only 8 (eight)

MSMEs that classified to the eco-innovator level, while others still in the eco-adopters and eco-entrepreneurs- level. The previous research also shown that with the total of 1143 assisted MSMEs by Bank Indonesia, there are only 163 MSMEs which already have implemented environmentally friendly practices and have zero waste, or around 14,3%. From the figure II. 1 below seen that assisted MSMEs dominantly still not adapting the environmentally friendly practice into the business, specifically in processing industry in the amount of 59,1%.

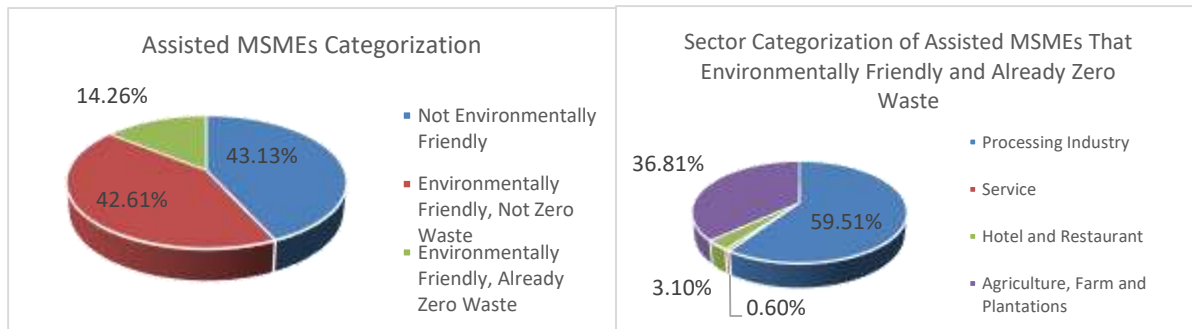


Figure I. 1. Bank Indonesia Assisted MSMEs

What needs to be considered is the dominance of assisted MSMEs that have not implemented environmentally friendly practices around 43,1% or about 493 MSMEs. Since Environmental is one of the elements which builds the Environmental, Social and Governance (ESG) as well as in accordance with the ESG adoptions itself that already stated in the provision POJK No. 51/POJK.03/2017 that there is requirement of Environmental, Social, Governance (ESG) implementation in the business activity. MSMEs need to consider the ESG practices to their business activity. There is still room for enrichment in order to assisted MSMEs consider and implement the ESG into their business activity. Hence, through this research hopefully will provide the portrait/mapping current circumstance of assisted MSMEs by Bank Indonesia based on the ESG elements.

II. LITERATURE REVIEW

A. Environmental, Social, and Governance (ESG)

Environmental, Social and Governance (ESG) is defined as firm’s obligation to improve the social welfare, sustainable long-term wealth for stakeholders (Mohammad & Wasiuzzaman, 2021). ESG are the 3 (three) elements that used for measuring the sustainability or investment of organization/enterprise, consist of:

- Environment (E) element can be in the form of the production of goods (if the organization/enterprise offer products) or even the service as well as their climate impacts (e.g. energy transition, greenhouse gas emissions). Since every business uses energy and resources, climates effects could influence it as well.
- Social (S) element is more likely addressing the relationship of the company with the environment as well as neighborhood where the business is running. It includes for firm’s employee engagement, relationship, and diversity until the fairness on human rights within the firm. Other than that, social element also require partnership with the community around them.
- Governance (G) element is involving the transparency, board composition, the ethics and their compliance (Cronin & Doyle-Kent, 2022). Specifically governance covers the firm’s internal system of practices, controls, and procedures to govern its business.

There are several standards which can support organization in order adopting the ESG into their business activity. The 4 (four) ESG standards that commonly used are:

1. Sustainability Accounting Standards Board (SASB)

Sustainability Accounting Standards Board (SASB) is an independent non-profit organization which establishes guidelines to help firms disclose to investors regarding sustainability information which is financially significant. SASB refers to the measurement, management and reporting of firms operation when discussing sustainability accounting. It demonstrates how the firms production of goods and services have influence on the environment and society. It also takes



into account how sustainability issues have an impact on innovation, business models as well as corporate governance (SASB, 2017).

