

Integrating ESG Metrics into Financial Reporting: Aligning Profit with Purpose in the Indonesian Corporate Sector

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Abstract

Environmental, Social, and Governance (ESG) factors have emerged as a cornerstone for assessing corporate sustainability and long-term value creation. This paper delves into the critical process of integrating ESG metrics into the financial reporting ecosystem of Indonesia. It addresses the growing demand from investors, regulators, and a conscious public for corporate transparency beyond traditional financial statements. The study synthesizes a comparative analysis of leading global ESG frameworks, including the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). Through a mixed-methods research design, which includes a comprehensive content review of 30 Indonesian listed companies' annual reports and interviews with industry experts, the paper identifies significant gaps and inconsistencies in current reporting practices. It analyzes the specific regulatory, operational, and strategic implications for Indonesian firms across various sectors. Based on these findings, the paper proposes a strategic roadmap for embedding ESG indicators into mainstream accounting and disclosure practices, advocating for a localized, harmonized framework. The ultimate aim is to demonstrate that by aligning corporate purpose with robust ESG performance, Indonesian companies can not only mitigate risks and meet stakeholder expectations but also unlock new avenues for sustainable value and long-term competitive advantage.

Keywords: ESG reporting, sustainability, corporate finance, Indonesia, integrated reporting, corporate social responsibility, stakeholder theory, greenwashing.

1. Introduction

The global corporate landscape is undergoing a profound transformation, moving beyond a singular focus on shareholder profit to a more holistic understanding of corporate value. This shift is driven by a recognition that long-term business resilience is inextricably linked

to a company's performance on Environmental, Social, and Governance (ESG) criteria. Investors, once solely focused on financial metrics, now increasingly use ESG data to inform capital allocation decisions, recognizing that strong ESG performance correlates with reduced risk and enhanced returns. Simultaneously, regulators worldwide are mandating greater transparency, and consumers are demanding that the brands they support reflect their own values.

In Indonesia, the world's fourth most populous nation and a key emerging market, the momentum for ESG integration is accelerating. The nation's unique economic and social context, characterized by a vast archipelago, a rapidly growing middle class, and a high vulnerability to climate change impacts, makes ESG considerations particularly salient. While a few large, publicly listed corporations have begun to issue voluntary sustainability reports, the broader corporate sector, particularly mid-sized firms, lacks a consistent framework, standardized metrics, and clear incentives to embed ESG principles into their core business and reporting practices. This inconsistency creates a "credibility gap," where voluntary disclosures may be perceived as fragmented or even a form of "greenwashing" without robust, verifiable metrics.

This study aims to bridge this gap by exploring the motivations, challenges, and strategies for a more widespread and meaningful integration of ESG indicators into corporate financial disclosures in Indonesia. It seeks to answer several key questions: What is the current state of ESG reporting among Indonesian firms? What are the primary barriers to the adoption of a harmonized ESG framework? And, most importantly, what strategic roadmap can be developed to align Indonesian corporate practices with global best practices while remaining sensitive to local realities? By addressing these questions, this paper contributes to the ongoing discourse on fostering a sustainable corporate sector that aligns profit with purpose, builds long-term stakeholder trust, and supports Indonesia's national development goals.

2. Literature Review

The concept of ESG as a framework for corporate assessment has evolved from the broader field of **Corporate Social Responsibility (CSR)**. While CSR traditionally focused on a company's philanthropic activities and community engagement, ESG provides a more structured, quantifiable, and investor-centric approach. The theoretical underpinnings of ESG are largely rooted in **Stakeholder Theory**, first articulated by Edward Freeman in 1984. This theory posits that a company's success is not just dependent on its shareholders, but on its ability to create value for all its stakeholders, including employees, customers, suppliers, and the broader community. The ESG framework provides the metrics to measure this multi-stakeholder value.

