

BEST SUSTAINABILITY PRACTICES WITH SUSTAINALYTICS: INSIGHTS FROM IDX ESG STAR COMPANIES

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Abstrak

Background: In the rapidly evolving landscape of global finance, sustainability has become a critical factor influencing investment decisions and corporate strategies. The Indonesia Stock Exchange (IDX) has taken significant steps to integrate sustainability into its capital market, including its ESG Star program, which recognizes companies excelling in Environmental, Social, and Governance (ESG) performance. This research explores how Sustainalytics supports IDX ESG Star companies in driving sustainability practices and enhancing corporate accountability.

Objective: By examining these companies' best practices, the study aims to shed light on the effectiveness of ESG criteria in fostering sustainable development and market competitiveness.

Research Methods: This study uses an exploratory and descriptive research design to analyze sustainability practices among IDX ESG Star companies based on Sustainalytics ratings. It employs secondary data collection, including ESG ratings, IDX criteria, and academic research. Data analysis combines qualitative and comparative methods to identify best practices and offer actionable recommendations.

Research Results: The study reveals that the eight companies excel in environmental, social, and governance (ESG) practices. Environmentally, they focus on green buildings, renewable energy, and emissions reduction. Socially, they prioritize inclusivity, financial access, and employee well-being. Governance-wise, they adhere to transparent reporting and international standards, demonstrating strong ESG integration.

Originality/Novelty of Research: This study offers a novel analysis by focusing on IDX ESG Star companies and their sustainability practices, using Sustainalytics ratings as a benchmark. It highlights best practices in environmental, social, and governance areas, providing actionable insights for companies to enhance their ESG performance and contributing to the broader sustainability discourse in Indonesia's capital market.

Keywords: Sustainability Practices, ESG, IDX ESG Star

Introduction

In the dynamic global financial landscape, sustainability has become a crucial factor influencing investment decisions and corporate strategies. The Indonesia Stock Exchange (IDX) has taken significant strides to integrate sustainability into its capital market through its ESG Star program, which recognizes companies demonstrating exemplary performance in Environmental, Social, and Governance (ESG)

aspects. This research focuses on how Sustainalytics, a leading provider of ESG ratings and research, drives sustainability practices among IDX ESG Star companies. By analyzing best practices from these distinguished firms, the study aims to shed light on the effectiveness of ESG criteria in fostering sustainable development and enhancing corporate accountability. Through this examination, the research seeks to provide valuable insights into the implementation of sustainability practices and their impact on long-term business success and market competitiveness. Aligned with Indonesia's dedication to the United Nations Sustainable Development Goals (SDGs), the Indonesia Stock Exchange (IDX) has launched various sustainable finance initiatives. These efforts aim to foster an inclusive and globally competitive capital market and act as a catalyst for developing a healthy, stable, and sustainably growing economic sector in Indonesia.

IDX's commitment to advancing sustainability in Indonesia's capital market is demonstrated through several key initiatives: (1) On April 18, 2019, IDX joined the Sustainable Stock Exchanges (SSE) initiative, a global platform encouraging stock exchanges to promote transparency in Environmental, Social, and Governance (ESG) practices. (2) The introduction of ESG-focused indices, including ESG Leaders (December 14, 2020) and SRI-KEHATI (June 8, 2009), aimed to enhance the visibility of listed companies' ESG performance and integrate sustainability into investment decisions. (3) IDX partnered with Sustainalytics to provide ESG scores for listed companies. (4) The IDX Sustainability Report was published in compliance with OJK Regulation No. 51/POJK.03/2017 and GRI reporting standards. (5) ESG capacity-building programs were implemented to raise awareness and support ESG adoption among Indonesian capital market stakeholders. (6) The Sustainable Finance Action Plan (RAKB) was created in line with OJK Regulation No. 51/POJK.03/2017 to foster a capital market ecosystem focused on sustainable finance. (7) New regulations, such as Rule No. I-B, were issued to support sustainability-oriented financial instruments, offering annual listing fee discounts for green bonds. (8) In June 2021, IDX became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). (<https://esg.idx.co.id/>, 2024)

ESG, which stands for "Environmental, Social, and Governance," represents a set of standards used to evaluate sustainability across three key areas. These criteria are integral in assessing investment opportunities and guiding companies in reporting the effects of their operations. As concerns like climate change, ethical supply chains, environmental damage (Dirga et al, 2024; Ranting and Bwarleling, 2024, Pangestu & Hati, 2024), and global welfare gain prominence, ESG considerations have increasingly become pivotal. Investors, regulators, and other stakeholders now prioritize ESG factors to ensure that business practices contribute positively to addressing these challenges. As a result, ESG has emerged as a

crucial factor in investment decisions and is increasingly central to the strategic and operational planning of companies worldwide.