2. Climate Disclosure Standards Board (CDSB)

Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental non-governmental organization which hosted by Carbon Disclosure Project (CDP). The CDSB Framework sets out an approach to reporting environmental and social information in mainstream reports.

3. Global Reporting Index (GRI) Standard

GRI Standard which issued by Global Sustainability Standard Board (GGSB) can allow a firm to report information about the biggest effects on the economy, environment and people including about how it manages these impacts on its human rights.

4. International Integrated Reporting Council (IIRC)

International Integrated Reporting Council (IIRC) is an international cross section leaders from variety of fields including civil society, academia, the business, investing, accounting, securities, regulatory and standard-setting sectors. In order to assist organization in making more sustainable decisions, IIRC released the Integrated Reporting which establishes connections between organizational strategy, governance, financial performance and the environmental, social, and economic context. The most recent edition of the IR Framework from January 2021 states that the core idea of value creation is a result of corporate interactions, relationships and activities.

B. Business Growth and Sustainability

Nowadays, businesses grow naturally within the process, therefore growth has become essential under all circumstances. Businesses must create new products and services in order to expand into new markets and bring prosperity as a result. Growth also be the component of business strategy which could assist firms become more competitive while also influencing how well they perform against other organization within the similar sector (Wheelen & Hunger, 2012). Businesses must be engaged in continuous change and development process if they want to create progress for their businesses. In other words, (Durmaz & Ilhan, 2015) stated that growth is a way to demonstrate the firms is on the track with the aim to achieve its goals and objectives. Growth itself also be in the form of an increase in the size and quantity of several business components such as those which related to real estate, technology, human resources and etc. (Cantele & Zardini, 2018) through their research defined that business growth could become the competitive advantage which effect from environmental and social element implementation of the business. Thus, growth is necessary for businesses to survive in every circumstances.

Other than the growth, the other part which become important for businesses is sustainability. Business sustainability is the capacity of an organization to respond to its short-term financial needs without compromising business capacity to identify in order to meet its customers needs (Bansal & DesJardine, 2014). Sustainability in business is described by as a voluntary activity which generates income for its firms while also helping in addressing environmental and societal issues (Schaltegger, Freund, & Hansen, 2012). Correlating with the triple bottom line, which already described before as well, as the ideological foundation of sustainable business, sustainability itself is balancing and creating future products and services with the economic, social as well ecological benefits (Ferreira, Fernandes, Veiga, & Hughes, 2021). Therefore, businesses need suitable and reliable models which can offer solutions for connecting those components.

III. RESEARCH METHODOLOGY & FRAMEWORK

The research used primary data through questionnaire with the MSMEs to get the comprehensive and valid information to formulate the suitable approach for growth and sustainability of assisted MSMEs by Bank Indonesia. The questionnaire consists of 3 (three) main elements which are Environmental, Social and Governance that breakdown into 12 (twelve) indicators; 6 indicators from Environmental, 3 indicators from Social and 3 indicators from Governance. With the total 60 statements in the questionnaire without any open question. The respondents will be intended for assisted MSMEs by Bank Indonesia in every sector that located throughout Indonesia, from Java, Sumatera, Kalimantan, Bali, Sulawesi, Maluku, Papua and etc. With the total population of 1143 MSMEs, the sample size of the research is approximately 93 MSMEs assisted by Bank Indonesia will participate within various sectors.



In this research design, author starts the research by understanding the current condition of assisted MSMEs by Bank Indonesia. After that, determine the research questions as well as research objectives to address the issue/opportunity that author stated through the research. To address the issue/opportunity, author equipped with the literature review that related to the Environmental, Social and Governance (ESG), Business Growth, Business Sustainability through books, papers, journals, as well as articles. Through the literature review can provide evidence of an effect, set standards for policy and/or practice, and provide the foundation for knowledge development to support the research.

