

# ESG (Environmental, Social, and Governance) Implementation to Strengthen Business Sustainability Pt. Migas–North Field

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## ABSTRACT

ESG implementation is one of factors in establishing a sustainable business. Businesses in Indonesia also need to implement ESG to achieve net zero emissions by 2026. This study describes the implementation of ESG (Environmental, Social, and Governance) to strengthen PT. Migas–North Field. This qualitative study uses an interview technique with 5 employees of PT Migas. This study focuses on the implementation of 30 indicators from ESG Reporting Guide 2.0. The findings show, in the environmental aspect, the indicators that have been practiced in the company consist of GhG emission, emission intensity, energy usage, energy intensity, energy mix, water usage, and environmental operation. While the indicator has not been practiced is climate oversight/board, climate oversight management, and climate risk mitigation. In the social aspect, the indicators that have been implemented by the company are the CEO Pay Ratio, Gender Pay Ratio, Temporary Worker Ratio, Non-discrimination, Injury Rate, Child & Forced Labor, Global Health & Safety, and Human Rights. While the indicators of Gender Diversity and Employee Turnover have not been implemented. In the governance aspect, the indicators that have been implemented by the company are Board Independence, Collective Bargaining, Supplier Code of Conduct, Ethic & Anti-Corruption, and Data Privacy. While the indicators that have not been implemented are Board Diversity, ESG Reporting, Disclosure Practice, Incentivized Pay, and External Assurance. All of indicators above actually have an urgency to be implemented in order to create business sustainability.

**Keywords:** Business Sustainability, ESG Implementation, PT Migas.

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## I. INTRODUCTION

ESG or environment, social, and governance were born from investors' awareness of the importance of a sustainable business (Nugroho, 2021). Companies that apply ESG get higher profits and move stock prices better, besides that they will be more attractive to investors (Alfaruq, 2021). This is in line with ESG Reporting Guide 2.0 that State Street research in 2018 concluded that more than two-thirds (68%) of institutional asset managers have experienced significant increases in profits by integrating ESG (Nasdaq, 2019).

The potential for companies that apply ESG principles is increasingly promising, along with demands for sustainability from an environmental and social standpoint. ESG is not an obligation, but it would be better if companies implemented ESG. It is hoped that increasing company participation in implementing ESG can make major changes in realizing a greener Indonesia. According to existing data, only a few companies in Indonesia have implemented ESG. One company that has implemented ESG is PT. Migas engaged in the Migas sector. PT. Migas has 15 top priority initiatives as a strategy to achieve ESG. The 15 strategies developed are a net zero roadmap study, Decarbonization, Biodiversity

Management System, Renewable Energy Capacity Development and Water and Waste Management, Outperforming PROPER Standard Management (Rizky, 2022). 15 initiatives from PT. Migas, in fact, this Migas can still be developed by taking into account the ESG indicators from the ESG Reporting Guide 2.0 (2019).




 Environmental (E)	 Social (S)	 Corporate Governance (G)
E1. GHG Emissions	S1. CEO Pay Ratio	G1. Board Diversity
E2. Emissions Intensity	S2. Gender Pay Ratio	G2. Board Independence
E3. Energy Usage	S3. Employee Turnover	G3. Incentivized Pay
E4. Energy Intensity	S4. Gender Diversity	G4. Collective Bargaining
E5. Energy Mix	S5. Temporary Worker Ratio	G5. Supplier Code of Conduct
E6. Water Usage	S6. Non-Discrimination	G6. Ethics & Anti-Corruption
E7. Environmental Operations	S7. Injury Rate	G7. Data Privacy
E8. Climate Oversight / Board	S8. Global Health & Safety	G8. ESG Reporting
E9. Climate Oversight / Management	S9. Child & Forced Labor	G9. Disclosure Practices
E10. Climate Risk Mitigation	S10. Human Rights	G10. External Assurance

Fig. 1. Indicators of ESG implementation in a company.  
 Source: ESG Reporting Guide 2.0, 2019

ESG Reporting Guide 2.0 (2019) has described that there are 30 indicators for implementing ESG in a company. This can be used as a guideline for all companies, including Migas companies in Indonesia, to create a sustainable business.

Based on the explanation above, there are three questions in this study, namely:

- 1) How is the ESG Implementation of the Environmental aspect to Strengthen the Business Sustainability of PT. Migas?
- 2) How is the Social Aspect of ESG Implementation to Strengthen PT. Migas?
- 3) How is the Governance Aspect ESG Implementation to Strengthen PT. Migas?