In Indonesia, ESG has rapidly become a focal point following the government's pledge to meet the 17 UN Sustainable Development Goals (SDGs) by 2030. These goals aim to foster sustainable development by eradicating poverty, safeguarding the environment, and ensuring global peace and prosperity. The National Planning Agency (Bappenas) has reinforced this commitment with the release of the "Roadmap of SDGs: Indonesia," formally establishing the SDGs as a national priority. This commitment involves engaging all segments of Indonesian society, including the business and economic sectors, in the pursuit of these objectives. (<https://esg.idx.co.id/>, 2024)

The UN's latest Agenda states that the action plans to achieve sustainable development by 2030 can be categorized into the following 5Ps: (1) People: Determination to end poverty and hunger, in all their forms and dimensions, to ensure that all human beings can fulfil their potential in dignity and equality and in a healthy environment. (2) Planet: Determination to protect the planet from degradation, including through sustainable consumption and production, sustainably managing its natural resources and taking urgent action on climate change, so that it can support the needs of the present and future generations. (3) Prosperity: Determination to ensure that all human beings can enjoy prosperous and fulfilling lives and that economic, social, and technological progress occurs in harmony with nature. (4) Peace: Determination to foster peaceful, just, and inclusive societies which are free from fear and violence. There can be no sustainable development without peace and no peace without sustainable development. (5) Partnership: Determination to mobilize the means required to implement this Agenda through a revitalised Global Partnership for Sustainable Development, based on a spirit of strengthened global solidarity, focused in particular on the needs of the poorest and most vulnerable and with the participation of all countries, all stakeholders and all people. (<https://esg.idx.co.id/>, 2024)

The existing literature highlights several research gaps regarding the impact of Environmental, Social, and Governance (ESG) criteria on corporate sustainability and market competitiveness. While studies like Marliza (2024) and Filbeck et al. (2019) focus on specific industries or stock performance, they do not fully explore the broader implications of ESG practices across diverse sectors, especially in emerging markets like Indonesia. Moreover, Berg et al. (2019) and Berg et al. (2022) reveal significant discrepancies in ESG ratings across different agencies but fail to address how these divergences affect corporate strategy and long-term competitiveness in local markets. Bolibok (2024) contributes by examining firm size and ESG risks in banking but leaves a gap in understanding how firm characteristics influence sustainability

practices across other industries. Lastly, Caceres (2024) delves into ESG ratings' effects on investor value creation but overlooks the broader application of these findings in non-S&P 500 markets. Thus, there is a need for more comprehensive research on how best sustainability practices, informed by ESG ratings, impact long-term corporate performance and competitiveness, especially in emerging markets like Indonesia.

The purpose of this research is to examine the best sustainability practices of companies listed as IDX ESG Star, with a focus on understanding how ESG criteria contribute to sustainable development and enhance market competitiveness. By analysing these companies' strategies and performance, the study aims to provide insights into the practical application of ESG factors in driving long-term business success. The contribution to practice lies in offering actionable recommendations for businesses seeking to integrate ESG criteria effectively into their operations to achieve both sustainability and competitive advantage. In terms of literature, this study fills a gap by providing empirical evidence on the impact of ESG practices on corporate sustainability and market performance in the context of emerging markets, specifically Indonesia. The research focus can be articulated as a question, presented in the following format:

- RQ1. How do the companies implement environmental sustainability and what steps do they take to reduce their environmental impact?
- RQ2. What social initiatives do the companies undertake to support communities, inclusivity, and employee well-being, and how effective are these initiatives?
- RQ3. How do the companies integrate good governance practices with social and environmental sustainability, and how well do they follow international governance standards?
- RQ4. Based on the findings, what recommendations can be made for stakeholders (companies, investors, and policymakers) to support sustainability practices in business?

Literature Review

Legitimacy Theory

Legitimacy is defined by Deegan (2002) as a condition or status that exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When there is a discrepancy, whether actual or potential, between these two value systems, there is a threat to the entity's legitimacy. Tregidga et al. (2006) state that organizations seek legitimacy to ensure commitment and support from stakeholders, both internal and external. According to legitimacy theory, an institution's

ability to provide reports containing financial, social, and environmental information is part of the dialogue between the institution and its stakeholders. Through environmental information systems, the institution provides information about activities related to the environment, thereby legitimizing its behavior (Bebbington et al., 2008; Michelon, 2011; Othman et al., 2011 in Pe´rez et al., 2015).

Environmental Social and Governance (ESG) Theory

The Environmental, Social, and Governance (ESG) theory has emerged as a pivotal framework in modern business management, emphasizing the integration of sustainability and ethical practices into corporate strategies. This approach not only enhances enterprise value but also aligns with societal expectations for responsible governance (Yopeace et al., 2024). While ESG theory presents significant advantages for businesses, its successful implementation requires overcoming existing challenges and adapting to a rapidly changing economic landscape.

ESG has evolved from the corporate social responsibility movement, reflecting a shift in societal expectations regarding organizational roles (Nascimento et al., 2024). The historical context reveals that ESG governance significantly influences financial performance, brand reputation, and stakeholder engagement, promoting resilience and attracting conscious investors (Nascimento et al., 2024; Silva et al, 2024).

Research indicates that effective ESG practices correlate with reduced insolvency risks, enhancing financial stability and operational performance (Santos and Silva, 2024). Companies adopting ESG frameworks can achieve a balance between economic and social value, leading to competitive advantages and long-term profitability (Li, 2024).