Based on the research objectives and literature review, the framework of this research will be based on the hypothetical model as shown in figure below. The hypothetical model is depicted to understand how significant the correlation among the ESG elements i.e. Environmental, Social and Governance (the independent variables) with the Growth and Sustainability (dependent variables) of the MSMEs itself. The calculation is done by using simple linear regression analysis method with SPSS software.

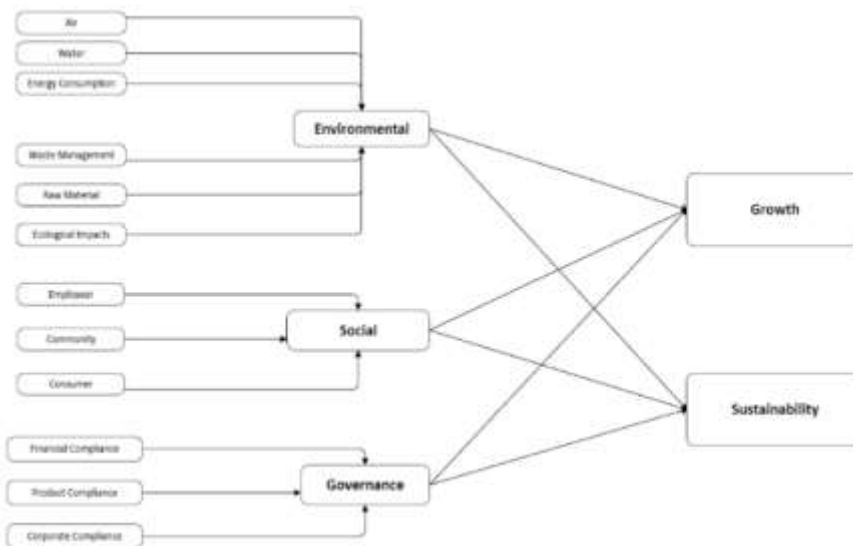


Figure III. 1. Model Variable

IV. RESULT AND DISCUSSION

A. Respondent Profile

The result from the questionnaire, majority of respondents were female (59,2%), aged between 47 – 56 years old (34,4%), located in the Java island (31,2%), with dominantly on micro enterprise categorization (65,6%) within processing industry sector (90,3%).

Table IV. 1 Respondent Profile

Respondent Profile	Frequency	%
Gender		
Male	38	40,9%
Female	55	59,1%
Age		
< 17 tahun	2	2,2%
17 - 26 tahun	3	3,2%
27 - 36 tahun	21	22,6%
37 - 46 tahun	30	32,3%
47 - 56 tahun	32	34,4%
> 57 tahun	5	5,4%



MSME Location		
Sumatera	27	29,0%
Java	29	31,2%
Bali	7	7,5%
Kalimantan	8	8,6%
Sulawesi	18	19,4%
Maluku	3	3,2%
Papua	1	1,1%
MSME Categorization		
Micro Enterprise	61	65,6%
Smal Enterprise	24	25,8%
Medium Enterprise	8	8,6%
MSME Sector		
Processing Industry	84	91,3%
Wholesale and Retail Trade	3	3,3%
Agriculture, Forestry and Fishing	5	5,4%

B. Simple Regression Analysis

After passing the normality, validity, and reliability tests, the next step is a simple linear regression analysis. From the regression result, depicts that the value of R² is percentage of independent variables (environmental, social and governance) affects the dependent variables (growth and sustainability).

