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SUPPORTING SUSTAINABILITY AND SOCIAL RESPONSIBILITY THROUGH THE IMPLEMENTATION OF ESG PRINCIPLES IN NON-BANK FINANCIAL INSTITUTIONS

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ABSTRACT

Objectives: This study aims to analyze the integration of Environmental, Social, and Governance (ESG) principles in non-bank financial institutions (NBFIs) in Indonesia and its impact on the sustainability and competitiveness of the financial sector. The primary focus of the study is to examine the impact of ESG implementation on financial stability, risk mitigation, and compliance with relevant regulations.

Research Design & Methods: This study uses a qualitative approach with literature study methods and regulatory analysis to explore ESG practices in NBFIs. Data sources include annual reports, regulatory policies such as those from the Financial Services Authority (OJK), as well as academic and industry studies related to ESG implementation in the non-bank financial sector.

Findings: The study's results indicate that ESG implementation in NBFIs enhances efficiency, attracts sustainability-focused investors, and fosters greater transparency. Technologies such as big data, blockchain, and AI enhance ESG performance; however, reporting diversity and regulatory complexity remain significant challenges.

Implications & Recommendations: Enhancing ESG effectiveness in NBFIs requires structured regulations, standardized reporting for transparency, and optimized digital technology adoption. Strengthening ESG-based risk management strategies is essential for ensuring long-term sustainability.

Contribution & Value Added: This study contributes by providing insights into the role of ESG in improving the competitiveness and financial stability of NBFIs in Indonesia. This study also highlights the importance of digital innovation in supporting ESG implementation. It provides policy recommendations for regulators and industry stakeholders to enhance the sustainability of the non-bank financial sector.

Keywords: Non-Bank Financial Institutions (NBFIs), Environmental, Social, and Governance (ESG), Financial Sustainability.

JEL codes: G21, G32, Q56

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INTRODUCTION

The development of Non-Bank Financial Institutions is one of the important pillars in the global financial sector. In addition to Conventional banks, Non-Bank Financial Institutions, commonly abbreviated as NBFIs, have included several institutions such as insurance companies, pension funds, finance companies, leasing companies, and other investment institutions. The non-bank financial sector has experienced substantial growth globally, reflecting the significant expansion of banking activities (Davies & Killeen, 2018). NBFIs play a crucial role in providing alternative financing, diversifying risks, and supporting the growth of specific sectors of the economy, particularly for groups of people who face difficulties accessing traditional banking services.

The strategic role of centralized non-bank financial institutions extends beyond access to capital to also include more flexible regulatory oversight, which accommodates the growth of financial innovation. In the digital era, non-banking financial technology (fintech) is gaining importance as an innovative solution to reach underserved segments. However, given this growth, supervision and risk mitigation by regulators such as the Financial Services Authority (OJK) are crucial to maintaining the health and stability of the financial sector. Non-bank financial institutions are expected to continue playing a crucial role in supporting an inclusive and sustainable global economy through various innovations and related regulations.

Sustainability and social responsibility issues in the financial sector have become a major concern in the global economy in recent years. This trend reflects a paradigm shift in which financial companies no longer focus solely on financial returns but also contribute to environmental sustainability and social welfare. Non-bank financial Institutions (NBFIs) are beginning to integrate Environmental, Social, and Governance (ESG) principles as a strategic framework to address today's challenges, such as the climate crisis, social inequality, and the need for governance transparency. The application of these principles not only supports the operational efficiency and competitiveness of institutions but also attracts investors who are increasingly focused on sustainability issues (Arakelyan, 2024).

The Sustainable Finance Institute Asia (SFIA) report states that, especially in 2023, Indonesia has experienced a significant increase in the application of Environmental, Social, and Governance (ESG) principles, which is 30%. This suggests that companies have come to realize that implementing ESG is not only a moral responsibility but also a means to consider competitive positioning and sustainability in the long term (Setyawan et al., 2021). In addition, ESG implementation enables companies to manage risks, enhance operational efficiency, and foster stronger relationships with stakeholders, ultimately contributing to global economic sustainability. This demonstrates that long-term success is not only determined by financial returns but also by the company's impact on the environment and society.