Despite the benefits, challenges such as the lack of standardized ESG metrics and disclosure practices persist, necessitating collaborative efforts among stakeholders (Nascimento et al., 2024). Organizations must strategically incorporate ESG into their operations to foster sustainable development and address evolving market demands (Rangel, 2024; Silva et al, 2024).

Sustainalytics

Sustainalytics is a prominent provider of Environmental, Social, and Governance (ESG) research and ratings, which are crucial for investors seeking to assess the sustainability practices of companies. Research indicates that ESG ratings, such as those from Sustainalytics, play a significant role in investment decision-making, as they help identify risks and opportunities associated with corporate sustainability

practices (Filbeck et al., 2019). Furthermore, the integration of ESG factors into investment strategies has been shown to enhance portfolio performance, aligning financial returns with ethical considerations (Alqudah et al., 2024; Momparler et al., 2024). However, there are challenges in the consistency and transparency of ESG ratings across different providers, which can lead to discrepancies in evaluations (Dathe et al., 2024). Additionally, while Sustainalytics offers valuable insights, the subjective nature of ESG assessments can sometimes obscure the true sustainability performance of companies (Liu et al., 2024). Overall, Sustainalytics contributes significantly to the ESG landscape, but users must navigate the complexities of rating systems to make informed investment choices.

Sustainalytics evaluates ESG risks using a risk decomposition concept where companies are assessed on two dimensions of ESG issues: exposure and management. Exposure refers to the material ESG risks that a company faces, which impact the ESG risk assessment. Management refers to the company's commitment and actions in addressing ESG issues through various policies and programs. Based on the ESG score assessment, listed companies are categorized into one of five categories, as follows.

Table 1. ESG Risk Category

Risk Score	Category	Description
1-10	Negligible	Considered to have negligible ESG risk
10-20	Low	Considered to have low ESG risk
20-30	Medium	Considered to have moderate ESG risk
30-40	High	Considered to have high ESG risk
>40	Severe	Considered to have severe ESG risk

Source: Indonesia Stock Exchange, 2024

The Key Factors Considered in Sustainalytics ESG Ratings

Sustainalytics ESG ratings are influenced by several key factors that assess a company's environmental, social, and governance performance. Firstly, environmental criteria evaluate a company's impact on the natural environment, including resource use and pollution management (Buchinskaia, 2023). Social factors consider how a company manages relationships with employees, suppliers, customers, and the communities where it operates, focusing on issues like labor practices and community engagement (Morozov, 2023). Governance factors assess the quality of a company's leadership, board structure, and shareholder rights, emphasizing transparency and ethical conduct. Moreover, the integration of these factors is crucial, as they collectively inform investors about potential risks and opportunities associated with a

company's sustainability practices (Ioannidis, 2022). However, the methodologies used in ESG ratings can vary, leading to potential inconsistencies in how companies are evaluated (Halomoan, 2024). This highlights the importance of understanding the specific criteria and weightings applied in Sustainalytics' assessments to accurately interpret their ratings.

Sustainalytics Measurement

Sustainalytics measurement refers to the evaluation of environmental, social, and governance (ESG) factors to assess the sustainability performance of companies. Research indicates that effective measurement frameworks are crucial for accurately capturing ESG impacts. For instance, Mura et al. highlight the importance of integrating qualitative and quantitative metrics to provide a comprehensive view of sustainability performance, emphasizing that traditional financial metrics alone are insufficient for this purpose (Mura, 2018). Moreover, Sikdar et al. discuss the need for standardized indicators that can facilitate comparisons across different sectors, which can enhance the reliability of sustainability assessments (Sikdar, 2017). In contrast, Calzada-Infante et al. point out that while many organizations adopt ESG metrics, the lack of uniformity in measurement approaches can lead to inconsistencies and misinterpretations of sustainability data (Calzada-Infante, 2020). Thus, while Sustainalytics measurement aims to provide a robust framework for evaluating sustainability, challenges remain in achieving consistency and comparability across different contexts (Jusoh, 2023; Angrisani, et al. 2023).

Sustainalytics Provide Recommendations for Improving ESG Performance

Sustainalytics plays a significant role in guiding companies toward improved ESG performance through its assessments and recommendations. The research indicates that strong ESG practices not only enhance corporate reputation but also drive financial performance and innovation. While the focus on ESG is growing, some argue that the initial costs of implementing ESG practices may hinder short-term financial performance. However, the long-term benefits often outweigh these initial investments, suggesting a strategic approach to ESG integration is essential for sustainable growth.

Recommendations for Improving ESG Performance comprise (1) Enhancing Technological Innovation: Strong ESG performance positively influences technological innovation by improving corporate network positioning and reducing financing constraints. Companies are encouraged to adopt ESG development concepts and optimize their equity structures to foster innovation (Zhang et al., 2024). (2) Financial Performance Link: Improved ESG performance correlates with increased corporate value and

financial success. Specifically, environmental factors within ESG have shown a significant positive impact on financial metrics like Return on Assets (ROA) and Return on Equity (ROE) (Indriani, 2024; Deb et al., 2023). (3) Green Innovation: Emphasizing green innovation as part of ESG strategies can lead to better economic performance. Companies are advised to balance ESG responsibilities with economic objectives to maximize benefits (Li, 2024).