Table IV. 2 Simple Linear Regression Result

No	Independent Variable	Dependent Variable	R2	Beta	Sig.	Result
1.	Environmental	Growth	0,076	0,031	0,008	Ho Rejected
		Sustainability	0,095	0,022	0,003	Ho Rejected
2.	Social	Growth	0,153	0,057	0,000	Ho Rejected
		Sustainability	0,273	0,048	0,000	Ho Rejected
3.	Governance	Growth	0,122	0,064	0,001	Ho Rejected
		Sustainability	0,276	0,060	0,000	Ho Rejected

From the previous subchapter that already explained, it can be summarized that:

- With the significant value less than the probability value (< 0,05), as well as reject all the null hypothesis, hence, all of the ESG elements have significant impact on Growth and Sustainability.
- Both Environmental, Social and Governance elements have more influence on Sustainability respectively in the amount of 9,5%, 27,3%, and 27,6%. In other words, this requires certain attention if the firms want to have the sustainable business.
- All of ESG elements (Environmental, Social as well as Governance) have direct relationship with each of dependent variables (Growth and Sustainability) since each of the Beta value obtained are in the positive value. On the other hand, for the Significant Value of all elements in the amount of less than the probability value (<0,05), hence, all of ESG elements have significant impact towards Growth and Sustainability.

C. Influence and Variable Score Matrix

From the matrix influence and variable score of growth as well as sustainability, there is one item which has to be the top priority for MSME, the one with the red box on the matrix. As a result, Social element which consists of Employee Health and Safety is the top priority to be improved since the influence score is high and the average score of current condition is low.

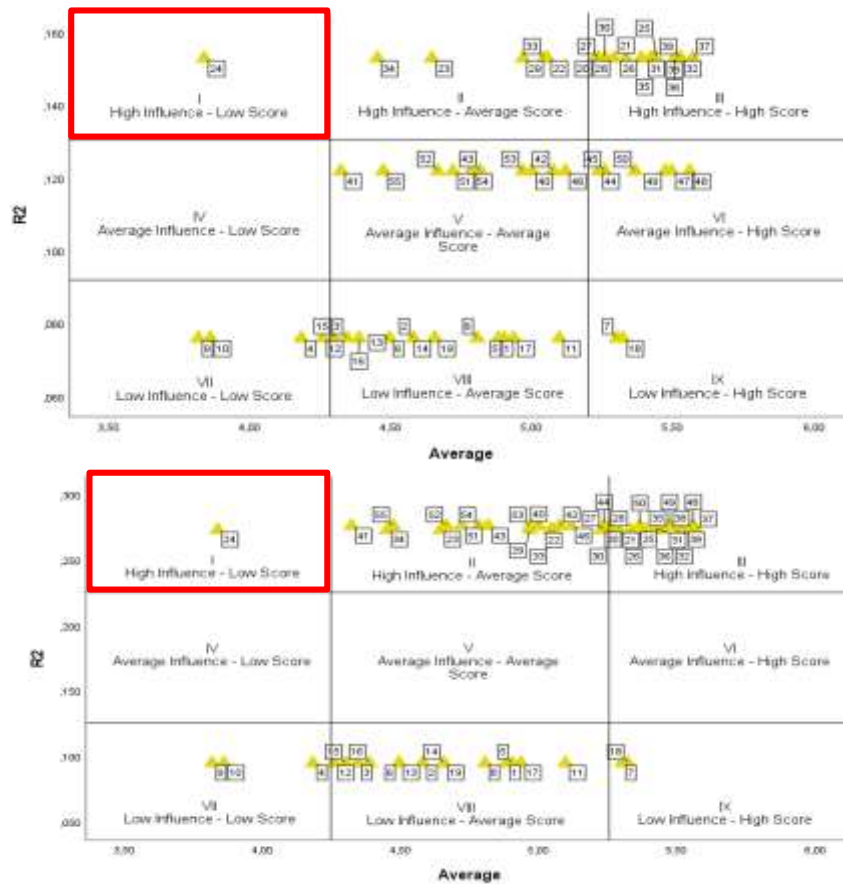


Figure IV. 1. Influence and Variable Score Matrix

The one that needs to be highlighted is about the employee health and safety. Since it is necessary for the employer or MSMEs owner to consider as well as adopt the proper health and safety implementation within the enterprises. The health and safety of employee could cover for occupational health and safety standard (standard K3), implementation of leave for employee, health insurance as well as pension insurance. Specifically for the result, the one that has high influence but low score is regarding pensioin insurance. This is undeniably important because these are rights that must be obtained by employees according to UU No. 11 of 2020 concerning Job Creation. Employers are supposed to organize these things in the firms internal rules which have been agreed upon between firms and employees during the recruitment process. Hence, it will be transparent and fair both for the firms as well as employees.

