MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) TO FULFILL STAKEHOLDER EXPECTATIONS IN COMPLIANCE WITH EXISTING LAWS AND REGULATIONS

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ABSTRACT
Environmental degradation is a serious problem along with the growth and development of companies in every country. This article discusses how ESG practices require management to have the ability to make sustainable predictions to meet the expectations of many types of stakeholders in accordance with existing regulations. the research used is qualitative research using predecessor journals. ESG consists of Environmental, Social, and Governance. Environmental factors include the company's relationship with the physical environment, social factors relate to the social impact of a company on society, and governance factors relate to the way the company is managed. In addition, environmental, social, and governance (ESG) performance activities are interrelated with corporate activities. CSR and ESG are linked to corporate activities that can impact the interests of society and the environment, such as pollution, employee protection, or wise use of natural resources. Disclosure of ESG information at an aggregate level assists investors in comprehensively assessing a company's non-financial performance. These activities to fulfill stakeholders in ESG build on sound financial performance and the ability to manage stakeholder interests. Financial sustainability also demonstrates exemplary corporate governance practices that are positively appreciated by the market.
Keywords: *ESG; CSR; Investor; Regulations*

INTRODUCTION

Environmental degradation is a serious problem along with the growth and development of companies in every country (Rahmi, 2011). One of the causes of environmental degradation is the use of resources that are carried out in an inappropriate way to obtain large economic benefits. In addition, the company's production activities can also cause environmental pollution that has an impact on social conflict. Therefore, in addition to improving its governance aspects, the company must also consider its environmental and social responsibilities in order to gain legitimacy for the social role and environmental concerns that have been carried out by the company, so that the company will be able to achieve the goal of gaining trust and support from the community because the rust and support obtained from the community may have a major impact on the sustainability of the company in the future.

Environmental actions taken by the company are related to its efforts in creating a good impact on the environment by following regulations related to this aspect. Social actions are more about how well they threaten stakeholders and the communities in which the company operates. The governance aspect is to include corporate integrity and ethical behavior in the company's management system including the board of directors (Wibowo, 2010). Governance is part of ESG activities that imply transparency and consequences of management in conducting business ethically. Companies that implement good governance receive positive appreciation from investors (Siregar et al., 2022). So, this article will discuss how ESG practices that require management to have the ability to make sustainable predictions to meet the expectations of many types of stakeholders in accordance with existing regulations.

METHOD

In this article, the research used is qualitative research using predecessor journals. Where, the primary data contained in this study are speech, writing, sentences, or images related to how ESG practices require management to have the ability to make sustainable predictions to meet the expectations of many types of stakeholders in accordance with existing regulations. The data sources in this research come from news or literature from previous researchers.

DISCUSSION

ESG consists of Environmental, Social, and Governance (Astuti et al., 2023). Environmental factors include the company's relationship with the physical environment, social factors relate to the social impact of a company on society, and governance factors relate to the way the company is managed. ESG is an important part of a company's responsibility or sustainability. In 2006, the Principles for Responsible Investment (PRI) were established with the support of the United Nations. One of the points of PRI is to provide clarity to investors to incorporate issues into investment analysis and decision-making processes.

In preparing the ESG Framework, the Ministry of Finance refers to several legal and policy foundations related to infrastructure provision in Indonesia that support or encourage the application of ESG principles, particularly in infrastructure development. These include laws and regulations on job creation, natural resource conservation, human rights, environmental protection and management, cultural heritage, water resources, cultural enhancement, waste management, and land provision for development and public services. The Framework also refers to government regulations such as control of environmental damage and/or pollution related to forest and land fires or spatial planning. In addition, the Framework also refers to the Financial Services Authority (OJK) Sustainable Finance Roadmap in Indonesia.

In order for the ESG Framework in Government support and facilitation for infrastructure financing to deliver optimal impact, its implementation needs to involve the following stakeholders:

1. 1.Ministry of Finance as the Government's representative in providing financial support;
2. GCA as stipulated by the prevailing laws and regulations;
3. Facility executors and transaction advisors involved in the preparation of infrastructure projects; and
4. The Implementing Business Entity (IBE) appointed through a tender mechanism as stipulated in the prevailing laws and regulations..

The roles and responsibilities of each stakeholder in implementing the ESG Framework refer to the provisions contained in the ESG Manual. In addition, environmental, social, and governance (ESG) performance activities are interrelated with corporate activities (Safriani & Utomo, 2020). Pollution, employee protection, wise use of natural resources, or transparency in doing business affect the way insiders and outsiders, such as customers, investors, governments, employees, regulators, communities, view the company. Therefore, ESG performance can create high corporate value (Amalia & Kusuma, 2023). However, the relationship between ESG performance, firm performance, and firm value remains inconclusive. Some studies state that ESG activities have no significant effect on company performance.

There is a study conducted by B. Yoon, J. H. Lee (2018) which says that investors do not value environmental activities from environmentally sensitive industries. Thus, management views corporate social responsibility (CSR) activities as an obligation and does not provide benefits to management. A company in a country with high law enforcement and compliance with environmental laws becomes a target for environmental monitoring. We cannot discuss ESG without tracing the history of CSR (Vasiljeva et al., 2023). CSR and ESG are related in that a company's activities can impact the interests of society and the environment, such as pollution, employee protection, or wise use of natural resources (Li et al., 2023, Liu et al., 2023 & Ze et al., 2023). Therefore, a CSR activity starts with philanthropy to society.