Research Methods

This study, employs a multi-faceted research approach to analyze and extract best practices in sustainability among IDX ESG Star companies using Sustainalytics ratings. Research design is exploratory and descriptive. This research adopts an exploratory and descriptive design to understand and document sustainability practices. The goal is to identify patterns and practices that have earned IDX ESG Star recognition through Sustainalytics. Research Report includes the final report will detail the best practices identified, supported by data and case studies. It will offer recommendations for companies and stakeholders based on the findings.

Data Collection by using Secondary Data. (1) Sustainalytics ESG Ratings: Detailed ESG ratings and reports for IDX ESG Star companies. (2) IDX ESG Star Criteria: Documentation and criteria used by IDX to award ESG Star status. (3) Academic and Industry Research: Previous studies and articles related to ESG practices and Sustainalytics assessments. (4) Document Review: Analysis of recent ESG performance metrics of IDX ESG Star companies. Data Analysis consists of (1) Qualitative Analysis: The study utilizes qualitative methods to assess the content of sustainability reports and ESG ratings. This includes identifying key themes, practices, and strategies that contribute to high Sustainalytics ratings. (2) Comparative Analysis: Companies will be compared based on their Sustainalytics ratings and their reported sustainability practices. This comparison will highlight best practices and areas for improvement. Data Synthesis in the form of integration of findings. The study will integrate findings from the qualitative and comparative analyses to develop a comprehensive overview of best sustainability practices. This synthesis will provide actionable insights for other companies seeking to improve their ESG performance.

Results and Discussion

Results

Sustainalytics-Rated Companies

ESG refers to the three central factors used to measure sustainability and ethical impact in investment decision-making: Environmental, Social, and Governance. ESG assessment is a crucial component in evaluating the implementation of ESG practices within companies. The Indonesia Stock Exchange (IDX) remains committed to promoting long-term sustainable investment and improving ESG practices in the Indonesian capital market by collaborating with ESG rating agencies and conducting ESG assessments for listed companies. Currently, IDX works with Morningstar Sustainalytics to perform these ESG evaluations. As of August 2024, there are 80 issuers that have received ESG ratings from Morningstar Sustainalytics. Overall, the 80 companies with ESG ratings from Sustainalytics on the IDX are recognized for their commitment to integrating ESG considerations into their operations and reporting. These ratings play a vital role in promoting transparency and driving sustainable practices within the Indonesian capital market (Indonesia Stock Exchange, 2024).

These 80 companies span various sectors and industries, reflecting a broad representation of the Indonesian market. The ratings cover multiple aspects of ESG performance, including environmental impact, social responsibility, and governance practices. Sustainalytics evaluates companies based on their ability to manage ESG risks and their commitment to sustainable practices. The ratings consider factors such as environmental policies, social impact initiatives, and corporate governance structures. Receiving an ESG rating from Sustainalytics signifies that a company is recognized for its efforts in addressing ESG issues. These ratings assist investors in identifying companies with strong sustainability practices which are more likely to perform better in terms of long-term value creation. ESG ratings are crucial for investors looking to make informed decisions based on sustainability criteria. Companies with high ESG ratings are often viewed as more resilient and better positioned to handle future challenges related to environmental and social issues. The ESG ratings are not static; companies are periodically reassessed to reflect their ongoing efforts and improvements in managing ESG risks. This encourages companies to continually enhance their sustainability practices. The ESG ratings from Sustainalytics provide a benchmark for comparing companies within the IDX. This comparison helps highlight industry leaders in sustainability and identifies areas where other companies can improve. The list of company names can be found in Appendix 1.

IDX ESG Star Listed Company

The ESG Star at the Indonesia Stock Exchange (IDX) is a recognition program that honors companies showing outstanding leadership and performance in Environmental, Social, and Governance (ESG) areas. Its purpose is to encourage transparency, social responsibility, and strong governance practices within Indonesia's capital market. Awarded companies are assessed on their dedication to environmental sustainability, social responsibility, and effective corporate governance. The program also aims to improve the transparency and accountability of listed companies concerning their ESG practices. (<https://esg.idx.co.id/companies>, 2024).

The objectives of the ESG Star at the IDX are (1) Encouraging ESG Compliance: To encourage listed companies to focus more on sustainability practices and social responsibility. (2) Recognizing Outstanding Companies: To award companies that have demonstrated exceptional performance in ESG aspects. (3) Increasing Investor Awareness: To assist investors in selecting companies that are not only financially profitable but also responsible towards the environment and society.

