Building a Corporate Culture Centered on Environment, Social, and Governance Principles in Indonesian Companies

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ABSTRACT

The rising global emphasis on Environmental, Social, and Governance (ESG) principles, driven by regulatory pressure, stakeholder expectations, and strategic demands for long-term resilience, has made the internal integration of ESG values into corporate culture an urgent priority for organizations, including those in Indonesia. This study examines how companies in Indonesia build a corporate culture based on environmental, social, and governance principles. The main goal is to explore the process of aligning these principles with the company vision and mission, identify integration challenges, and assess impacts on employee and organizational performance. A qualitative approach with multiple case studies was used in two Indonesian firms, one multinational and one local. Data came from in-depth interviews, document reviews, and observations. Findings show that strong top leadership commitment and a mindset shift are essential to make these principles part of the core business strategy. Key practices include renewable energy investments, vehicle fleet changes to electric, employee health programs, and community water projects. Challenges involve limited regulations and low understanding among business owners. Positive outcomes include higher employee engagement, productivity, and appeal to younger talent. Successful integration turns these principles into organizational identity, creating shared value and competitive advantage through authentic daily practices.

Keywords: *Corporate Culture, ESG, Organizational Identity, Stakeholder Theory, Sustainability, Transformational Leadership.*

ABSTRAK

Meningkatnya penekanan global terhadap prinsip Environmental, Social, and Governance (ESG) yang didorong oleh tekanan regulasi, ekspektasi para pemangku kepentingan, dan tuntutan strategis untuk ketahanan jangka panjang telah menjadikan integrasi nilai-nilai ESG ke dalam budaya perusahaan sebagai prioritas mendesak bagi organisasi, termasuk di Indonesia. Studi ini mengkaji bagaimana perusahaan-perusahaan di Indonesia membangun budaya perusahaan berdasarkan prinsip-prinsip lingkungan, sosial, dan tata kelola. Tujuan utamanya adalah untuk

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mengeksplorasi proses penyelarasan prinsip-prinsip ini dengan visi dan misi perusahaan, mengidentifikasi tantangan integrasi, dan menilai dampaknya terhadap kinerja karyawan dan organisasi. Pendekatan kualitatif dengan beberapa studi kasus digunakan di dua perusahaan Indonesia, satu perusahaan multinasional dan satu perusahaan lokal. Data berasal dari wawancara mendalam, tinjauan dokumen, dan observasi. Temuan menunjukkan bahwa komitmen pimpinan puncak yang kuat dan perubahan pola pikir sangat penting untuk menjadikan prinsip-prinsip ini sebagai bagian dari strategi bisnis inti. Praktik-praktik utama meliputi investasi energi terbarukan, perubahan armada kendaraan menjadi listrik, program kesehatan karyawan, dan proyek air komunitas. Tantangannya meliputi peraturan yang terbatas dan pemahaman yang rendah di antara para pemilik bisnis. Hasil positifnya meliputi keterlibatan karyawan yang lebih tinggi, produktivitas, dan daya tarik bagi talenta yang lebih muda. Integrasi yang sukses mengubah prinsip-prinsip ini menjadi identitas organisasi, menciptakan nilai bersama dan keunggulan kompetitif melalui praktik sehari-hari yang autentik.

Kata kunci*: Budaya Perusahaan, ESG, Identitas Organisasi, Teori Pemangku Kepentingan, Keberlanjutan, Kepemimpinan Transformasional.*

INTRODUCTION

In the last decade, the concept of Environmental, Social, and Governance (ESG) has evolved from a voluntary initiative to an essential component of global corporate strategy. Eccles and Klimenko (2019) describe ESG as "the new normal" in business, where companies can no longer neglect their responsibilities toward the environment, society, and governance. This shift is fueled by growing stakeholder demands, investors, regulators, consumers, and employees, all advocating for sustainability (Gillan et al., 2021). Indonesia, as a major Southeast Asian economy, is also embracing this movement. The Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) has introduced sustainable finance regulations, encouraging the adoption of ESG principles across industries. In this context, developing a sustainable brand strategy that aligns reputation with the ESG framework becomes crucial (Asnita et al., 2024). The growing emphasis on ESG reflects not only regulatory compliance but also a strategic opportunity for long-term corporate resilience and competitiveness.

