



Integration of Sustainability Aspect and Company Strategy in Indonesia Technology Sector

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ABSTRACT

The sustainability dimensions of business activity have attracted increasing attention from business stakeholders and changes in societal context of business in the future are constraining company ability to pursue unsustainable value creation. Considering the instrumental role of external environment in effective strategy formulation, this paper aims to contribute in theory development and evaluate the practical implementation by analyzing integration of sustainability aspect with company strategy. This research carried out on a sample of 10 publicly listed tech company in IDX. This study uses descriptive qualitative research method using secondary data. The results of this study suggest partial integration of sustainability aspect with company strategy with a number of required improvements in critical areas of strategy formulation in order to capture the full potential of sustainability integration with company strategy.

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INTRODUCTION

Sustainability now has been recognized as an important element of business as more companies integrating sustainability into their business strategy (Khan et al., 2016). One of this trend evidence is the consistent rise of companies in Standard and Poor 500 index (S&P 500) that published environmental, social and governance (ESG) report over the past decade (Chart 1). In 2011, only 20% of S&P 500 companies publish ESG report, by 2020 more than 92% of S&P 500 companies published ESG report (Governance & Sustainability Institute, 2021).

Deloitte survey has shown that consumers significantly more focusing on buying what they need, using low carbon emission transport, as well as reducing meat (Deloitte, 2021). In addition, consumers also become more proactive in selecting brands that have positive sustainability impact and avoiding brands that have questionable sustainability practice (Granskog et al., 2020).

Sustainability concept cannot be separated from sustainable development which according to the Brundtland Report defined as 'meeting the needs of the presents without compromising the ability of future generations to meet their own needs' (WCED, 1987). In context of corporate sustainability, this can be translated as 'meeting the needs of a firm's current direct (such as shareholders, customers, employees) and indirect stakeholders (communities, pressure groups,

government) without compromising its ability to meet the needs of future stakeholders (Dyllick & Hockerts, 2002).

In order to achieve such goals, it is not enough for corporation to only consider financial cost and benefit of doing business. To achieve corporate sustainability, it is necessary to integrate the three dimensions of sustainability which is economic sustainability, environmental sustainability, and social sustainability into the company activities (see Fig 1)(Dyllick & Hockerts, 2002). This means company need to also measure their performance by including social and environmental impact in addition to financial performance, as suggested by 'triple-bottom-line' concept of profit, people and planet (Elkington, 1997).

A large number of studies has found sustainability can contribute to establishing competitive advance by various ways such as improving outcomes of innovation (Flammer & Kacperczyk, 2016), improving reputation and sales, superior access to finance (Ioannou & Serafeim, 2015), improving satisfaction of customers and employees (Du et al., 2011), enhancing human capital, advantageous access to global market (Hawn, 2021) as well as pre-emption of regulatory intervention. However, Ioannou & Serafeim, (2015) argued that existing research has not yet sufficiently illuminate the conditions which allow companies to maintain such advantage in the long term as it can imitated by competitors and diminish the value of that advantage.(Uddin & Bose, 2013). Engert, Rauter, & Baumgartner, (2016) argued that in order to achieve effective competitive advantage it is necessary to move integration of corporate sustainability from being as separate company activity of ad hoc mix of philanthropic action to becoming an integrated part of business strategy. Furthermore, Steyn & Niemann, (2014) suggest this means corporate sustainability required to be a part of company's vision, mission, culture, governance, performance system and as far as a part of every employee part of work.

While many organizations are keen to take sustainability initiatives and transform their business, a large percentage of them failed to achieve their goals (Ahmed & Sundaram, 2012). Several studies have pointed out most common challenges that may cause failure of sustainability initiatives implementation including setting clear and measurable goals, financial incentive pressures, misalignment of short term and long-term strategic goals and no framework that comprehensively support sustainable business transformation. In addition, Kiron et al., (2012) argues that managers while they recognized the importance of integration of sustainability they often ignore it in their strategic management process. This condition indicates that currently there is a lack of clear understanding on how company can integrate sustainability seamlessly with their company strategic management process.

Advancement on such understanding is very important to further promote sustainability aspect of Indonesian public listed company's that currently still lagging behind. Based on Indonesia Sustainability Reporting Award (ISRA) which organized by the Indonesia Institute of Accountants for Management Accountants Compartment (IAI-KAM) it was discovered that only 11% of Indonesian public companies disclosed separate sustainability report (Ramadan & Tobing, 2022).

