Environmental, Social, and Governance (ESG) Performance Evaluation to Reduce Potential Greenwashing Based on Sustainable Fitch Index

Juniati Gunawan¹, Irene Gunawan², Ying Chieh Liu³

¹Universitas Trisakti, Indonesia
²Parahyangan Catholic University, Indonesia
³National Chin-Yi University, China

Abstract

Increasing company awareness of environmental, social, and governance (ESG) issues is becoming more critical in financial performance. Investors and other stakeholders require ESG-related information to help them make decisions, in particular investment decisions. This study employed the Sustainable Fitch index to assess the ESG performance by examining Company G as a case study. This company is considered the first in Indonesia to go through a Sustainable Fitch index evaluation. The sustainable Fitch index was chosen as it is considered the most related ESG index for companies that want to publish sustainability bonds and has a unique methodology. The findings suggest that companies conducting a Sustainable Fitch ESG assessment should calculate scope 3 emissions and clarify the emission reduction target timeline, including target verification concerning the United Nations Science-Based Target (SBT) or net zero targets. These measurements are considered part of environmental accounting, an emerging accounting issue related to sustainability. Besides, social performance is also crucial, and one of them is improving the number of women in management positions at all levels.

Keywords Environmental, Social, and Governance (ESG) Index, Sustainable Fitch, Sustainability

INTRODUCTION

The terminology of Environment, Social, and Governance (ESG) was first introduced in the United Nations' Principles for Responsible Investment (PRI) report in 2006 (Abdul Rahman & Alsayegh, 2021; Ditlev-Simonsen, 2022; Sharma et al., 2022). The environmental criteria pertain to a company's environmental, operational impacts and risk management. Within the environmental pillar, issues of focus include direct and indirect greenhouse gas emissions (GHG), natural resource management, and a company's resilience to physical climate risks due to climate change (such as floods, fires, and landslides) (Mutlu et al., 2020). The social pillar relates to a company's relationships and impacts on stakeholders (community, employees, and supply chain partners) (Al Baroudi et al., 2022; Ulrich et al., 2022). The governance pillar pertains to how a company is managed and led, focusing on leadership incentives, shareholder rights, and types of internal controls (Zumente & Lāce, 2021).

According to the Principles for Responsible Investment, ESG issues are essential for supporting responsible investments, including a company’s ability to analyze ESG factors in its operational activities (Bhandari et al., 2022; Strine et al., 2021). ESG issues have gained prominence among investors due to the expectation that companies demonstrate firm ESG commitments. The increased awareness among investors about ESG issues has necessitated guidelines and a process for assessing a company’s ESG issues. ESG assessments are needed to provide certainty to investors in their
investment decisions.

A framework guide for addressing ESG issues is necessary to assist stakeholders, including investors, understand how companies manage ESG-related business risks and opportunities (Raimo et al., 2021). Framework guides for ESG issues include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). Each framework guide has its specific focus. For instance, GRI primarily aims to disclose environmental responsibilities to stakeholders, while TCFD focuses on financial disclosures related to climate change. As ESG framework guides are adopted, the need for ESG issue assessments increases (Semet et al., 2021).

ESG issue assessment is a process to measure a company's management of ESG risks and opportunities (Sciarelli et al., 2021). ESG issue assessment is crucial to avoid investing in companies engaged in greenwashing. Greenwashing involves companies making exaggerated or factually incorrect claims regarding ESG aspects (Busco et al., 2020). Furthermore, investors demand transparency about the utilization of funds concerning ESG risks and opportunities in companies. Lastly, ESG issue assessment is pivotal due to the emergence of government regulations that consider ESG aspects as mandatory for companies.

Each company undergoing ESG assessments will engage ESG assessment agencies per their needs. With the increasing demand for ESG assessments, numerous ESG assessment agencies have emerged, such as Sustainalytics, MSCI, ISS, CDP, Dow Jones Sustainability Index, and Sustainable Fitch. Each ESG assessment agency has its unique focus. Notably, Sustainable Fitch concentrates on ESG aspects and a company's business activities, particularly for those with green/sustainability bonds (Cantino et al., 2017; Di Simone et al., 2022).

This study analyzes the ESG performance of Company G using the Sustainable Fitch ESG assessment methodology. Sustainable Fitch is an ESG assessment agency based in New York, USA, established in 2021 and is relatively new in the field. However, despite its novelty, Sustainable Fitch offers advantages compared to other ESG assessment agencies.