Integrating ESG into a company's culture, however, demands more than policy adjustments, it requires deep-rooted internal change. Internal communication plays a pivotal role in fostering a sustainable organizational culture (Agustini & Purnaningsih, 2018; Men & Yue, 2019; Hendriati et al., 2024). Schein (2017) defines organizational culture as a pattern of shared basic assumptions learned through solving issues of adaptation and integration. In the ESG context, these sustainability values must become ingrained in the organizational core, influencing thought, behavior, and decision-making. This internalization process signifies a reconstruction of organizational identity rather than a superficial transformation (Laasch & Conaway, 2015). Studies by Friede et al. (2015), Agbakwuru et al. (2024), Aslam (2024), and Olanrewaju et al. (2025) indicate that firms effectively embedding ESG principles tend to perform better financially, maintain stronger reputations, and attract top talent more successfully. Supporting this, Li et al. (2010) found a significant positive link between ESG adoption and firm performance in an extensive empirical review of over 2,000 studies. These findings suggest that ESG integration is not merely ethical but strategically advantageous in enhancing competitiveness and resilience.

Buk (2016) asserts that organizations with strong and coherent identities are more adept at managing complex strategic changes. Yet, research in Indonesia predominantly emphasizes sustainability reporting and Corporate Social Responsibility (CSR), leaving a gap in understanding ESG as a transformation rooted in identity and culture. Addressing this gap, the present study examines how ESG values are internalized within corporate culture and how such integration influences employee engagement, leadership effectiveness, and performance. Two case studies, ASEA Brown Boveri (ABB) Indonesia (a multinational firm) and a local company, are used to explore cross-contextual dynamics within the Indonesian business environment. The urgency of this topic has intensified post-COVID-19, as firms face dual pressures to recover economically while maintaining their sustainability commitments (Crane et al., 2019). This intersection of recovery and responsibility defines the contemporary ESG challenge for corporations striving to remain relevant and trusted.

To explain how ESG can be embedded into corporate culture, this study draws upon the theory of organizational identity by Albert and Whetten (1985). The framework elucidates how organizations define themselves and how those self-definitions guide behavior. Organizational identity, according to the theory, comprises three dimensions: central character, distinctive character, and temporal continuity. First, the central character represents the organization's core essence, when ESG values become part of it, they transform from peripheral initiatives into the fundamental identity of "who we are as an organization" (Gioia et al., 2013). Second, the distinctive character differentiates one organization from another; ESG commitment can thus serve as a competitive advantage, particularly where sustainability influences stakeholder choices (Wickert et al., 2016). Third, temporal continuity stresses that identity must persist through time while remaining adaptive. Ravasi and Schultz (2006) extend this by showing identity as dynamic, evolving through collective sensemaking and sensegiving. This theoretical approach helps frame ESG not merely as a managerial tool but as a defining element of corporate identity and strategy.

Based on this foundation, the research explores three questions: how companies identify and implement ESG values aligned with their mission; what challenges arise during integration; and how an ESG-oriented culture affects both employee and corporate performance. Based on the research questions, this study aims to identify the implementation of ESG, examine the challenges arising from ESG integration, and analyze how an ESG-oriented culture affects performance. By addressing these dimensions, the study contributes theoretically by linking ESG to organizational identity and practically by offering actionable recommendations for Indonesian firms pursuing sustainability-driven transformation. Through this approach, the research seeks to bridge the gap between aspiration and realization, highlighting that ESG is not just a compliance mechanism but a catalyst for enduring organizational excellence.

LITERATURE REVIEW

ESG as a Framework for Corporate Sustainability

The concept of Environmental, Social, and Governance (ESG) has evolved from a voluntary corporate initiative into a fundamental framework for achieving long-term sustainability. ESG is no longer limited to compliance or reporting obligations but has become a strategic imperative for companies seeking to enhance resilience and competitiveness (Eccles & Klimenko, 2019). The environmental dimension emphasizes a company's responsibility toward ecological preservation, including energy efficiency, waste management, and carbon emission reduction (Bąk et al., 2022). The social dimension focuses on employee welfare, human rights, and community empowerment, while the governance dimension ensures transparency, ethics, and accountability in decision-making (Freeman et al., 2018; Li et al., 2018). A study by Friede et al. (2015) shows a positive correlation between ESG performance and corporate financial outcomes. ESG adoption strengthens reputation, customer loyalty, and investor trust while attracting the new generation workforce (Gillan et al., 2021). Therefore, ESG is widely recognized as both a moral and strategic foundation for sustainable value creation.