## II. LITERATURE REVIEW

### A. ESG (Environmental, Social, and Governance)

ESG means using Environmental, Social, and Governance factors to evaluate companies and countries how far they are progressing in sustainability (Brogi & Lalsio, 2019). Environmental factors include the contribution of companies or governments to climate change through greenhouse gas emissions, along with waste management and energy efficiency (Cornell, 2020). In light of the new efforts to combat global warming, reducing emissions and decarbonization is even more important. Social includes human rights, labor standards in the supply chain, exposure to illegal child labor, and more routine issues such as health and safety compliance in the workplace. Social value also increases if companies are well integrated with their local communities and therefore have a 'social license' to operate with consent (Morgan *et al*, 2020).

Governance refers to a set of rules or principles that define rights, responsibilities and expectations between different stakeholders in corporate governance. A well-defined corporate governance system can be used to balance or align interests between stakeholders and can serve as a tool to support the company's long-term strategy (Sjödin *et al.*, 2019).

### B. ESG Implementation

The implementation of ESG standards in Indonesia is quite apprehensive. Based on the Corporate Knights ranking, this year Indonesia is ranked 19th out of the Group Twenty (G20) countries and the final ranking is occupied by India. While a survey by Indonesia Business Council for Sustainable Development (IBCSA) in 2021, Indonesia's ESG index is ranked 36th out of 47 capital markets in the world. Another survey by IBCSD said that 40% of companies in Indonesia still do not understand the importance of implementing ESG. The results of the Mandiri Institute survey also stated that around 60% of issuers acknowledged the difficulty in determining ESG-based criteria, metrics and KPIs (performance indicators). Another factor that is the biggest challenge in implementing ESG is the lack of information or data. According to the International Association for Public Participation Indonesia (2022), Indonesia's slow movement in implementing the concept of sustainability can be caused by challenges that must be faced such as understanding that is not optimal, insufficient resources and large consulting fees for managing ESG aspects (Bastian, 2022; Ghazali & Zulmaita, 2022).

Mohamad *et al.* (2021) have provided an overview of ESG implementation in various countries in Asia. The ESG implementation above is an ESG score obtained based on the ESG Disclosure Score which is ready to be calculated from the Bloomberg database. The highest commitment in implementing ESG in all Asian countries is in Taiwan with the highest average score of the total ESG score and reporting the highest maximum score of 80.99 compared to other countries.

### C. Business Sustainability in PT. Migas–North Field

PT Migas is a company engaged in the oil and gas sector. This company also has a long-term or sustainable target. This company continues to strengthen its commitment to running a business based on sustainable principles by implementing aspects of environmental, Social, Governance (ESG). Sustainable business is basically an English term consisting of two words, namely sustainable which means 'sustainable' and business which means 'business'.

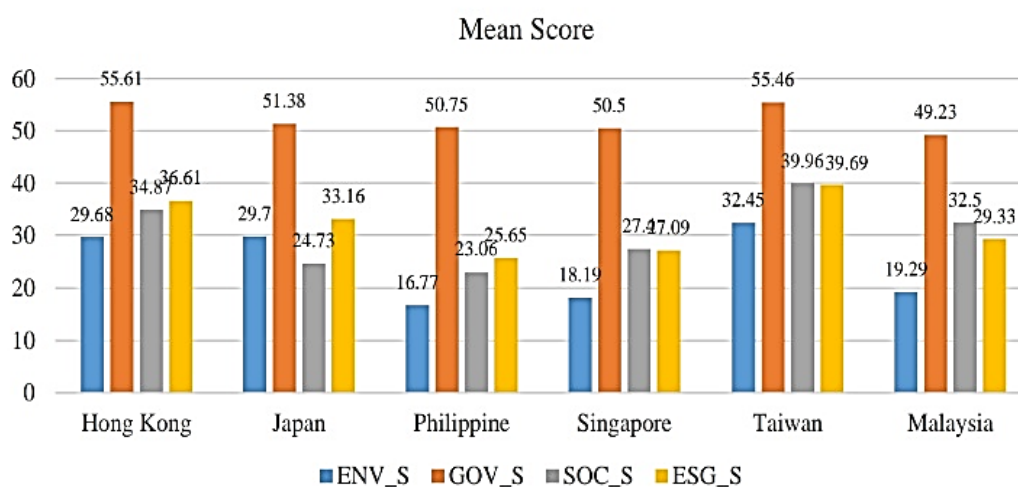


Fig. 2. ESG implementation in various countries.  
Source: Mohamad *et al*, 2021

Sutadipraja *et al.* (2021) explains that sustainable business is a business effort to minimize negative environmental and social impacts so that future generations have adequate resources to meet their needs. Nathaniela *et al.* (2022) emphasized that a sustainable business is a business that can be run both at a seasonal tempo and at the time of yearly implementation.

### III. METHODOLOGY

This research is a qualitative study with explanatory modeling. Mathayas (2019) says that the explanatory model is not static, but dynamic and flexible and is shaped according to individual cultural settings and characteristics. Explanatory or causal studies are carried out to identify the extent and nature of causal relationships and can be carried out to assess the impact of certain changes in a phenomenon (Bhat & Villegas, 2020).