Several strengths of Sustainable Fitch's ESG assessment include providing ESG information to investors based on guidelines such as European Union (EU) green bonds, the International Capital Market Association (ICMA) guidelines, and the Sustainable Development Goals (SDGs) for data analysis (FTSE Russell, 2022). Moreover, Sustainable Fitch excels due to its transparent, concise, yet in-depth methodology with well-defined indicators.

Moreover, Sustainable Fitch upholds exacting criteria, exemplified by its rigorous standards establishing a ceiling for specific industries. This ceiling signifies that industries with substantial environmental impacts, such as oil and gas and energy sectors, cannot attain a flawless score (Back, 2017; Ditlev-Simonsen, 2022). This evaluation is pivotal, as it communicates to investors that companies bearing significant environmental consequences cannot achieve a perfect rating. For instance, an oil and gas firm undergoing an ESG evaluation via Sustainable Fitch cannot secure a top-tier score of 1. Similarly, renewable energy enterprises are not assigned a score of 1, despite their environmental contributions, due to the inherent negative impacts their operations unavoidably entail, resistant to prevention or mitigation efforts. Consequently, within the Sustainable Fitch methodology, specific companies cannot be awarded a score of 1. The highest attainable score for renewable energy firms stands at 2.

Bestowing a perfect score upon companies with noteworthy environmental impacts might foster misinterpretations among investors. It could lead investors to erroneously believe that a perfect score denotes that these companies no longer pose ESG risks despite their substantial environmental footprints. Such misunderstandings could precipitate misguided investment choices. Furthermore, assigning perfect scores to companies with significant environmental impacts could impede the 2050
net-zero emission target. This is because companies persistently attaining maximal scores will consistently secure financial backing from investors. Investors would extend funding without rigorously urging companies to curtail ESG risks. For instance, they might refrain from pressing for targets related to greenhouse gas emission reduction and energy consumption decrease. This financing sans rigorous risk reduction mandates could cause companies to downplay ESG risks, potentially elevating the risk of greenwashing (Cantino et al., 2017; Zumente & Lāce, 2021).

Companies with substantial environmental impacts that receive impeccable scores from other ESG assessment agencies may resort to greenwashing. The fundamental objective of ESG assessments is to avert such deceptive practices. Even though they strive to embrace ESG principles, renewable energy firms are inherently predisposed to risks. While their carbon dioxide emissions contributing to climate change are over 99% lower, they are still classified as entities with considerable environmental impacts (Escrig-Olmedo et al., 2019; Strine et al., 2021). ESG assessment scores for renewable energy firms should be consistent with scores allocated to other enterprises with lesser environmental impacts, like those in the food and beverage, tourism, and financial sectors.

This study provides paramount significance, particularly for all companies listed on the Indonesia Stock Exchange (IDX), as they must evaluate ESG aspects to foster transparency for investors. Moreover, the scarcity of Indonesian companies that have undergone ESG assessments via Sustainable Fitch creates a notable research gap. This gap is characterized by the need for more understanding of how Indonesian companies perform in ESG evaluations using Sustainable Fitch’s methodology. This research, therefore, becomes invaluable in aiding Indonesian corporations to attain optimal ratings through Sustainable Fitch’s ESG assessments. Sustainable Fitch is an exemplary ESG assessment agency with robust evaluation standards and methodologies that can curtail the prospect of greenwashing, facilitating informed investment choices for investors.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory is a framework that elucidates the relationship between a company and its investors, suppliers, employees, customers, and other parties with vested interests in the company. According to R. Edward Freeman, companies must provide or create additional value for stakeholders beyond shareholders (Laplume et al., 2008; Lock & Seele, 2017). This is because stakeholders play a crucial role in the company’s sustainability. Each company has a varying composition of stakeholders. For instance, as per BBC, employees play a pivotal role in achieving a company’s objectives (Miles, 2017; Ramoglou et al., 2023). If a company fails to deliver benefits to its employees, they might refuse to work and not meet the company’s standards.

Stakeholders require information from companies to make decisions. Stakeholders seek ESG information as it reveals the magnitude of risks, opportunities, and the company’s value. It showcases how a company can operate sustainably by addressing ESG aspects and the preventive measures to minimize risks.