The ESG paradigm operationalizes this theory by embedding stakeholder interests into corporate strategy and decision-making (Tantalo & Priem, 2016). Thus, ESG represents a paradigm shift from a shareholder-centric model to a stakeholder-integration model, establishing sustainable advantage through ethical and inclusive business practices. Nevertheless, barriers such as regulatory misalignment and limited managerial understanding continue to hinder widespread ESG adoption (Crane et al., 2019; Fisher et al., 2024). Overcoming these barriers requires adaptive strategies, regulatory reform, and a continuous learning mindset to embed ESG as an organizational competency rather than a compliance requirement.

Organizational Culture, Identity, and ESG Integration

Organizational culture serves as a key determinant in the success of ESG implementation. Schein (2017) defines organizational culture as a pattern of shared assumptions learned by a group while solving problems of external adaptation and internal integration. In the ESG context, sustainability must be embedded into the organization's core values rather than being treated as an auxiliary initiative (Baumgartner & Rauter, 2017). Effective internal communication plays a pivotal role in institutionalizing ESG values. Agustini and Purnaningsih (2018) argue that participatory and continuous communication facilitates the diffusion of sustainability awareness throughout the organization.

The organizational identity theory by Albert and Whetten (1985) provides a conceptual lens to understand how ESG becomes a defining element of a company's character. According to this theory, organizational identity encompasses three core attributes: central character, distinctiveness, and temporal continuity. In ESG integration, these dimensions imply that sustainability must represent the organization's essence (central), its strategic differentiation (distinctive), and its long-term consistency (temporal) (Gioia et al., 2013; Balmer, 2017). Buk (2016) highlights that a well-defined organizational identity acts as a cognitive anchor that helps employees internalize strategic changes, including ESG transformation. Ravasi and Schultz (2006) expand this understanding by showing that organizational identity is dynamic and can evolve through a process of sensemaking and sensegiving that involves all members of the organization. Hence, cultivating a culture of sustainability requires consistent top-down reinforcement and cross-functional collaboration.

Leadership and Performance Outcomes in ESG Implementation

Transformational leadership plays a crucial role in driving cultural change towards sustainability (Budihard et al., 2024; Putri et al., 2024). Abourokbah et al. (2024) found that green transformational leadership significantly enhances employees' creative engagement in environmental initiatives. Leaders who demonstrate authenticity and consistency between words and actions, walk the talk, serve as living examples that anchor ESG principles across all organizational levels (Santoso et al., 2022). Soni (2023) further emphasizes that environmentally specific transformational leadership fosters pro-environmental behavior through idealized influence, inspirational motivation, and intellectual stimulation.

Employee engagement acts as a mediating mechanism between sustainable leadership and organizational performance. Integrating ESG into organizational culture leads to measurable improvements in both individual and corporate performance. Li et al. (2018) demonstrated that ESG disclosure positively influences firm value, particularly when supported by strong executive leadership. Beyond financial outcomes, ESG contributes to higher employee loyalty, productivity, and innovation (Gillan et al., 2021; Vieira et al., 2024). Externally, ESG adoption enhances brand reputation and public trust, positioning the firm as an employer of choice among socially conscious Generation Z employees (Asnita et al., 2024).

RESEARCH METHODS

This study adopts a qualitative approach with a multiple case study method to gain an in-depth understanding of building an ESG-based corporate culture in two Indonesian companies. Two firms were purposively selected, one multinational, ABB Indonesia, in the electrification and automation sector, and one local firm, to capture cross-contextual insights in the Indonesian setting. The selection criteria focused on companies that have shown commitment to ESG practices, allowing for rich information on integration processes. Data were collected through multiple sources to ensure triangulation and credibility, including in-depth interviews with key informants such as CEOs, ESG managers, and employees, as well as analysis of internal documents like sustainability reports and company policies. A total of 12 semi-structured interviews were conducted, with protocols designed to explore ESG alignment with vision-mission, integration challenges, and performance impacts. Observations during site visits supplemented the data to observe daily ESG practices in action.

The research follows a constructivist philosophical paradigm, formulating “how” and “why” questions to explore contextual relationships in ESG cultural transformation. Data analysis was performed using thematic analysis with pattern matching, supported by NVivo software to code transcripts and identify recurring themes. Initial coding was done inductively from the data, followed by deductive mapping to theoretical frameworks like organizational identity. To enhance trustworthiness, strategies such as triangulation of sources, member checking with informants to validate interpretations, and reflection on researcher bias were applied, ensuring credibility, transferability, dependability, and confirmability (Yin, 2018). Figure 1 illustrates the research flow diagram, outlining the sequential stages from initial ESG audit to strategy adjustment.