Table 2. Companies Listed on The IDX that have Received ESG Star Ratings

No	Code	Company's Name	Sector	Listing Board	Industry Group	ESG Risk Rating	Risk Category	Core/ Comprehensive	Ranking Industry Group	Ranking Universe
1	BSDE	Bumi Serpong Damai Tbk*	Property & Real Estate	Main	Real Estate	14.8	Low	Core	388/1030	1867/16009
2	BBRI	Bank Rakyat Indonesia (Persero) Tbk*	Financials	Main	Banks	17.8	Low	Comprehensive	206/1037	3438/16009
3	UNVR	Unilever Indonesia Tbk*	Consumer Non-Cyclicals	Main	Household Products	18.2	Low	Comprehensive	4/111	3668/16009
4	BBNI	Bank Negara Indonesia (Persero) Tbk*	Financials	Main	Banks	20.6	Medium	Comprehensive	285/1037	5145/16009
5	BBCA	Bank Central Asia Tbk*	Financials	Main	Banks	21.7	Medium	Comprehensive	328/1037	5857/16009
6	AKRA	AKR Corporindo Tbk*	Energy	Main	Traders & Distributors	23.8	Medium	Core	93/201	7296/16009
7	BMRI	Bank Mandiri (Persero) Tbk*	Financials	Main	Banks	28.4	Medium	Comprehensive	683/1037	10420/16009
8	SMGR	PT Semen Indonesia (Persero) Tbk	Basic Materials	Main	Construction Materials	23.05	Medium	Comprehensive	11/133	6787/16009
*IDX ESG Leader										

Source: <https://www.sustainalytics.com/esg-rating>, 2024

Environmental ESG Star Company Implementation

The environmental implementation practices of the analyzed companies highlight a growing commitment to sustainability across various industries. Key initiatives include adopting green financing, energy efficiency measures, waste management, and circular economy practices. These efforts not only align with global Environmental, Social, and Governance (ESG) standards but also showcase how businesses are integrating sustainability into their core operations. By balancing economic growth with environmental responsibility, these companies demonstrate leadership in addressing climate challenges and contributing to long-term sustainability goals.

The property and real estate sectors showcase a significant emphasis on green building concepts and eco-friendly materials to minimize environmental impact. Efforts to create green zones and enhance local ecosystems reflect the sector's alignment with sustainability goals. Recognition through certifications and awards highlights their leadership in integrating climate-conscious practices into urban development, ensuring that environmental considerations remain a priority in expanding residential and commercial spaces.

The financial sector is at the forefront of green financing and sustainable operations. By incorporating ESG principles into their lending criteria and operational strategies, financial institutions are promoting renewable energy projects, reducing greenhouse gas emissions, and digitizing services to lower carbon footprints. These companies also support environmental sustainability through targeted funding, such as offering green loans and financing initiatives that address climate adaptation and sustainable land management.

Consumer non-cyclical companies demonstrate a proactive approach to sustainability by minimizing the environmental impact of their products and operations. Initiatives include optimizing resource use, reducing carbon footprints, and fostering sustainable practices within supply chains. These efforts are embedded into their business models, ensuring that environmental responsibility is balanced with profitability. Comprehensive sustainability reporting further reflects their accountability and commitment to global environmental standards.

Companies in the energy sector are focused on emission reductions and the promotion of eco-friendly fuels. The use of alternative fuels, such as biodiesel, and the adoption of high-octane fuels in logistics operations highlight their efforts to transition towards cleaner energy solutions. These initiatives not only reduce air emissions but also support broader industry goals to combat climate change and drive sustainable growth in the energy sector.

The basic material sector integrates sustainability into its operations through circular economy practices, CO₂ emission reductions, and alternative fuel adoption. Companies in this sector are leveraging waste materials and adopting energy-efficient technologies to minimize their environmental footprint. Their community initiatives, such as reclamation projects and green product development, underscore their commitment to advancing environmental goals while contributing to local economic development.

Social ESG Star Company Implementation

The analyzed companies demonstrate strong commitments to social sustainability through various initiatives that prioritize community empowerment, workforce well-being, and inclusivity. Across sectors, these efforts are reflected in innovative programs that support underserved communities, enhance employee engagement, and promote ethical practices. Companies have integrated social responsibility into their operations, aligning their strategies with global standards and Sustainable Development Goals (SDGs). Their contributions to social and community development showcase a transformative approach to addressing societal challenges while fostering long-term value creation for stakeholders.

The property and real estate sectors place significant emphasis on community development, prioritizing local growth and well-being. By focusing on sustainability frameworks that connect closely with communities, these companies foster equal employment opportunities and responsible workforce management. Their initiatives are well-recognized, evidenced by multiple awards for sustainability and community impact, underscoring their dedication to creating inclusive and supportive environments.

The financial sector is deeply engaged in promoting financial inclusion, community empowerment, and employee well-being. Banks have introduced innovative products, such as low-interest loans for underserved segments and voice-enabled ATMs for disabled users, enhancing accessibility. They also prioritize employee training on social and environmental risks while actively participating in CSR programs to empower MSMEs and support sustainable entrepreneurship. These efforts align closely with their strategic pillars, reflecting a commitment to inclusive growth.

In the consumer non-cyclical sector, companies emphasize human rights, gender equality, and community well-being. By engaging in health-focused initiatives, such as promoting hygienic living behaviors and healthier food options, they address critical societal needs. Their collaboration with stakeholders and integration of ethical practices further strengthen their contributions to overall social and community development.

Companies in the energy sector prioritize employee health and safety while actively participating in community development programs. Initiatives such as biodiesel distribution and eco-friendly fuel usage contribute to broader sustainability goals. These companies also ensure workforce engagement in sustainability practices, demonstrating a holistic approach to integrating social and environmental considerations into their core operations.