The implementation of Environmental, Social, and Governance (ESG) principles is a key indicator of the operational sustainability of financial institutions, including Non-Bank Financial Institutions (NBFIs). The principles cover three main aspects: environmental responsibility, social contribution, and good corporate governance. In Indonesia, many non-bank financial institutions are now adopting ESG principles as a strategic step to enhance their competitiveness and meet the growing demands of stakeholders, including investors and consumers who are increasingly concerned about sustainability issues (Bapang, 2023).

Regulation of the Financial Services Authority (OJK) or otherwise known as the Financial Services Authority (FSA) through POJK Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, has required financial services institutions to implement sustainable finance principles, including social and environmental risk management. With this regulation, financial institutions are expected to identify, manage, and mitigate risks related to various issues, such as social inequality, in order to promote transparency and accountability in disclosing information about their social and environmental impacts.

ESG integration is becoming increasingly important for sustainable development and socially responsible investment; however, its implementation faces numerous challenges. The diversity of ESG reporting makes comparisons between companies difficult (Lokuwaduge & Heenetigala, 2017). In addition, some studies suggest that companies' adoption of ESG practices is mainly a response to pressure from financial markets rather than a genuine effort to integrate sustainability into their core business. This has been suggested by Aldowaish et al.,(2022). Despite these challenges, disclosure of ESG factors has been shown to have a positive impact on corporate sustainability performance, supporting stakeholder theory and shared value theory (Alsayegh et al., 2020). As the concept develops, there is an increasing need for further research on standardized metrics and integrated processes that can motivate companies to reinvent their business models and improve sustainability and financial performance (Aldowaish et al., 2022; Senadheera et al., 2022).

LITERATURE REVIEW

Environmental, Social, and Governance (ESG) Basic Concepts

Environmental, Social, and Governance (ESG) is a framework that evaluates a company's sustainability and social responsibility. ESG not only focuses on economic returns but also emphasizes the importance of environmental protection, meeting community needs, and good corporate governance. This concept has received increasing attention in recent years as a tool to evaluate and encourage the implementation of sustainable business practices (Alsayegh et al., 2020; Huang, 2021). Sibarani (2023) defines ESG as a strategic tool for building business sustainability by integrating environmental aspects, such as greenhouse gas emissions and energy consumption, with social aspects, including human rights and global health, and corporate governance, encompassing anti-corruption policies and transparency.

According to Wong et al., (2021), ESG (Environmental, Social, and Governance) certification has a role that goes beyond supporting corporate sustainability but also provides significant economic benefits. By obtaining ESG certification, companies can reduce their cost of capital because investors are more likely to trust companies that demonstrate a commitment to environmental, social, and good governance principles. Such trust can encourage more investment, which in turn enhances the company's market position. Therefore, ESG serves not only to improve a company's image and social responsibility but also as a factor that strengthens a company's economic value, enhances its competitiveness, and contributes to its long-term sustainability in the global market.

Chang et al. (2021) suggest that Environmental, Social, and Governance (ESG) is an increasingly relevant concept for non-bank financial institutions as a non-financial benchmark for assessing company performance. ESG includes a set of practices that focus on environmental, social, and governance aspects, with the main objective of achieving sustainable development. ESG implementation in non-bank financial institutions needs to be seen not just as a regulatory compliance effort, but also as a strategic imperative that contributes to the ethics and financial resilience of the firm (Z. Wang et al., 2024).

Environmental, Social, and Governance (ESG) criteria play a crucial role in evaluating the sustainability and social impact of non-bank financial institutions. These criteria encompass various elements, including environmental responsibility, labor standards, human rights, corporate governance, and community social activities. ESG includes various aspects of a company's operations and strategies. Environmental aspects focus on issues such as emissions, resource use, and waste management (Kocmanová & šimberová, 2014). Social aspects encompass human rights, labor practices, and product responsibility (Kocmanová & šimberová, 2014). Governance aspects analyze corporate structure, effectiveness, and compliance (Kocmanová & šimberová, 2014). These three pillars are interconnected, with environmental and social performance often having a positive impact on economic sustainability (Alsayegh et al., 2020).