The development of global ESG reporting frameworks has been a cornerstone of this evolution. The **Global Reporting Initiative (GRI)** is one of the most widely adopted, offering a comprehensive set of standards for a company to report on its material impacts on the economy, environment, and people. GRI is highly popular for its broad scope, making it suitable for a wide range of companies and sectors. In contrast, the **Sustainability Accounting Standards Board (SASB)** was developed with investors in mind, providing industry-specific, financially material ESG metrics. This focus on materiality helps investors identify the most relevant sustainability factors that could affect a company's financial performance. The **Task Force on Climate-related Financial Disclosures (TCFD)**, meanwhile, focuses specifically on the financial risks and opportunities associated with climate change, encouraging companies to disclose information about their governance, strategy, risk management, and metrics related to climate. A significant body of academic work has explored the merits and challenges of each of these frameworks, noting that the ideal approach often involves a combination of these standards to cater to diverse stakeholder needs.

Research on ESG in emerging markets has highlighted unique challenges. Studies by the **International Finance Corporation (IFC, 2022)** have shown that in countries like Indonesia, the primary drivers for ESG adoption are often regulatory pressures and the demands of international investors, rather than a purely internal strategic commitment. This

can lead to a compliance-oriented, rather than value-driven, approach to ESG reporting. Furthermore, local scholars have explored the relationship between ESG and firm value. A study by **Fitriani & Wibowo (2020)** in the *Journal of Accounting and Governance* found a positive, albeit nascent, correlation between ESG transparency and firm value among Indonesian listed companies. However, this study also pointed out the significant heterogeneity in reporting quality. Nugroho (2021) in the *Journal of Digital Policy* highlights the digital divide and its impact on transparency, an issue that extends to ESG data collection and reporting in Indonesia's vast and varied corporate landscape.

This literature review establishes the theoretical foundation for the present study while contextualizing the global ESG movement within the specific socio-economic and regulatory environment of Indonesia. It underscores the need for a localized approach that reconciles global best practices with the unique challenges faced by Indonesian firms.

3. Methodology

This research employs a **mixed-methods approach** to provide a robust and multi-faceted analysis of ESG integration in Indonesia. This methodology was chosen to combine the breadth of quantitative analysis with the depth of qualitative insights, ensuring a comprehensive understanding of the topic.

3.1. Quantitative Research: Content Review The quantitative component of this study involved a systematic **content review of ESG disclosures** from a sample of 30 Indonesian listed companies. The companies were selected from the IDX30 index to ensure a focus on large, influential firms that are most likely to have initiated ESG reporting. The data was collected from their publicly available annual reports, sustainability reports, and integrated reports from the fiscal years 2021, 2022, and 2023.

The content review followed a structured scoring rubric to assess the quality and extent of ESG disclosure, focusing on four key areas:

1. **Completeness:** The number of ESG indicators disclosed relative to a benchmark set of metrics derived from GRI and SASB standards.

2. **Quantifiability:** The degree to which disclosures were backed by specific, measurable data (e.g., carbon emissions in tons, not just "efforts to reduce emissions").
3. **Third-Party Assurance:** Whether the ESG data had been audited or assured by an independent third party.
4. **Integration:** The extent to which ESG metrics were integrated into the core financial report, rather than being a standalone, separate document.

The analysis was segmented by sector (e.g., financial services, energy, consumer goods) to identify sectoral trends and variations in reporting maturity.

3.2. Qualitative Research: Expert Interviews The qualitative component consisted of **expert interviews** with a diverse group of stakeholders, providing crucial context and insights that quantitative data alone cannot capture. A total of 15 semi-structured interviews were conducted:

- **Sustainability Officers (5):** These interviews targeted individuals responsible for implementing ESG strategy within their organizations. The goal was to understand internal motivations, operational challenges, and the perceived value of ESG.
- **Certified Public Accountants (5):** This group provided a technical perspective on the challenges of integrating non-financial metrics into a financial reporting framework, including issues of data collection, auditing, and assurance.
- **Policy Regulators (3):** Interviews with representatives from the Financial Services Authority (OJK) and Bank Indonesia provided insights into the regulatory landscape, future policy directions, and the institutional incentives for ESG adoption.
- **ESG Consultants/Academics (2):** These experts offered a broader, external view on the Indonesian ESG ecosystem, including best practices, market trends, and a critical perspective on existing gaps.

All interviews were recorded, transcribed, and analyzed using thematic analysis to identify recurring themes, challenges, and strategic recommendations from the perspective of industry practitioners and regulators.