Despite the large number of studies focusing on business sustainability or strategic management in the last decade, there is lack of study that specifically dealing with integration of sustainability into company strategy as well as its related issues. Considering that research gap this paper aim to contribute to literature on integration of sustainability aspect and company strategy specifically in Indonesia technology sector.

RESEARCH METHOD

This research conducted by using qualitative method. Qualitative method selected due to consideration that this paper can be categorized as explorative study as it aimed to developing deeper understanding on the process of integration of sustainability and strategic management. Qualitative methodology allow researcher to analyze and collect in narrative form, hence rich in context and allow researcher immersion on the phenomena.

The object of this study is publicly listed company in Indonesia Stock Exchange (IDX) that categorized in technology sector in 2017-2022. Samples of companies selected based on purposive sampling method. Selection of sample in purposive sampling method is based on researcher assessment regarding the fitness of sample with the research criteria. In this research, researcher sample criteria is company that have published stand-alone sustainability report or integrated annual report which included sustainability aspect of the company for year of 2021. Based on the criteria, the sample of technology company that selected is 10 companies out of 23 in total.

Data collection methods in this research were obtained from secondary data using company annual report, sustainability report as well as publication materials from mass media and internet. In addition to that this research also utilize secondary sources such as books, research paper, whitepapers, newspaper, and magazines. The collected data then categorized and coded based on its relevance to this research theme. Next the data analyzed and contextualized using thematic analysis to identify the meaning behind the data and to answer the research question.

RESULTS AND DISCUSSIONS

Prior research suggested different approaches for integration of corporate strategy and sustainability. Stead & Stead, (2000) suggested implementation of ethical framework of eco-enterprise strategy with sustainability at its core that referred as sustainable strategic management (see Fig. 2). The concept of sustainable strategic management focused on formulation and implementation of strategy that using ecological responsibility as path to differentiation and efficiency to establish competitive advantage (Stead & Stead, 2000).

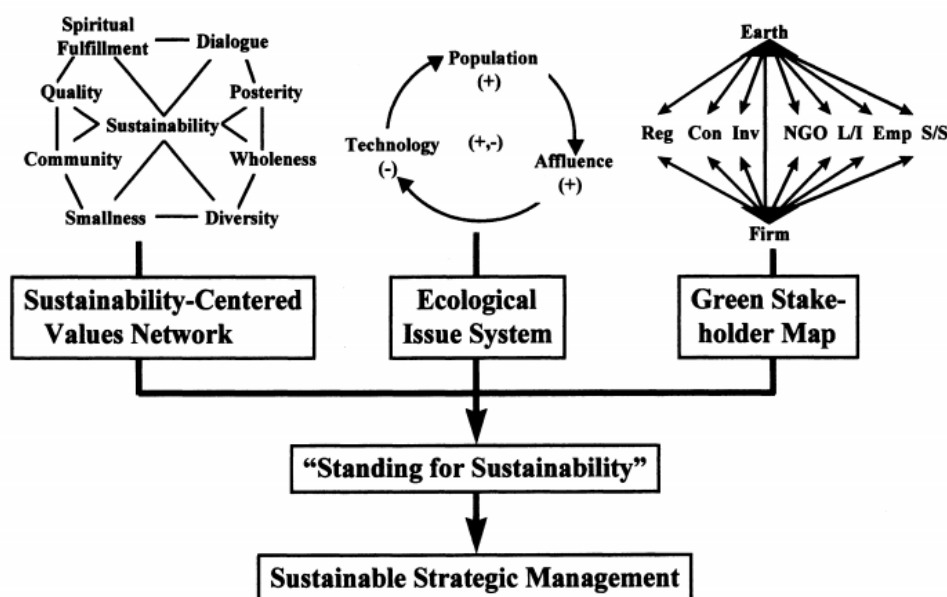


Figure 2. Sustainable Strategic Management Framework (Stead & Stead, 2000)

According to David & David, (2017) strategy formulation can be integrated into three stage framework: the input stage, matching stage and decision stage. Input stage requires analysis of external factor and internal factor that influence firm performance. Matching stage focused on aligning and matching key internal and external factor to generate potential alternative strategies. Third stage is decision stage which involving evaluating relative attractiveness of alternative strategies.

Based on those strategy formulation process, the first step to integrate sustainability into strategy managers is to include economic, social and environmental sustainability issues into its key

internal and external factor. Next step in matching stage managers need to generate alternative's strategies that: 1) exploit the internal strength and/or external opportunity with respect to sustainability factor; or 2) address internal weakness and/or external threat in connection with sustainability factor. Lastly, evaluation of alternative strategies in decision stage must incorporate attractiveness in term of its corporate sustainability impact.