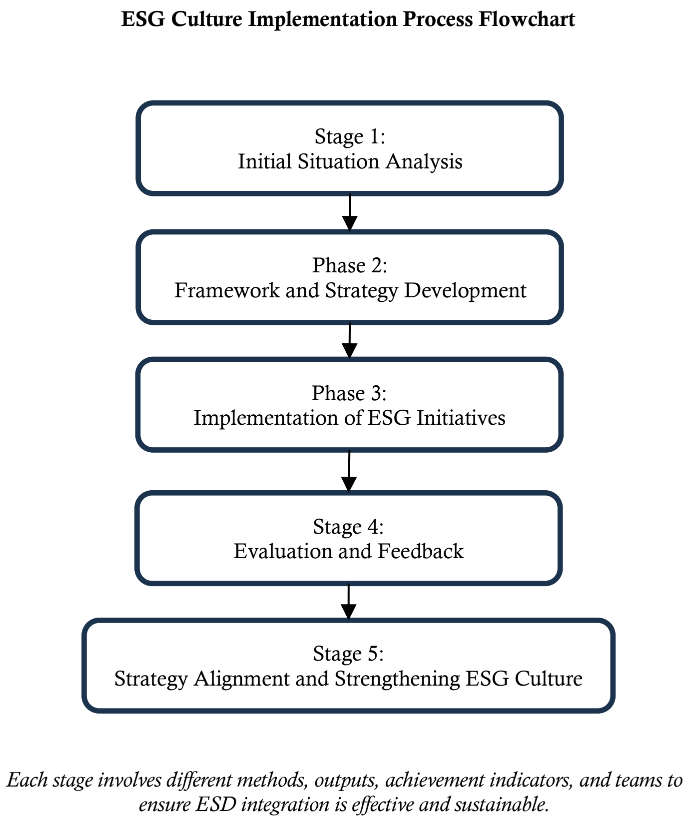

Figure 1. Research Flow Diagram

The process begins with an initial situation analysis through comprehensive ESG audits, involving stakeholder interviews, employee surveys, and document reviews to map current conditions. This is followed by framework development in participatory workshops to align ESG values with the company’s vision and mission. Implementation involves training programs and pilot projects to build awareness, measured by pre- and post-surveys on employee understanding. Evaluation uses mixed methods, follow-up interviews, and surveys to assess impacts on satisfaction and performance. Finally, focus group discussions inform strategy adjustments for ongoing improvement. This iterative approach ensures the methodology not only examines existing practices but also supports practical ESG integration, bridging theory and application in the Indonesian context.

RESULTS

Implementation of ESG

The process of internalizing ESG is proven to be rooted in the commitment and example of top leadership. These findings are consistent with recent literature that emphasizes that environmentally specific transformational leadership plays an important role in shaping the sustainable behavior of employees and organizations (Soni, 2023; Abourokbah et al., 2024). In this context, cultural change cannot proceed organically from the bottom up but must be initiated and consolidated through a strategic direction from the top down. This leadership is manifested through real examples in daily practice.

Leaders must be the embodiment of the values they want to instill in the organization, a principle that is a key prerequisite for building trust and encouraging the adoption of a new culture at all levels of employees. This aligns with the idea that organizational culture is continuously shaped by leaders' behavior and consistency in practicing what they advocate, demonstrating the importance of "walking the talk." Leaders' examples are the main instrument in building trust and credibility of ESG values.

In line with social learning theory, leaders who "walk the talk" facilitate behavioral learning through real-world examples (Santoso et al., 2022). Consistency between speech and actions strengthens the legitimacy of internalizing sustainability values and fosters employee trust in organizational integrity. Transformational leadership in the context of sustainability has proven to be a key catalyst in shaping organizational norms and behaviors (Baumgartner & Rauter, 2017).

This study also found a paradigm shift in looking at ESG. Companies that have reached a certain level of maturity no longer consider ESG as an additional cost or reporting obligation, but rather as a strategic value driver that creates a competitive advantage (Bąk et al., 2022). This shift aligns with practices observed in several global companies, such as ABB Indonesia, which inherently integrates ESG values into its business strategy. This shift reflects the evolution from the view of ESG as a cost center to a strategic value driver (Eccles & Klimenko, 2019).

Furthermore, ESG principles have been inherently integrated into the company's DNA and business strategy, becoming an integral part of how companies operate and create value. This shows a level of maturity where sustainability is no longer "what we do" but "who we are." The company's leadership emphasized that ESG considerations are embedded within core business activities, reflecting that sustainability has become an inseparable element of organizational identity and daily operations.