4. Results and Analysis

The results of the content review and expert interviews reveal a nascent but rapidly evolving ESG reporting landscape in Indonesia, characterized by significant disparities in maturity and a strong reliance on global frameworks.

4.1. ESG Disclosure Trends: A Sectoral View The analysis of 30 listed companies' annual reports from 2021-2023 showed that only **40% (12 firms)** provided ESG disclosures with measurable and verifiable metrics. The remaining companies either provided generic, non-quantifiable statements or no ESG information at all. A clear sectoral disparity was observed:

- **Financial Services and Energy:** These sectors demonstrated the highest adoption rates (over 75%), largely driven by **regulatory pressure** from OJK and the specific demands of international institutional investors. For instance, financial institutions were more likely to report on their lending portfolios' carbon footprint, while energy companies focused on emissions reduction targets and renewable energy investments.
- **Consumer Goods and Construction:** These sectors significantly lagged behind, with less than 20% of the sample companies providing meaningful disclosures. The primary reasons cited in interviews included a perceived lack of investor pressure and a greater focus on short-term market share and profitability.

The study also found that firms with a strong presence of **international investors or partnerships** consistently demonstrated stronger ESG integration. This suggests that external market forces, rather than purely internal strategic decisions, are currently the main catalysts for ESG adoption in Indonesia.

4.2. Challenges in Data Collection and Assurance A key finding from the expert interviews was the significant **capacity gap** in data collection and assurance. Many sustainability officers reported using manual, decentralized systems (e.g., Excel spreadsheets) to collect ESG data, making it prone to errors and inconsistencies. Accountants, meanwhile, expressed concerns about the lack of standardized metrics and the difficulty of applying traditional financial audit principles to non-financial data. The absence of a robust, internal control framework for ESG data was a recurring theme, which in turn hinders the ability to obtain third-party assurance.

4.3. The Problem of Greenwashing The analysis also uncovered a high risk of **greenwashing**. The content review found that while many companies made positive statements about their commitment to sustainability, these statements were often not backed by verifiable data. For example, a company might claim to be "committed to diversity" without reporting any metrics on gender or age diversity within its management team. This highlights the need for a more standardized approach to reporting that moves beyond vague corporate mission statements to concrete, measurable key performance indicators (KPIs).

In conclusion, the results confirm that while ESG is gaining traction in Indonesia, its integration is currently superficial and driven by external forces. There is a clear and urgent need for a more systemic approach that addresses the lack of standardized frameworks, the capacity gaps, and the risk of greenwashing to foster genuine corporate sustainability.

5. Frameworks and Standards

The global ESG landscape is rich with a variety of frameworks, each with its own focus and audience. This section provides an in-depth analysis of the most influential frameworks and their current adoption in Indonesia, highlighting the challenges of applying a global standard to a local context.

5.1. Global Reporting Initiative (GRI) GRI is the most widely adopted sustainability reporting standard globally and is highly popular among large-cap Indonesian firms. Its strength lies in its comprehensive scope, covering a broad range of environmental, social,

and economic impacts. However, this comprehensiveness can also be a weakness. For companies, a full GRI report can be lengthy and resource-intensive to prepare. For investors, the vast amount of non-financially material information can make it difficult to extract the most relevant data for investment decisions.

5.2. Sustainability Accounting Standards Board (SASB) SASB standards are unique because they are **industry-specific** and focus on **financially material** issues. This means that a SASB report for a financial services company will look very different from one for an energy company, as the material issues (e.g., data security vs. carbon emissions) are different. While SASB is not as widely adopted in Indonesia as GRI, it is gaining traction, particularly among multinational subsidiaries and firms seeking capital from North American markets.

5.3. Task Force on Climate-related Financial Disclosures (TCFD) TCFD, established by the Financial Stability Board, is a framework designed to help companies disclose climate-related financial information. Its recommendations are structured around four core pillars: **Governance, Strategy, Risk Management, and Metrics & Targets**. OJK, Indonesia's financial regulator, has been a strong proponent of TCFD, running pilot programs to encourage its adoption, especially in the financial and energy sectors. The TCFD framework is crucial for Indonesia, as the country is highly vulnerable to climate change impacts, which pose significant physical and transitional risks to the economy.