The basic material sector significantly impacts community development through targeted initiatives in agriculture, fisheries, and post-mining land reclamation. These programs benefit millions of people, showcasing a commitment to fostering local economic growth and social well-being. By offering innovative eco-friendly products and solutions, the sector effectively balances environmental sustainability with community impact, creating shared value for stakeholders.

Governance ESG Star Company Implementation

The analyzed companies exhibit robust corporate governance practices, integrating sustainability and ESG principles into their operational frameworks. Their governance approaches emphasize transparency, ethical practices, risk management, and alignment with global sustainability standards. These companies not only focus on compliance but also actively contribute to environmental stewardship, community development, and economic inclusivity. By adopting structured governance frameworks, they demonstrate leadership in balancing profitability with social and environmental responsibility.

The property and real estate sector showcases strong governance by aligning its operations with Sustainable Development Goals (SDGs) and maintaining a transparent reporting system. Governance frameworks in this sector emphasize environmental sustainability, adherence to regulations, and community development. Companies' focus on green building practices and their recognition through awards underscore their commitment to integrating governance with broader sustainability objectives.

The financial sector emphasizes governance through sustainable finance frameworks and ESG integration. Banks have established formal governance committees and pillars that address environmental and social responsibilities while promoting financial inclusion. Their proactive approach to risk management, adherence to international standards, and structured sustainability reporting demonstrate a comprehensive commitment to corporate governance.

In the consumer non-cyclical sector, governance practices are deeply embedded in the companies' operational and sustainability strategies. Companies excel in ethical practices, risk management, and adherence to global governance scorecards. By integrating sustainability into their governance frameworks, they balance social equity, environmental impact, and economic goals, contributing to long-term organizational resilience.

The energy sector focuses on governance through ESG adherence and eco-friendly practices. Companies in this sector prioritize emissions reduction and biodiesel initiatives while ensuring alignment

with governance standards. Their structured operational guidelines and dedication to transparency reflect a strong commitment to sustainable and responsible governance.

The basic material sector demonstrates exemplary governance by integrating sustainability pillars into its corporate responsibility framework. Companies focus on climate action, circular economy principles, and community development. Through innovative environmental practices and governance structures, they showcase a balanced approach to ethical operations and sustainable growth, contributing significantly to local and global development goals.

Discussions

The findings underscore that environmental, social, and governance (ESG) integration is not only essential for compliance but also drives competitive advantage and long-term value creation. By incorporating sustainability practices, companies not only mitigate environmental impacts but also create positive social value, fostering community empowerment, inclusivity, and enhanced well-being. For businesses, embedding ESG factors into their operations can result in increased trust among consumers, investors, and other stakeholders, ultimately enhancing brand reputation and business resilience in the face of global challenges, such as climate change and social inequality (Toh & Pascual, 2022).

Integrating Environmental, Social, and Governance (ESG) factors have become more than just a regulatory requirement. Properly implemented ESG practices can provide a significant competitive advantage for companies in both domestic and global markets. By adopting sustainability-focused strategies, companies not only reduce their environmental impact but also create greater social value, such as community empowerment, improved quality of life, and social inclusivity. This enables companies to remain relevant in a rapidly changing social landscape, where consumers demand products that are socially and environmentally responsible. Embedding ESG into business operations helps companies mitigate environmental and social risks that could affect their long-term viability, positioning them as part of the solution to global challenges like climate change and social inequality. Therefore, commitment to ESG not only impacts corporate image but also serves as a strategy to boost sustainable (Sharma, 2024).

Adopting ESG principles in every aspect of business can significantly enhance trust from various stakeholders, including consumers, investors, and business partners. In an era of transparency and easy access to information, this trust is essential. Consumers today are more likely to choose companies that demonstrate a genuine commitment to sustainability and social responsibility. The same applies to investors who increasingly prioritize companies with strong ESG practices, viewing them as indicators of long-term

stable performance. Similarly, businesses that focus on social sustainability, such as supporting gender equality, employee well-being, and economic empowerment of communities, play a key role in attracting investors looking for positive impacts in their portfolios. Moreover, companies with strong governance policies are better positioned to manage risks and respond proactively to challenges, both economic and social. This trust, in turn, strengthens long-term relationships with stakeholders and enhances the company's competitiveness in the global market (Hendricks, 2024).

Well-implemented ESG practices also serve as a tool for improving a company's resilience in facing global challenges such as climate change, social inequality, and economic instability. By focusing on sustainability, companies can build more adaptive business models that are responsive to shifting regulations and market preferences that prioritize environmental and social issues. Companies that innovate to create environmentally or socially responsible products and services are better equipped to maintain their competitiveness and growth in a market that increasingly values corporate responsibility. On the other hand, ESG integration helps companies reduce long-term costs related to environmental and social improvements while preventing potential reputation crises that could harm the business. Additionally, many countries are introducing regulations that require companies to be more transparent in their ESG reporting. As a result, companies that have implemented ESG well not only gain financial benefits but also contribute to a more sustainable and equitable world, creating shared value for all stakeholders involved (Henisz, et al. 2019).