In the environment pillar, the implementation of the initiative looks very concrete and measurable. The company is proactively investing in renewable energy through the installation of solar panels in its manufacturing facilities, as a form of commitment to reduce dependence on fossil energy and mitigate risks related to energy price volatility (Amiruddin et al., 2024). At the same time, to overcome the limitations of green energy supply from the main grid, the company has taken a strategic step by purchasing Renewable Energy Certificates (REC) from State Electricity Company (*Perusahaan Listrik Negara*/PLN) consistently over the past few years, demonstrating an adaptive approach in achieving sustainability targets. Decarbonization efforts are also the main focus, especially on logistics and mobility aspects.

There is a real commitment to transform the company's operational vehicle fleet as part of efforts to reduce Scope 1 emissions, which are direct emissions from sources owned or controlled by the company. This initiative is revealed as an ongoing process and is one of the company's priorities, as resource person 1 (director of ABB Indonesia) explained that they are currently converting all operational gasoline cars into electric vehicles. Daily operational practices are also adjusted to reduce the environmental footprint. Various companies have implemented paperless policies in the recruitment and administration process. In addition, a culture to reduce single-use plastic waste is encouraged, one of which is by providing tumblers for employees (Tarigan, 2025). The selection of office facilities that have green building certification is also one of the important criteria in the company's real estate strategy.

In the social pillar, the policy focus is divided between the internal well-being of employees and contributions to the external community. Internally, the company demonstrates a strong commitment to employees as a key asset by providing a comprehensive health insurance program as well as annual routine medical check-up facilities. This investment in human capital has been proven to correlate with better company performance. The company also pays close attention to mental and physical health through various interest-adjusted fitness programs, such as yoga classes, futsal, to gym membership subsidies, which aim to create a positive and supportive work environment (Li et al., 2018; Soni, 2023). Externally, social contributions are not only ceremonial but also aim to create a lasting impact. One example is ABB's collaboration with Happy Hearts Indonesia in Sumba, where they not only built wells but also installed efficient motor-powered pumps and solar panels to ensure a sustainable supply of water and electricity for schools and communities. This reflects the principle of shared value, where social and business impact can synergize.

Challenges of ESG Culture

However, this journey of ESG integration is not without obstacles. Significant external challenges stem from regulatory frameworks and national infrastructure conditions that are not yet fully mature to support a massive green transition. While various advances have been made, the study also found structural and cultural barriers. From the external side, national regulations have not fully supported the green energy transition. PLN still fully limits the use of solar energy for corporate needs, so companies must look for alternative solutions, such as purchasing RECs (Fisher et al., 2024). Resource person 1 explained that even now, they cannot simply stop using diesel and demand 100 percent solar energy without relying on PLN, as such an approach is not acceptable.

The most fundamental internal challenge is a shift in mindset. Among business actors, the understanding of ESG is still limited, which often leads to the perception of ESG as a cost burden rather than a strategic investment. This gap between aspiration and implementation is a common challenge faced by many organizations (Crane et al., 2019). Empirical observations indicate that only a small proportion of entrepreneurs possess an adequate understanding of ESG principles, highlighting a significant knowledge gap that hampers broader adoption. This condition is further supported by survey data showing limited awareness at the entrepreneur level.

ESG-Oriented Culture Affects Performance

The implementation of a strong ESG culture has proven to have a substantial positive impact. At the individual level, this culture is directly correlated with increased employee engagement, which is a key factor driving performance and innovation. One of the speakers, based on the results of his research, explained that the impact of sustainable leadership on productivity does not occur directly, but is mediated by employee attachment factors (Gillan et al., 2021). This shows that a positive culture is the bridge between the leader's strategy and operational results, as resource person 2 (ESG practitioner & consultant) stated that sustainable leadership does not directly impact productivity but must first work through employee engagement or employee attachment.

The impact of sustainable leadership on productivity is proven to be indirect but mediated by employee engagement. This mechanism reinforces the argument that positive culture is a bridge between leadership strategy and operational outcomes (Santoso et al., 2022). Another significant finding is the increasing relevance of ESG culture in attracting young talent. Generation Z shows a strong preference for companies with authentic sustainability values (Gillan et al., 2021; Vieira et al., 2024). This shows that ESG integration is not only about environmental sustainability but also an effective human resource strategy. At the corporate level, an authentic ESG culture makes companies an attractive career destination (employer of choice), especially for talent from Generation Z.