The operations of a company have an impact on society, and the company must be responsible, or at least the company contributes to the community and environment affected by its activities. The next development of CSR activities is an effort to maintain business ethics in the social environment (Anatan, 2010, Muda et al., 2018). Information disclosure regarding social and environmental activities can increase creditor confidence in company management (Afrizal et al., 2023). Running a responsible business means publishing high-quality financial reports as the focal point of good corporate governance. However, the benefits of CSR activities for shareholders are still questionable.

A shareholder who has delegated his capital to management wants to maximize profits. Spending money on charity, engaging in community activities, or planting a thousand trees to fertilize the land will reduce the company's profits.

On the other hand, management must pay attention to the interests of stakeholders, such as a breath of fresh air for the community around the company's operations; good product quality for loyal consumers; and avoiding regulatory compliance risks because fulfilling stakeholder interests can prevent the company from financial risks and promote good sustainability. This implies that good governance results in high-quality financial reporting. However, shareholders also require non-financial reporting that shows the possibility of management avoiding financial risks in accordance with stakeholder interests, as stakeholder interests influence reporting patterns (Lutfitasari & Lutfillah, 2019).

Then, ESG activities themselves aim to fulfill the interests of stakeholders who can be any individual or group that affects the welfare of the company or is affected by the company's operations. The value creation of ESG activities can result from five ways, namely: opportunities to access resources easily, reduce energy consumption, opportunities to formulate strategies, encourage employee motivation, and optimize long-term investments because the company gets support from resource communities and governments concerned about environmental regulations, which means they have a significant role in the company's financial and non-financial performance, such as customers, competitors, employees, and shareholders. In addition, management also has other stakeholders such as governments, communities, suppliers, and regulators. There are differences in stakeholder interests, and management must have the ability to manage them. Therefore, companies should consider stakeholder management that considers the interests of different stakeholders on short-term and long-term performance.

Thus, the rationale for an investor in this context is the cost of capital. ESG activities are a signal to the market about the company's commitment to reduce costs (cost of capital) because companies that have an ESG rating access funding more easily (Nugroho & Hersugondo Hersugondo, 2022). Law enforcement can encourage companies to conduct business ethically. Investors will respond positively to ESG performance, especially for environmentally sensitive industries or large family-owned companies. Y. C. Chen, M. Hung (2018) revealed that environmental performance received the highest appreciation from investors compared to social and governance performance. Mandatory CSR disclosure can force management to be transparent from a stakeholder perspective. This means that external parties can easily monitor CSR activities.

ESG information can affect a company's financial performance in several ways. First, ESG reporting can enhance a company's reputation, thereby increasing investor confidence. Secondly, ESG information related to the efficiency of resource use allows the company to have a competitive advantage so that it has a better ability to compete with competitors. Third, ESG policies make employees more motivated, increasing their productivity and innovation, which then allows the company to gain new market share. In addition, accounting information that does not have value relevance is not relevant to be used in the decision-making process by users of financial statements, including stakeholders or investors. Financial reports must have value relevance, including Corporate Social Responsibility (CSR) reports.

In Indonesia, the obligation of companies to implement social and environmental responsibility is regulated by the government through Government Regulation No. 47 of 2012 concerning Social and Environmental Responsibility of Limited Liability Companies. Many countries have begun to emphasize mandatory sustainability reporting, including Indonesia. The mandatory implementation of sustainability reporting is regulated by the Financial Services Authority (OJK), namely OJK Regulation (POJK) No. 51 of 2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies which will begin in 2019 and is targeted for completion in 2024. The issuance of regulations requiring companies to report on sustainability reporting shows that issues related to social responsibility are valuable information that will be valued by investors.

Social information is also a description of a company's achievements in social aspects within a certain period of time (Rokhlinasari, 2020). Social aspects such as employee welfare, customer satisfaction, work accident rates, and customer complaint rates are other indicators besides financial indicators that can be sensitive information for stakeholders. Information asymmetry can be reduced through the disclosure of relevant information. Along with the changing public perception of the existence of a company, company activities are no longer focused on financial performance measures to maximize profits. Greater disclosure of sustainability activities can reduce the confusion of firm value, thereby increasing the level of investor confidence.

Therefore, market participants are expected to give higher value to companies that disclose higher information (Amelia & Cahyati, 2015). Companies have responsibilities in social and environmental aspects. Good corporate social performance can be responded as a positive signal by investors because it is related to the sustainability of the company's operations in the long term and can increase investor awareness of the importance of considering social factors as an indication of potential future risks. Disclosure of social information is said to have value relevance if it is used by investors as a basis for decision making (Z. Zuraida, N. Houqe, 2016).

CONCLUSION

In conclusion, the different backgrounds of activities to optimize ESG contribute to the different relationships between these variables, such as environmental characteristics, stakeholder characteristics, social and corporate relationship characteristics, and competitive capabilities. The integration of environmental, social, and governance information into a single proxy provides a more comprehensive picture of the company's non-financial performance. The disclosure of ESG information at the aggregate level helps investors in assessing the company's non-financial performance comprehensively. Among environmental and social information, investors pay higher attention to environmental information. Thus, environmental information has a more valuable impact on investors among various types of information.

In addition, the interests of shareholders are the main responsibility of management (Sunday et al., 2023). Therefore, a company must have the financial ability to carry out philanthropic activities, namely CSR activities in order to achieve good ESG governance. Thus, it can be said that management can make smart decisions based on cost-benefit analysis in philanthropic activities due to different stakeholder interests. However, good corporate governance is a binding mechanism in running a business, so CSR activities to create a qualified ESG are expanding with the strengthening of corporate governance. Activities to fulfill stakeholders in ESG are built on sound financial performance and the ability to manage stakeholder interests. Financial sustainability also demonstrates exemplary corporate governance practices that are positively appreciated by the market. This, then, also means that financial performance is an antecedent of ESG activities and firm value.

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