Based on an analysis by McKinsey across more than 2000 companies, it is inferred that 63% of investment decisions are influenced by available ESG information from the companies (Miles, 2017; Valentinov & Chia, 2022). However, companies sometimes aim for all disclosed ESG information to have a positive connotation, intending to sway stakeholder decision-making. The endeavour of companies to portray all ESG information in a positive light to stakeholders is called greenwashing (Freeman & Dmytryiev, 2020). ESG assessment agencies, including Sustainable Fitch, are expected to assure stakeholders concerning the ESG information companies disclose.

Despite the growing emphasis on ESG matters, a significant research gap exists in understanding how specific ESG assessment methodologies, such as the one employed by Sustainable Fitch, influence stakeholder perceptions and decisions. While various ESG assessment frameworks have gained traction, the nuanced impacts of these frameworks on stakeholders’ perceptions, decision-
making processes, and, ultimately, the companies' strategic directions require further investigation. Additionally, the effectiveness of ESG assessments in mitigating greenwashing tendencies and ensuring transparent and accurate information disclosure to stakeholders is an area that demands more empirical scrutiny.

In light of this, stakeholder theory is adopted in this study due to the pressures exerted by stakeholders on a company (in this case, Company G), prompting Company G to undergo ESG assessments to meet the expectations and needs of stakeholders. The study aims to fill the existing research gap by examining the impact of the Sustainable Fitch ESG assessment on stakeholder perceptions and its implications for Company G's strategic decisions. This research can shed light on the effectiveness of ESG assessments in promoting transparent and responsible business practices while aligning with stakeholder interests.

Assessment of Environmental, Social, and Governance (ESG) Performance

According to Wongsansukcharoen & Thaweepaiboonwong (2023), Environmental, Social, and Governance (ESG) assessment is a multifaceted process that involves evaluating companies by employing a comparative analysis based on the quality and standards established by various ESG assessment agencies. These assessments are rooted in addressing ESG issues, encompassing environmental sustainability, social responsibility, and effective governance practices. While each ESG performance assessment agency maintains distinct characteristics and objectives, they share a common overarching purpose. This purpose revolves around the essential objective of ESG performance assessment, which is to offer assurance regarding the accuracy, credibility, and transparency of ESG data disclosed by companies to stakeholders (Cantino et al., 2017; Zumente & Lāce, 2021).

The emergence of diverse ESG assessment agencies directly responds to the growing demand for entities that can provide reliable ESG data assurance to various stakeholders, including investors, regulators, customers, employees, and the broader public. The dynamic nature of the corporate landscape, coupled with increasing awareness about the environmental and social impacts of businesses, has amplified the significance of comprehensive ESG assessment practices. ESG assessment agencies play a pivotal role in enhancing accountability, promoting ethical conduct, and fostering sustainability efforts within the corporate realm.

Despite the evolving landscape of ESG assessment agencies and their contributions to sustainable practices, a research gap needs further exploration. This gap centres on understanding the nuanced implications of different ESG assessment methodologies, such as how companies from different industries are evaluated, how scores and rankings influence investment decisions, and how companies respond to the recommendations and areas of improvement highlighted by these assessments. Furthermore, as sustainability practices become more integrated into business strategies, the efficacy and impact of these assessments on corporate behaviour, transparency, and long-term value creation warrant deeper investigation.

Environmental, Social, and Governance (ESG) Assessment Agency

The escalating number of companies engaging in assessments of Environmental, Social, and Governance (ESG) aspects has exhibited a consistent upward trajectory. This growth can be attributed to the increasing demand for ESG data and the implementation of governmental regulations necessitating more comprehensive disclosure of climate-related risks and greenhouse gas emissions (GHG) information (Edmans, 2023; Li et al., 2021). Furthermore, heightened societal awareness, including among stakeholders, regarding ESG considerations has been sparked by initiatives such as the United Nations' Principles for Responsible Banking (TPB) (Johnston, 2016). Consequently, the landscape has witnessed a proliferation of ESG assessment agencies, each refining and enhancing their methodologies. Prominent ESG assessment agencies frequently employed in recent times encompass Sustainalytics, CDP, MSCI, Dow Jones Sustainability Index (DJSI), and Sustainable Fitch (Sharma et al., 2022).
While the proliferation of ESG assessment agencies and the surge in ESG evaluations have been well-documented, a research gap exists in understanding how these assessment agencies, particularly Sustainable Fitch, impact companies with significant environmental impacts. Current literature tends to focus on the methodologies, processes, and benefits of ESG assessments, but the implications and outcomes for companies with substantial environmental footprints still need to be explored. This research addresses this gap by delving into the specific context of companies with notable environmental impacts undergoing ESG assessments using Sustainable Fitch.