This type of research has been chosen to explain the impact of implementing ESG in a business. In other words, this research wants to see how the impact of implementing 30 indicators from the ESG reporting guide 2.0 has on PT. Migas business sustainability. With this activity, a study will be able to identify the causes and effects of the application of the 30 existing indicators and be able to find out the phenomena that are happening at PT. Migas.

Data collection techniques used in this study are observation and interview techniques. The first step for researchers is to make observations at the location of PT Migas. Next is the interview with 5 respondents. The selection of respondents in this study used specific criteria, meaning that the informants at the interview stage in this study were informants who had the criteria of having worked for more than 3 years at PT Migas and knew about the implementation of ESG at PT Migas.

This qualitative research uses an explanatory model to analyze and synthesize data by integrating findings with different theories and previous literature (Liang *et al.*, 2019). In other words, this study uses an interpretation approach in analyzing existing data. Simply put, this approach explains how variables interact with each other and shape an event, whereas interpretive attempts to incorporate variables into the belief system such as certain phenomena which will eventually be interpreted (Xu & Martinez, 2017; Ryan, 2018).

### IV. FINDINGS AND ARGUMENTS

This section presents the results of the interviews that have gone through the interpretation stage. This is an overview of the results of data analysis that leads to research findings.

#### A. Environmental Aspect

The environmental aspect consists of ten indicators and indicators that have been practiced in the company, namely GhG emission, emission intensity, energy usage, energy intensity, energy mix, water usage, environmental operation. While what has not been practiced is climate oversight/board, climate oversight management, and climate risk mitigation.

The environmental aspects of ESG and business sustainability mean that the company already has an

environmentally friendly business process perspective. This is done by trying to reduce emissions, efficiency and effectiveness of energy use, diversification of energy sources, more efficient and effective use of water, CSR programs for the environment, environmentally friendly business operations such as good waste management. This activity was also able to strengthen the company's sustainable business, even though it had not fully implemented ESG indicators from an environmental aspect.

#### B. Social Aspect

The social aspect of ESG consists of ten indicators. The indicators that have been implemented by the company are the CEO Pay Ratio, Gender Pay Ratio, Temporary Worker Ratio, Non-discrimination, Injury Rate, Child & Forced Labor, Global Health & Safety, and Human Rights. While the indicators that have not been implemented are Gender Diversity, and Employee Turnover.

In the social aspect of ESG implementation and business continuity, the company has done well and has had a good impact as well. This includes how the organization best manages its relationships with employees, suppliers, customers and the communities in which it operates. The company has been able to address social issues ranging from human rights and health and safety to other responsible business practices, such as product marketing and privacy. One concrete example is the existence of villages around North Field where CSR program services are carried out by providing solar power plants to supply electricity.

#### C. Governance Aspect

The Governance aspect of the ESG consists of ten indicators. Based on the results of interviews with the five respondents, they stated that not all indicators were implemented. The indicators that have been implemented by the company are Board Independence, Collective Bargaining, Supplier Code of Conduct, Ethic & Anti-Corruption, and Data Privacy. While the indicators that have not been implemented are Board Diversity, ESG Reporting, Disclosure Practice, Incentivized Pay, and External Assurance.

The company has done well in the governance aspect of ESG and its relation to business continuity. Even though not all of the ESG indicators are implemented, sustainable business has a good impact. The company has governance in dealing with organizational leadership and effective business management. In addition to overseeing the implementation of strategy, performance and risk management, effective corporate governance has been put in place to ensure the maintenance of a social license to operate. This consideration takes the form of specific governance including executive pay, regulatory compliance and shareholder rights, and internal controls.

The company has not fully implemented ESG practices. There are several practices or indicators that have not been met. This greatly impacts the effectiveness, efficiency and corporate governance to obtain better profits. This is because ESG applies not only at the managerial or operational level. However, this applies as a whole from the company, from top management to the lower levels, including third parties involved with the company such as vendors or suppliers.

In general, companies do not yet have concern for ESG, because their practices are still separate. Moreover, ESG implementation emphasizes comprehensive reporting of aspects involved in the company from the top management level to the lower level. The company does not have any concerns regarding the reporting of ESG practices. This will later refer to data collection through periodic monitoring, then followed by evaluation of the implementation of ESG aspects and indicators, then to the follow-up or improvement stage of substandard ESG aspects and indicators.

## V. CONCLUSION

Implementation of environmental, social, and governance aspects of ESG has been able to strengthen PT. Migas - North Field. This is positive news for Indonesia's future considering that Indonesia has ambitious targets. Indonesia has the ambition to achieve net zero emissions by 2060 (Perry, 2022). The discussion on the implementation of ESG in this study can also be an encouragement for other companies to work together to create a better company.

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