For policymakers, the research offers insights into how the Indonesia Stock Exchange (IDX) and regulators can further support sustainable finance. The findings suggest that creating regulations that incentivize green finance and sustainable investments can accelerate the transition to a low-carbon economy. Encouraging transparency in ESG reporting and requiring listed companies to adhere to higher sustainability standards could improve market accountability and foster a culture of sustainability across industries. The study further emphasizes the importance of collaboration between the private sector, government, and civil society in advancing sustainability goals. Investors, too, are presented with clear evidence of the financial benefits of prioritizing companies with strong ESG performance. By focusing on companies that demonstrate a commitment to sustainability, investors can align their portfolios with long-term trends, benefiting from the growing demand for ethical investments and better risk management in a world increasingly shaped by environmental and social challenges (Thomson Reuters, 2024).

Conclusion

This study aims to explore how the best practices of companies, particularly those recognized as IDX ESG Star companies, demonstrate the impact of Environmental, Social, and Governance (ESG) criteria on sustainable development and market competitiveness. By analysing their efforts in areas such as environmental protection, social equity, and governance, the research seeks to highlight how integrating ESG principles can drive long-term value creation, enhance business resilience, and build trust with stakeholders. The findings aim to provide valuable insights for companies, investors, and policymakers on how ESG practices contribute to both financial performance and societal benefits.

In the environmental domain, the eight companies exhibit commendable best practices through diverse sustainability initiatives that align with global standards. These include green building developments, green financing, renewable energy promotion, and circular economy principles. Their efforts to reduce emissions, optimize resource use, and adopt eco-friendly materials underscore their commitment to mitigating environmental impact. Several companies stand out for receiving prestigious certifications and awards, reflecting their leadership in integrating environmental considerations into their operations and contributing to long-term ecological sustainability.

From a social perspective, these companies prioritize community empowerment, inclusivity, and employee well-being. Best practices include promoting financial inclusion, supporting underserved communities, fostering gender equality, and enhancing workplace safety. Initiatives such as green loans, community development programs, and sustainable supply chain practices highlight their commitment to social equity and ethical responsibility. Through targeted social programs and partnerships, these companies demonstrate their ability to address societal challenges while creating shared value for stakeholders.

In terms of governance, the companies showcase robust frameworks that integrate ESG principles into their strategies and operations. Best practices include transparent sustainability reporting, adherence to international governance standards, and structured approaches to risk management. These companies demonstrate accountability and ethical integrity by aligning their goals with Sustainable Development Goals (SDGs) and embedding sustainability into their governance models. Their dedication to corporate governance is evidenced by innovative programs, stakeholder engagement, and a clear focus on balancing economic success with environmental and social responsibility.

The implications of the research findings are explored in relation to the broader context of sustainability, the role of ESG factors in corporate strategy, and the development of sustainable finance within Indonesia's capital market. The research highlights how IDX ESG Star companies, through their demonstrated best practices, are actively contributing to the country's efforts toward achieving the United Nations Sustainable Development Goals (SDGs) by 2030. Stakeholders are encouraged to take a proactive role in advancing sustainability by building on the strong environmental, social, and governance (ESG) practices observed in the research. Companies should continue to integrate ESG principles into their core strategies, enhancing transparency, fostering community engagement, and adopting sustainable innovations. Investors are urged to prioritize businesses with robust ESG frameworks, as these companies show greater long-term value and resilience. Policymakers should support the private sector by implementing regulations that incentivize green finance, renewable energy projects, and social entrepreneurship, while promoting transparency and accountability in corporate governance. By fostering collaboration between all stakeholders, a more sustainable future can be achieved through responsible practices, innovation, and shared value creation.

Appendix

Appendix 1. Companies Listed on The IDX that have Received ESG Ratings from Sustainabilitycs