Sustainable Fitch is an ESG assessment agency established on September 15, 2021, with its headquarters in New York and London. The primary thrust of Sustainable Fitch revolves around evaluating the ESG performance of companies that are either in possession of or have plans to issue labelled sustainability bonds (Edmans, 2023; Li et al., 2021). The assessments conducted by Sustainable Fitch are solicited either by the companies themselves or by stakeholders. These assessments are categorized into three pillars: ESG Entity Ratings, ESG Instrument Ratings, and ESG Framework Ratings. The scope of this research pertains specifically to the analysis of ESG Entity Ratings, providing in-depth explanations and analyses within this particular dimension.

Notably, the ESG Entity Ratings, ESG Instrument Ratings, and ESG Framework Ratings are three distinct assessment pillars that can be conducted independently. For companies in the process of an Initial Public Offering (IPO) or seeking a comprehensive evaluation, the ESG Entity Ratings assessment offers an appropriate avenue. Meanwhile, companies already associated with labelled sustainability bonds have the flexibility to undergo assessments employing any of the three rating methodologies. The evaluation scores assigned by Sustainable Fitch adhere to a scale of 0-100, and they are categorized from 1 (best) to 5 (worst). Sustainable Fitch draws on various guidelines to inform their evaluations, including the EU Taxonomy, UN Sustainable Development Goals, and the Climate Bonds Initiative's Taxonomy.

**METHODOLOGY**

**Research Methodology**

This study adopts a qualitative approach, explicitly employing the case study method. This approach was chosen due to its suitability in comprehensively exploring the intricacies of Company G’s operations and its alignment with ESG considerations. In addition to qualitative methods, discussions were conducted to gather data, while desk studies were utilized for data verification. The observational phase extended over two months, from September to October 2023.

The data collection process involves three key stages: participatory observation, documentation, and the creation of field notes. Participatory observation entails observing subjects’ actions to gain insights into their behaviours and practices. Documentation involves recording all information acquired through participatory observation to ensure the accuracy and accountability of the data. Field notes creation involves compiling information obtained from both participatory observation and documentation. These stages collectively contribute to the reliability and quality of the data gathered, enhancing the validity of the study's conclusions and recommendations.

The research methodology employed in this study is based on the Sustainable Fitch ESG Entity Rating methodology. Aligned with the EU Taxonomy and the United Nations Sustainable Development Goals (SDGs), this methodology evaluates ESG performance across multiple dimensions, including Sustainable Strategy, ESG Risk Management, Sustainability Reporting, Engagement on SDGs, and the Integration of ESG Considerations Across Business Activities. The chosen methodology comprehensively evaluates Company G’s ESG performance and its alignment with sustainability goals.

**Choice of Case Study**

The choice of Company G as the case study subject is grounded in its pivotal role within the renewable energy sector, particularly in harnessing geothermal heat for sustainable energy
generation. Geothermal energy holds immense promise as a cleaner substitute for fossil fuels and stands as a crucial element in the global endeavour to combat climate change.

This case study is driven by the imperative to comprehensively evaluate how a company operating in renewable energy addresses its Environmental, Social, and Governance (ESG) responsibilities. In an era where the world is grappling with the imperative of transitioning to sustainable energy sources, an analysis of the ESG performance of a company like Company G offers insights into how an entity can adeptly integrate sustainability principles into its operations, thereby contributing to the broader objective of curbing environmental impact.

The selection of Company G as the focal point of this case study is underpinned by its pertinence as a company bearing substantial environmental impacts. The research aims to delve into the distinctive dynamics and challenges confronted by companies of this nature during ESG assessments. By directing the focus onto Company G, this study strives to illuminate how Sustainable Fitch’s assessment process interfaces with enterprises operating within environmentally impactful sectors. Utilizing a case study, this approach facilitates a profound exploration of the intricacies and potential obstacles companies like Company G encounter when aligning their ESG practices with the evaluation criteria stipulated by Sustainable Fitch.

Research Implementation
In this study, the assessment process of Company G was conducted in parallel with observational procedures. Company G furnished pertinent documents such as Sustainability Reports, Annual Reports, and other relevant materials to Sustainable Fitch for preliminary scrutiny. It is important to note that the Sustainable Fitch assessment does not mandate companies to revise their sustainability and annual reports. Upon receipt of the requisite documents from Company G, Sustainable Fitch initiated a comprehensive analysis and review, the outcomes of which are presented in a detailed feedback report.