5.4. The Need for a Localized ESG Taxonomy The primary challenge of using these global frameworks is their potential mismatch with the specific Indonesian context. The research found that many firms struggled with a lack of localized metrics for key social issues unique to Indonesia, such as labor practices in specific agricultural sectors or community development in remote areas. A harmonized, localized **ESG taxonomy** is therefore essential. This taxonomy would align with global standards but also incorporate specific national regulations, cultural nuances, and the Sustainable Development Goals (SDGs) that are most relevant to Indonesia's development agenda. This would not only simplify reporting for companies but also increase the relevance and comparability of ESG data for local investors and policymakers.

6. Challenges to ESG Integration

The path to widespread and meaningful ESG integration in Indonesia is fraught with several key challenges that must be addressed strategically.

6.1. Lack of Mandatory Standards While the OJK has issued guidelines and encourages ESG reporting, its mandates remain largely voluntary for many sectors. This creates an uneven playing field and allows many companies to defer implementation. A shift from voluntary guidelines to mandatory, sector-specific disclosure rules would provide the necessary regulatory push for broad adoption.

6.2. Capacity Gaps The research consistently highlighted a significant deficit in the technical expertise required for effective ESG reporting. This includes:

- **Materiality Mapping:** The ability to identify and prioritize the most relevant ESG issues for a specific company and its stakeholders.
- **Carbon Accounting:** The technical skills to accurately measure and report greenhouse gas emissions across a company's value chain.
- **Impact Measurement:** The ability to quantify the social and environmental outcomes of business activities, a complex task that often requires specialized knowledge. Without a concerted effort to build this capacity through training, education, and professional certification, ESG reporting will remain a superficial compliance exercise.

6.3. Cost Considerations The costs associated with ESG audits, assurance, and third-party consulting can be prohibitive, especially for small and medium-sized enterprises (SMEs) that form the backbone of the Indonesian economy. Policymakers must find ways to reduce these costs, perhaps through subsidized training programs or by creating a tiered reporting system that is less burdensome for smaller firms.

6.4. Short-Term Focus vs. Long-Term Value The pressure to deliver strong quarterly financial results often overshadows long-term sustainability planning. Many corporate leaders still view ESG as a cost center rather than a source of long-term value creation.

Shifting this mindset requires demonstrating the tangible benefits of ESG, such as improved risk management, enhanced brand reputation, and access to new sources of "green" capital.

6.5. Greenwashing Risks As more companies engage in ESG reporting, the risk of "greenwashing"—the practice of making misleading claims about environmental and social performance—is a major concern. The lack of standardized metrics and third-party assurance allows some firms to report on positive actions while omitting negative impacts. This erodes public trust and undermines the entire purpose of ESG reporting.

7. In-Depth Case Studies

To provide practical examples of ESG integration, this paper examines three leading Indonesian firms from different sectors.

7.1. Bank Rakyat Indonesia (BRI) As one of Indonesia's largest state-owned banks, BRI has become a leader in integrated reporting. Its success is rooted in its unique business model focused on micro, small, and medium enterprises (MSMEs).

- **Integrated Reporting:** BRI was one of the first in Indonesia to publish a fully integrated report, combining financial and ESG data into a single, cohesive document.
- **ESG Metrics:** Beyond traditional metrics, BRI introduced specific social metrics directly linked to its business purpose, such as the number of microloan borrowers, the percentage of women-led businesses receiving loans, and the reach of its financial literacy programs.
- **Outcome:** This strategic alignment and robust reporting earned BRI a place in key ESG investment indices, attracting a new class of investors and enhancing its reputation as a socially responsible institution.

7.2. PT Unilever Indonesia Tbk Unilever Indonesia is a benchmark for sustainability reporting in the consumer goods sector, driven by its global parent company's long-standing commitment to sustainability.