Sanders & Wood, (2019) argues that to integrate sustainability into corporate strategy companies need to consider three aspects of strategic alignment for sustainable performance: First is to develop a sustainable corporate identity through companies' mission and vision that aligned with customer's needs: Second is to communicate the mission throughout the organization and aligning it with each division of company. Third by executing the mission and vision with sustainable performance goals. Considering the aforementioned literature, Table 1 show the proposed indicators of integration of sustainability with company strategy.

Table 1. Indicators of Integration of Sustainability & Strategy

Dimension		Indicators
Input stage sustainability	IS	Inclusion of economic, social and environmental sustainability aspect as influencing external and/or internal factors in sustainability/annual reports.
Matching stage sustainability	MS	Alternative strategy exploit strength or opportunity and/or address weakness or threat with respect to sustainability
Decision stage sustainability	DS	Corporate sustainability score in selection of strategy
Corporate Identity	CI	Company's mission, vision or core values incorporate sustainability aspect
Internal Communication	IC	Guidelines, media or training for employee on company's sustainability
Corporate governance	CG	Specific top-level manager which responsible for company sustainability
Strategy Execution	SS	Clear sustainable performance goals in the sustainability/annual report

The analysis result underscore the shortcoming of sustainability and company strategy integration. First, it is shows that only 35% of all indicators is fulfilled throughout whole sample. Second, the mean score of samples is only 50 out of 100 which means that there are in the technology sector there are only a partial integration of sustainability and strategy.

It is must be noted that some indicators are more common while others is more rare. For instance, based on our findings all sample has some kind of internal communication means regarding company sustainability policy for its' employees. The second most common indicators that present in the sample is CI and IS which has score 60%. This means 6 out of 10 company has mentioned economic, social or environmental sustainability as influencing factor on the respective company. Additionally, 60% of sample also incorporate sustainability aspect on its' corporate identity such as mission, vision or core value. This mean majority of sample acknowledge sustainability as an important external or internal factor and to align the company basis of strategy (mission, vision and core value) with such factors.

There are three aspects that need to be improved in order to have better integration of sustainability and strategy. First is CG indicators which only 40% of samples fulfilled the criteria as only 4 out of 10 companies has specific top-level manager that responsible for sustainability aspect of the company. Second is SS with 30% score, which mean only 3 out of 10 samples has clear goals on corporate sustainability. And last is DS which only 1 out of 10 has implemented sustainability evaluation in selection of its strategy.

Based on the above findings we can noted that the three of the most adopted indicators is in connection with lower level of strategy formulation namely the analysis of internal and external factors as well as formulation of company vision and mission. In contrast, the three of most rare indicators are involving the more advanced stage of strategy formulation which is the decision stage. Ahmed & Sundaram, (2012) also highlight the problem in sustainable business transformation is in decision making because it involves various decision-making perspectives (i.e., strategic, operational and tactical), sustainability dimensions paradigm (economic, social and environment), and sustainability modelling paradigm. It was also the case in term of strategy implementation which

CG and SS indicators are involving the more advanced stage of strategy implementation. Table 2 presents the summary of result on each of our sample.

Table 2. Summary of Research Result

Item Sample	IS	MS	DS	CI	IC	CG	SS	Score
S1	x	x	x	✓	✓	✓	x	42,8
S2	✓	✓	✓	x	✓	✓	✓	85,7
S3	✓	✓	x	✓	✓	x	✓	71,4
S4	x	x	x	✓	✓	x	X	28,5
S5	x	x	x	x	✓	x	X	14,8
S6	x	x	x	x	✓	✓	X	28,5
S7	✓	x	x	x	✓	x	X	28,5
S8	✓	✓	x	✓	✓	✓	X	71,4
S9	✓	✓	x	✓	✓	x	✓	71,4
S10	✓	✓	x	✓	✓	x	X	57,1
Percent	60%	50%	10%	60%	100%	40%	30%	

CONCLUSION

The result of study shown that most publicly listed companies in Indonesia technology sector has at least partial integration of strategic management and corporate sustainability. Most notable weakness integration in this case is regarding strategy formulation decision stage, strategy execution and corporate governance as less than 50% of company already implemented such integration effort. The future research should be conducted to finding the cause of low integration in decision stage, strategy execution and corporate governance. Further research in integration of sustainability and strategy could also be focused on how company can achieve high integration of strategy and sustainability in practice by investigating the process, tools, and internal mechanism that used by the managers in the company.

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