Upon receiving the feedback report, Company G engages in a dialogue to address the interim findings presented by the Sustainable Fitch analysis team. This interactive process allows Company G to analyze the feedback report thoroughly. Should Company G harbour any reservations or disagreements or perceive certain aspects have already been addressed, they are encouraged to provide feedback, aiming to enhance the accuracy and depth of the analysis. The scrutiny of this feedback report aims to pinpoint areas where the existing indicators might need to be in complete alignment with the implemented ESG practices. Consequently, this phase involves preparing explanatory material that will enable Sustainable Fitch to refine its assessment.

The subsequent phase involves the formulation of counter-evidence collected during the research phase. The process of drafting this counter-evidence can employ various media, but for streamlined communication, PowerPoint is employed. The PowerPoint presentation, serving as a repository of counter-evidence, is then submitted to Sustainable Fitch. The selection of PowerPoint is driven by its ability to concisely and effectively reinforce evidence during meetings with Sustainable Fitch, which are pivotal in influencing score adjustments.

Following the completion of Sustainable Fitch’s preliminary draft analysis of Company G’s ESG management endeavours, a second feedback report is generated and shared with Company G. Upon receiving this second feedback report, Company G can assess the extent to which the evaluated aspects correspond with their actual practices. If Company G still needs to find certain discrepancies or misalignments between the assessment and its ESG implementation, they are encouraged to provide feedback again. Moreover, as the process of score enhancement unfolds, Company G can arrange meetings with Sustainable Fitch, facilitating a platform to elucidate the evidence required for refining the assigned scores. In the culminating phase, Sustainable Fitch consolidates all insights into a comprehensive final report, culminating in determining the ultimate score for Company G.

RESULTS AND DISCUSSION
In the initial feedback report received by Company G, Sustainable Fitch assigned a total score of 75,
placing Company G’s ESG Rating within Category 2, indicating a commendable performance. However, within this assessment, 17 negative comments were identified by Sustainable Fitch, pinpointing areas for potential improvement that Company G could address. These 17 negative comments encompassed indicators across the business activity, environmental view, social view, and governance view domains. In the subsequent feedback report, Company G’s score slightly increased to 76, maintaining its position within Category 2. To bolster Company G’s Sustainable Fitch score, a thorough analysis and obtaining additional data to counter the negative assertions outlined in the Sustainable Fitch feedback reports are imperative.

The negative statement within the business activity indicator underscores that although Company G has made strides to mitigate risks originating from its business operations, complete and comprehensive mitigation of environmental risks might still need to be discovered. As a participant in the renewable energy industry, Company G is inevitably exposed to inherent environmental risks that cannot be eliminated. In response, Company G lacks a refutation, leading to an unchanged score. The high ESG risks associated with the energy sector corroborate the consideration of inherent natural risks within this domain (Pilko et al., 2021). The ESG Rating value for this indicator remains at 2, where 1 signifies the highest score.

The environmental view indicator encompasses seven negative statements, encompassing regulations, evolution, targets, and supply chain elements. The initial negative statement concerns the absence of the formal incorporation of Company G’s commitment to land use reduction within regulations. Sustainable Fitch expects Company G to formally codify its commitment to reducing land use, particularly in areas of high biodiversity or protected land. While Company G has attempted to address this statement, it cannot explicitly incorporate the commitment to land use reduction in these areas due to the absence of relevant regulations.

The second negative statement linked to regulations pertains to the non-disclosure of Scope 3 emissions by Company G. While Company G accounts for Scope 3 emissions related to product sales to customers, Sustainable Fitch deems this disclosure insufficient, as Scope 3 emissions could represent a substantial portion of the company’s total emissions. Addressing this negative statement necessitates Company G to provide additional data on its Scope 3 emissions assessment. However, as Company G lacks detailed breakdowns of Scope 3 emissions data, the score remains unchanged. These negative statements connected to regulations collectively attribute a score of 2 to Company G’s ESG Rating within this category.