No	Code	Company's Name	ESG Score	Category	No	Code	Company's Name	ESG Score	Category
1	PGEO	PT Pertamina Geothermal Energy Tbk	9,26	Negligible	41	WIFI	PT Solusi Sinergi Digital Tbk	27,74	Medium
2	ERAA	PT Erajaya Swasembada Tbk	10,96	Low	42	EXCL	PT XL Axiata Tbk	27,78	Medium
3	JSMR	PT Jasa Marga Tbk	12,92	Low	43	TLKM	PT Telkom Indonesia (Persero) Tbk	28,18	Medium
4	BSDE	PT Bumi Serpong Damai Tbk	14,83	Low	44	ELSA	PT Elnusa Tbk	28,28	Medium
5	EMTK	PT Elang Mahkota Teknologi Tbk	14,9	Low	45	PNLF	PT Panin Financial Tbk	28,38	Medium
6	SCMA	PT Surya Citra Media Tbk	15,35	Low	46	BMRI	PT Bank Mandiri (Persero) Tbk	28,45	Medium
7	TPIA	PT Chandra Asri Pacific Tbk	17,33	Low	47	BTPS	PT Bank BTPN Syariah Tbk	28,51	Medium
8	BBRI	PT Bank Rakyat Indonesia (Persero) Tbk	17,83	Low	48	ARTO	PT Bank Jago Tbk	28,9	Medium
9	MSCN	PT Media Nusantara Citra Tbk	17,88	Low	49	MEDC	PT Medco Energi Internasional Tbk	29,08	Medium
10	FILM	PT MD Entertainment Tbk	17,97	Low	50	BUKA	PT Bukalapak.com Tbk	29,16	Medium
11	BMTR	PT Global Mediacom Tbk	18,14	Low	51	SRTG	PT Saratoga Investama Sedaya Tbk	29,37	Medium
12	AUTO	PT Astra Otoparts Tbk	18,18	Low	52	PTMP	PT Mitra Pack Tbk	29,43	Medium
13	UNVR	PT Unilever Indonesia Tbk	18,21	Low	53	MDKA	PT Merdeka Copper Gold Tbk	29,91	Medium
14	SIDO	PT Industri Jami Dan Farmasi Sido Muncul Tbk	18,45	Low	54	TKIM	PT Pabrik Kertas Tjiwi Kimia Tbk	30,35	High
15	BOGA	PT Bintang Oto Global Tbk	18,51	Low	55	INCO	PT Vale Indonesia Tbk	30,5	High
16	MPMX	PT Mitra Pinasthika Mustika Tbk	18,64	Low	56	MYOR	PT Mayora Indah Tbk	31,18	High
17	CTRA	PT Ciputra Development Tbk	18,87	Low	57	AMRT	PT Sumber Alfaria Trijaya Tbk	31,93	High
18	PWON	PT Pakuwon Jati Tbk	19,42	Low	58	DSNG	PT Dharma Satya Nusantara Tbk	32,03	High
19	ACES	PT Aspirasi Hidup Indonesia Tbk	19,65	Low	59	ASII	PT Astra International Tbk	32,98	High
20	MAPI	PT Mitra Adiperkasa Tbk	20,31	Medium	60	KLBF	PT Kalbe Farma Tbk	33,27	High
21	BBNI	PT Bank Negara Indonesia (Persero) Tbk	20,58	Medium	61	ISAT	PT Indosat Tbk	33,29	High
22	ASSA	PT Adi Sarana Armada Tbk	20,77	Medium	62	ITMG	PT Indo Tambangraya Megah Tbk	33,55	High
23	GTRA	PT Grabaprima Suksesmandiri Tbk	21,02	Medium	63	PTBA	PT Bukit Asam Tbk	33,87	High
24	GOTO	PT GoTo Gojek Tokopedia Tbk	21,12	Medium	64	ICBP	PT Indofood CBP Sukses Makmur Tbk	34,8	High
25	BBCA	PT Bank Central Asia Tbk	21,67	Medium	65	INDY	PT Indika Energy Tbk	35,8	High
26	MTEL	PT Dayamitra Telekomunikasi Tbk	22,45	Medium	66	INDF	PT Indofood Sukses Makmur Tbk	36,06	High
27	SMGR	PT Semen Indonesia (Persero) Tbk	23,05	Medium	67	UNTR	PT United Tractors Tbk	38,81	High
28	TBIG	PT Tower Bersama Infrastructure Tbk	23,25	Medium	68	JPPA	PT JAPFA Comfeed Indonesia Tbk	39,8	High
29	TOWR	PT Sarana Menara Nusantara Tbk	23,77	Medium	69	NCKL	PT Trimegah Bangun Persada Tbk	40,54	Severe
30	AKRA	PT AKR Corporindo Tbk	23,79	Medium	70	ANTM	PT Aneka Tambang Tbk	42,06	Severe
31	BBTN	PT Bank Tabungan Negara (Persero) Tbk	23,87	Medium	71	ADRO	PT Adaro Energy Indonesia Tbk	42,78	Severe
32	BRPT	PT Barito Pacific Tbk	24,51	Medium	72	ENRG	PT Energi Mega Persada Tbk	43,54	Severe
33	BFIN	PT BFI Finance Indonesia Tbk	25,02	Medium	73	GGRM	PT Gudang Garam Tbk	43,75	Severe
34	MIKA	PT Mitra Keluarga Karyasehat Tbk	25,7	Medium	74	CPIN	PT Charoen Pokphand Indonesia Tbk	44,48	Severe
35	SMRA	PT Summarecon Agung Tbk	25,72	Medium	75	HRUM	PT Harum Energy Tbk	44,69	Severe
36	PGAS	PT Perusahaan Gas Negara Tbk	26,32	Medium	76	TINS	PT Timah Tbk	45,06	Severe
37	INKP	PT Indah Kiat Pulp & Paper Tbk	26,44	Medium	77	MBMA	PT Merdeka Battery Materials Tbk	45,79	Severe
38	BRIS	PT Bank Syariah Indonesia Tbk	27,28	Medium	78	ESSA	PT ESSA Industries Indonesia Tbk	49,5	Severe
39	HMSP	PT HM Sampoerna Tbk	27,33	Medium	79	BRMS	PT Bumi Resources Minerals Tbk	51,12	Severe
40	INTP	PT Indocement Tunggul Prakarsa Tbk	27,41	Medium	80	ADMR	PT Adaro Minerals Indonesia Tbk	53,1	Severe

Source: Indonesia Stock Exchange, 2024

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