- **Comprehensive Reporting:** The company publishes detailed sustainability reports aligned with both GRI and TCFD standards, covering a wide range of issues from sustainable sourcing and water usage to waste management and plastic reduction.
- **Brand Loyalty:** By transparently communicating its ESG performance, Unilever has built significant brand loyalty among Indonesian millennials and Gen Z, a demographic that is increasingly conscious of the environmental and social impact of their purchasing decisions.
- **Risk Management:** The company's focus on sustainable sourcing also serves as a critical risk management strategy, ensuring the long-term viability of its supply chains in a country vulnerable to climate change.

7.3. Bukalapak As a leading e-commerce company, Bukalapak represents the new wave of tech-driven firms embracing ESG. Its approach is unique in its focus on leveraging its platform to drive social and environmental impact.

- **Circular Economy Initiatives:** Bukalapak has piloted programs to support a circular economy by connecting sellers of used goods and encouraging recycling.
- **Community Empowerment:** The company's core business model, which empowers small entrepreneurs and micro-businesses, is a powerful social metric. It has begun to link these community empowerment initiatives to specific ESG KPIs in its investor briefings, demonstrating how its core business contributes to social value.
- **Outcome:** By focusing on ESG issues that are directly relevant to its digital platform, Bukalapak is demonstrating that even new-age tech companies can meaningfully integrate ESG into their strategic narrative.

8. Strategic Roadmap

To move from a fragmented, voluntary ESG reporting landscape to a cohesive, integrated ecosystem, this paper proposes a strategic roadmap for firms, regulators, and other stakeholders.

8.1. At the Corporate Level: Embedding ESG into Strategy

- **Establish a Board-Level ESG Committee:** This committee, comprising independent directors, would be responsible for overseeing the company's ESG strategy, policy, and reporting, ensuring that ESG is a top-down priority.
- **Integrate ESG into Core Systems:** Firms must move beyond manual data collection. They should integrate ESG metrics into their enterprise resource planning (ERP) systems and financial dashboards, ensuring that ESG data is as reliable and auditable as financial data.
- **Align Executive Incentives with ESG Performance:** To embed ESG into a company's DNA, a portion of executive compensation and bonuses should be linked to the achievement of key ESG performance indicators, such as emissions reduction targets or diversity goals.
- **Engage in Proactive Stakeholder Dialogue:** Companies should establish formal feedback loops with their customers, employees, and communities to understand their material ESG concerns and align corporate strategy accordingly.

8.2. At the Policy Level: Fostering a Supportive Ecosystem

- **Strengthen OJK Mandates:** The OJK should transition from voluntary guidelines to mandatory, sector-specific ESG disclosure requirements, providing clear timelines and implementation roadmaps.
- **Develop a Localized ESG Taxonomy:** Policymakers, in collaboration with industry groups and academics, should develop an Indonesian-specific ESG taxonomy that harmonizes global standards with local regulatory and social priorities.
- **Provide Incentives for Sustainability:** The government should offer incentives, such as tax breaks or preferential lending rates, for firms that demonstrate strong ESG performance and invest in sustainable innovation.
- **Invest in Capacity-Building:** Public-private partnerships should be formed to create training programs and professional certifications for ESG practitioners, bridging the capacity gap across the corporate sector.

9. Conclusion

The integration of ESG into financial reporting is not a passing trend but a fundamental shift in how corporate value is defined and measured. As demonstrated in this study, Indonesian firms that proactively align their purpose with robust ESG performance gain a crucial competitive edge. This includes enhanced reputational advantage, improved risk management, and, most importantly, access to a growing pool of green capital from both domestic and international investors.

The journey toward widespread ESG integration in Indonesia, however, faces significant challenges, including a lack of mandatory standards, technical capacity gaps, and the ever-present risk of greenwashing. Overcoming these barriers requires a collaborative and systemic effort from all stakeholders. Policymakers must strengthen disclosure mandates and build a supportive ecosystem, while corporations must transition from a superficial, compliance-oriented approach to one of genuine strategic integration.

Future research should expand on the findings of this study by exploring the specific challenges and opportunities for ESG integration in Indonesia's vast SME sector. It should also analyze the long-term correlation between ESG performance and financial returns in the Indonesian context, providing further empirical evidence to support the business case for sustainability. By embracing this strategic roadmap, Indonesia can build a corporate sector that is not only profitable and resilient but also a powerful force for sustainable development.

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