The environmental view indicator’s third and fourth negative statements revolve around evolution. The third negative statement emphasizes that Company G’s efforts to reduce water consumption due to decreased drilling activities need a distinct performance trend over the past three years. A similar scenario applies to hazardous and non-hazardous waste management. Company G can counter this statement by providing information about toxic and non-toxic waste trends over the past three years. In response to this feedback, Company G furnishes comprehensive data on toxic and non-toxic waste spanning the past three years. However, based on the second feedback report from Sustainable Fitch, this countermeasure has yet to be accepted. Subsequently, Company G engages in a meeting to explore the necessary documentation for score adjustment. It is determined that presenting waste trends through graphs or statistics is crucial for score modification. However, the score remains unchanged because Company G cannot present waste trends in a graphical or statistical format.

The fourth negative statement pertains to Company G’s target for greenhouse gas (GHG) emissions reduction, aiming for net-zero emissions by 2050. Sustainable Fitch suggests that Company G’s reduction target is relatively minimal compared to other international companies and is unlikely to achieve a 30% reduction in emissions by 2030. Based on this assertion, a reduction target of 0.25% over the next 5-10 years is considered inadequate to realize the 30% emissions reduction objective by 2030 and net-zero emissions by 2050. In the subsequent feedback report, this statement needs to be more balanced. An internal meeting with Company G delves into the significance of the 0.25% target as a Key Performance Indicator (KPI) in recalibrating efforts to achieve a 30% emissions reduction.
reduction by 2030 and net-zero emissions by 2050. Company G explains that the 0.25% target serves as the KPI for the year 2021. Consequently, it becomes apparent that more than the 0.25% target is needed to attain the 30% emissions reduction goal by 2030 and net-zero emissions by 2050. As a result, Company G acknowledges the statement, and the ESG Rating for the evolution aspect maintains its score of 3.

Three negative statements are identified in the context of the target and supply chain indicator. The fifth negative statement pertains to the absence of a comprehensive timeline for reducing Scope 1 and 2 emissions to achieve a 30% reduction in GHG emissions by 2030 and net-zero emissions by 2050. Like the preceding negative statements, Company G cannot offer a refutation for this matter. The sixth negative statement involves the prioritization of targets for significant ESG concerns. Sustainable Fitch suggests that Company G establish a timeline for GHG emissions reduction targets, enabling the subsequent formulation of targets for other ESG matters. The incremental establishment of ESG targets is encouraged to maintain focus within Company G. Despite Company G’s response. It cannot specify target years for other ESG issues, leading to an unchanged score. The seventh negative statement pertains to target verification for GHG emissions reduction, necessitating alignment with United Nations net-zero targets or Science Targets (SBT). Company G’s inability to verify that its GHG emissions reduction target aligns with net-zero targets or SBT results in an unaltered score of 3 for the target and supply chain indicator.

Six negative statements within the Social View indicator encompass labour rights, diversity, and target and supply chain dimensions. The first negative statement concerning labour rights underscores that Company G has not officially reported incidents that might adversely affect its social profile in nature or severity. In response, Company G presents details about significant accident incidents, including occurrences, dates, and victims, in the second draft. Sustainable Fitch acknowledges Company G’s measures to mitigate significant accident incidents and the reported occurrences in 2021 to the Directorate General of New, Renewable Energy, and Energy Conservation, Ministry of Energy and Mineral Resources, Republic of Indonesia.

The second negative statement relates to diversity and suggests that Company G’s gender diversity at the management level falls below the average of other renewable energy companies. According to Sustainable Fitch, based on International Renewable Energy Agency (IRENA) reports, renewable energy companies generally have a 32% female representation in management positions, while Company G’s representation is only 22%. In response, Company G highlights its progress in increasing female employees. In 2021, the number of female employees in Company G exceeded the established target. Furthermore, Company G details its participation in women’s associations within the renewable energy sector to enhance gender diversity. Despite Company G’s efforts, the gender diversity score remains unchanged.

The third negative statement within the social view pertains to ethnic and racial diversity, where Company G has not elucidated its diversity efforts in these areas. In response, Company G provides insights into its employee classification based on birthplace, highlighting the extensive ethnic diversity within Indonesia. This classification mirrors Indonesia is over 1,340 ethnic groups and aims to prevent employee concentration solely on Java Island. Additionally, Company G underscores its employee classification based on religion to underscore its commitment to diversity and non-discrimination. Moreover, Company G provides data on employee age classification, further supporting its diversity claim.