DISCUSSION

The findings from this study show that building an ESG-based corporate culture starts with strong leadership commitment, where leaders must "walk the talk" to build trust and shape behaviors. This aligns with transformational leadership in sustainability, which acts as a key driver for cultural change (Baumgartner & Rauter, 2017). When leaders consistently show ESG values in daily actions, it helps employees learn and adopt these values through real examples, as explained in social learning theory (Santoso et al., 2022). The paradigm shift from seeing ESG as an extra cost to a core business strategy is clear in mature companies like ABB Indonesia. Here, ESG is not just an add-on but part of the company's identity and operations, with products that save 20-40% energy for clients (Airawaty et al., 2025). This shift turns sustainability into a competitive edge, matching the idea that ESG creates long-term value (Eccles & Klimenko, 2019).

Operational practices in environmental and social areas show how ESG is put into action. Investments in solar panels, REC purchases, and EV fleet changes reduce emissions and adapt to Indonesia's energy limits (Amiruddin et al., 2024; Tarigan, 2025; Damanik et al., 2025). Paperless processes and green offices further cut the environmental footprint. On the social side, health insurance, medical check-ups, and fitness programs boost employee well-being, while projects like the Sumba water initiative with Happy Hearts Indonesia create lasting community impact. These actions follow stakeholder theory, where value is made for employees, customers, communities, and regulators, not just shareholders (Freeman et al., 2020). ESG becomes a way to balance interests and build shared value that is hard to copy (Tantalo & Priem, 2016).

Employee engagement plays a big role in linking sustainable leadership to better performance. The study finds that leadership affects productivity indirectly through stronger employee attachment (Soni, 2023). This means a positive ESG culture improves loyalty, innovation, and output at the individual level (Li et al., 2018). At the company level, authentic ESG makes firms more attractive to Generation Z, who want jobs with real sustainability values (Gillan et al., 2021; Vieira et al., 2024). Using organizational identity theory, ESG moves to the central character of the firm, its essence, rather than a side activity (Gioia et al., 2013). It also provides distinctiveness in the market and temporal continuity over time (Albert & Whetten, 1985; Balmer, 2017). A strong identity acts as a cognitive anchor for change, helping members internalize ESG (Buk, 2016). The dynamic nature of identity, through sensemaking and sensegiving, involves everyone in the process (Ravasi & Schultz, 2006).

Challenges like limited regulations and low ESG understanding among entrepreneurs highlight the need for adaptation (Fisher et al., 2024). Companies use RECs to meet goals despite grid restrictions, showing resilience (Shrimali & Tirumalachety, 2013). The gap in mindset, with only 35% of entrepreneurs understanding ESG, calls for more education (Crane et al., 2019). In Indonesia's post-COVID context, firms face pressure to recover economically while staying sustainable, making ESG a tool for resilience (Ssenyonga, 2021; Setyadi et al., 2025).

This study enriches organizational identity and stakeholder theories by showing how ESG transforms culture in emerging markets. It bridges the gap between reporting-focused studies and identity-driven change (Annarelli et al., 2024). Practical implications include starting with leader training on "walk the talk," aligning ESG in vision-mission workshops, and using pilot projects like EV conversions to build momentum. Companies should measure culture via engagement surveys and adapt strategies through focus groups. For Indonesia, policymakers can improve regulations on green energy to support transitions. Firms gain by attracting Gen-Z talent and boosting performance, turning ESG into a core competency (Liang et al., 2022).

CONCLUSION

This study shows that building an ESG-based corporate culture needs strong leadership commitment from the start. Leaders must show ESG values through daily actions to build trust and change behaviors across the company. This top-down approach ensures that sustainability is not just talk but real practice. Mature firms treat ESG as part of their core identity and business strategy, not just an extra program. This shift helps create shared value for all stakeholders, from employees to communities. Operational steps like renewable energy use, employee wellness programs, and community projects make sustainability real in everyday work. Despite challenges from regulations and limited understanding, the benefits are clear: higher employee engagement, better productivity, and appeal to young talent.

The practical implications call for companies to train leaders to "walk the talk," run workshops to align ESG with vision and mission, and start small pilot projects to gain support. Regular surveys can track culture changes, while focus groups help improve plans over time. These steps make ESG integration smoother and more effective. Limitations include the small sample of only two firms, so results may not apply to all Indonesian companies or sectors. The findings also rely on self-reported data, which might have some bias. Future research could use longer studies to see how ESG culture grows over years or add numbers to measure financial impacts. More work on local SMEs would also help understand ESG in smaller settings.

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