Other than the items to be considered are covers for Social element. Specifically for Employee Health and Safety with specifically consists for the leave for each of employee and health facilities guarantees, diversity and stakeholder support. Hence if the business want to have growing as well as sustainable business, MSMEs Entrepreneurs need to take concern on this to create plan or other optimize those item.

Besides that, since the majority’s sector within the research is Processing Industry sector, the product labelling specifically for the guarantee for consumer health and safety item become necessary. For about approximately 7,53% still not think that consumer health and safety is not priority. Hence, it might affects the continuity of the business since most likely consumer will



definitely be more selective in choosing products that guarantee health and safety for themselves, for instance the products which already proven not contain dangerous ingredients.

In general, assisted MSMEs by Bank Indonesia that need to be improved are the items which have high influence for the business but the perceptions of MSMEs entrepreneurs are still low. Also the item which cover for guarantee for consumer health and safety, since the dominant MSMEs were coming from Processing Industry sector. Hence from the data and analysis above, the author proposes several solutions for the assisted MSMEs by Bank Indonesia in order to keep growing above other player within the same industry and keep surviving as well as thriving in every circumstance, namely:

- a. Optimize the Role of Consumer Protection Institutions. Through the Consumer Protection Program, Bank Indonesia Regional Representative Office (KPwDN) could be the mediator between assisted MSMEs and consumer protection institutions particularly for the relation with Lembaga Perlindungan Konsumen Swadaya Masyarakat (LPKSM) which also registered with the provincial government.
- b. Optimize the Role of Community Through the Community Empowerment Program (PPM) with the help of Bank Indonesia Representative Office (KPwDN) could facilitate the program which aims to enhance and improve skill from the surrounding community so that the labor which can be hired for assisted MSMEs will increase, such as training and evaluation on effective and effect production methods, training on making various types of processed products, and etc.
- c. Conduct Periodically Product Quality Assessment. Through the Regular Curation Program, expected that MSMEs products which are well selected and already pass the curation for instance foods, drinks, clothing, handcraft and etc can be promoted in their social media so that the products later on will not jeopardize consumer and guarantee for consumer protection is still maintained.
- d. Conduct Training for Employees in the MSMEs within Specific Sectors. Through “On-boarding Program for Employees” could facilitate for the new employees to explore business activities and “Regular Hard Skill and Soft Skill Training Program for Employees” required for the employees carrying out their daily duties in the form of coaching, mentoring, and training.
- e. Provide Employee Milestone Dashboard, could be the tools in order to monitor the progress of employees both from hard and soft skills as well as their milestone journey. The aims is to provide pension insurance for the employees who have passed the first one year of milestone and have passed the probation process. This also used as motivation for employees that they do not only work for today and tomorrow but also for themselves in the future.

From the findings, it can be concluded that each of Environmental, Social and Governance has significant impact towards Growth as well as Sustainability. Both Environmental, Social and Governance elements have more influence on Sustainability. In other words, this requires certain attention if the firms wants to have the sustainable business. Within the research also revealed that one of from Social element become the high predictor for the business but there is still unconcerned perception from the MSMEs Entrepreneurs, specifically from the Processing Industry sector. Other than the Social element particularly for pension insurance, MSMEs Entrepreneurs need to consider about the Guarantee of Consumer Health and Safety since. Therefore, focusing in this item could help MSMEs Entrepreneurs to create their business grow into the upper scale and survive for every kind of conditions as well as potential competitors ahead.

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