The fifth negative statement concerns the gender pay gap, indicating that Company G has not disclosed information regarding gender-based salary disparities. Company G addresses this concern by presenting a salary comparison between male and female employees and sharing a screenshot of the remuneration regulations. These actions underscore Company G’s commitment to equitable remuneration practices. The diversity score was adjusted from 4 to 3 despite Company G’s response.

The sixth negative statement pertains to target and supply chain aspects. It underscores Company
G’s need to establish targets related to social aspects, including gender, ethnicity, race, and educational diversity. In response, Company G explains its endeavours to enhance diversity, especially regarding gender and age representation. However, this explanation does not influence the target and supply chain score, which remains at 2.

Finally, within the Governance View indicator, three negative statements centre on top management, control, and remuneration dimensions. The first negative statement suggests that Company G could benefit from a more diverse composition of directors regarding gender, ethnicity, and age. Company G’s response delves into the limitations imposed by state regulations governing the appointment of directors and commissioners, particularly within State-Owned Enterprises (BUMN). Adhering to a two-tier system standard in several countries, including Indonesia, Company G explains that supervision and management roles are separated between the board of commissioners and directors. Furthermore, Company G clarifies that the government determines gender diversity within these roles. Despite Company G’s explanation, the top management and control score adjusts from 4 to 3.

The second negative statement addresses the dual role of CEO and president of the board of directors being held by a single individual. Sustainable Fitch suggests that these roles should be separate to ensure autonomy and independence. Company G counters by explaining its adherence to the two-tier system and the absence of a CEO position per Indonesian regulations. This counterargument leads to the top management and control score shifting from 4 to 3.

The third and final negative statement within the Governance View indicator concerns remuneration. To achieve net-zero targets, it highlights the lack of remuneration for ESG issues, such as GHG emissions reduction. In response, Company G elucidates that remuneration is linked to Key Performance Indicators (KPIs) associated with ESG issues and provides an intricate breakdown of its remuneration regulations. However, this counterargument does not influence the remuneration score, which remains at 3.

CONCLUSIONS
Based on the conducted analysis, the Sustainable Fitch ESG Entity Ratings for Company G are generally favourable; however, there are areas where improvement is possible. Company G has received less-than-perfect scores primarily in the environmental domain, particularly concerning land use in biodiverse areas, Scope 3 emissions, three-year waste trend performance, and the adequacy of greenhouse gas (GHG) emission reduction targets. Company G must calculate Scope 3 GHG emissions, as these emissions can contribute significantly to the overall emissions profile. Company G’s annual emission reduction targets must be revised to achieve the 30% reduction target by 2030 and net-zero emissions by 2050. These emission reduction targets have yet to be verified against the United Nations’ net-zero target or Science Based Targets (SBT).

Limitations were encountered throughout this research, such as incomplete data availability from Company G, time constraints in obtaining Scope 3 emissions data and waste trend performance presented graphically, and the absence of third-party verification for Company G’s Scope 3 emission reduction targets. These limitations imply that the data gathered might need more reliable, comprehensive, or supported by valid strategies.

The practical implications of this research involve the creation of a commitment document to minimize land use in biodiverse areas, presenting three-year waste generation data in graphical form, calculating Scope 3 emissions, reconsidering and revising the percentage of GHG emission reduction targets, and verifying these reduction targets against the United Nations net-zero target or Science Based Targets (SBT). Furthermore, mapping data related to Scope 3 emissions, assessing the financial impacts of climate change risks, and incorporating climate scenario analysis case studies are necessary. Company G is encouraged to verify the required data for CDP reporting with an independent party and develop emission reduction strategies through the Science Based Target initiative.
Company G is also urged to present a case study related to climate scenario analysis and the influence of climate on the company’s financial planning. Company G should provide examples of actions taken to address climate change. For instance, an illustrative narrative could explain that the company has assessed the impact of carbon taxation policies affecting operational costs, leading to a focus on energy efficiency and renewable energy sources.

Due to the brief timeframe for ESG assessment using the Sustainable Fitch index, Company G could employ a sustainability data management system (SDMS) to streamline data collection and make the ESG assessment process more efficient.

This study is a case analysis of ESG performance using the Sustainable Fitch index, a prominent ESG benchmark. The results are expected to provide insights for other companies in preparing for ESG index analysis, which investors widely use to inform their investment decisions. Future research can utilize Sustainable Fitch indicators to provide more nuanced insights as the demand for ESG index analysis increases. Meanwhile, quantitative research requires larger sample sizes and relevant indicators, making qualitative research a viable alternative.

REFERENCES