Non-Bank Financial Institutions

On a global scale, NBFIs are viewed as a crucial component in fostering economic growth through capital mobilization, facilitating economic restructuring, and supporting entrepreneurial development (Popova & Makarova, 2020). NBFIs often have simpler procedures than banks, giving them time and cost efficiency advantages. For example, establishing an NBFI does not require direct approval from the Central Bank. However, it must follow the rules of the financial regulatory framework to ensure accountability and minimize risks. These rules include regulations relating to corporate governance, financial reporting, and consumer protection. This is aimed at maintaining stability and public confidence in the NBFI sector (Shabani, 2024).

In terms of regulation, NBFIs are under the supervision of the Financial Services Authority (OJK), which formulates specific policies to ensure the sustainability and stability of these institutions, especially in the face of economic challenges at the national level, such as the economic slowdown, regulatory changes, and the need to support financial inclusion amid increasingly complex global dynamics (Zuhriyah et al., 2021). Moreover, NBFIs play a strategic role in promoting economic growth, particularly in the MSME sector and rural communities, by offering flexible and inclusive financing. This role is crucial given that MSMEs are the main pillar of the national economy, contributing around 60% to the Gross Domestic Product (GDP) and absorbing 97% of the total workforce in Indonesia. Through services such as microfinance, leasing, and credit cooperatives, NBFIs support strengthening the capacity of MSMEs to grow and contribute more to the country's economy (Trihastuti et al., 2023; Zuhriyah et al., 2021).

Buha et al. (2023) define Non-Bank Financial Institutions as business entities in the financial sector that provide various financial services without engaging in banking activities, such as raising funds through savings, deposits, or current accounts. These entities include insurance companies, pension funds, finance companies, and credit cooperatives. NBFIs, as financial intermediaries, offer services such as leasing, lending, and investment and play an important role in expanding the reach of financial services, especially for groups of people whom conventional banking institutions underserve. Non-bank financial Institutions are financial institutions that operate outside the conventional banking framework (Hodula & Ngo, 2024; Tsai, 2017). Non-bank financial institutions play an important role in providing alternative sources of credit, especially for small and medium enterprises (SMEs) that often face difficulties in gaining access to credit from banks.

Chistyukhin (2021) has classified several types of Non-Bank Financial Institutions, including leasing companies, venture capital, and investment funds. These three institutions play a crucial role in maintaining financial market stability by offering financing options beyond the conventional banking system. Leasing companies offer asset financing with more flexible schemes, while venture capital supports the development of high-potential start-ups that often face difficulties in accessing traditional forms of credit. Investment funds enable the management of diversified asset portfolios, opening up investment opportunities for different types of investors. Through these varied services, NBFIs not only promote competition and efficiency in the financial sector but also help reduce systemic risk, improve liquidity, and expand access to finance for underserved groups.

Lees et al., (1990) in their publication book emphasize that non-bank financial institutions (NBFIs) have a strategic role in long-term and short-term financial management through the following types of entities: 1) leasing companies; 2) brokerage companies and 'distributors'; 3) domestic currency mutual funds; 4) foreign currency mutual funds; 5) investment companies/ holding companies; 6) venture capital companies; 7) IP funds; 8) insurance companies and pension funds; 9) National Development Funds; and 10) non-financial institutions active in financial intermediation.

Financial Sustainability

Financial sustainability is defined as the ability of an entity to maintain the stability of its financial performance over the long term, taking into account both risks and potential returns. This concept encompasses aspects of operational efficiency, profitability, liquidity, and market sustainability in managing a company's assets and liabilities (Zabolotnyy & Wasilewski, 2019). Setyowati (2023) states that financial sustainability encompasses the application of environmental, social, and governance (ESG) principles in financial activities to manage resources effectively, thereby supporting the transition to a green and low-carbon economy. Financial sustainability is a holistic approach that involves financial transactions based on ESG principles, aiming to encourage corporate environmental responsibility while supporting the development of a more environmentally friendly economy (Trukhachev & Dzhikiya, 2023).

Currently, financial sustainability has become an increasingly relevant topic. As explained in Liu & Wu (2023), sustainability disclosure and the application of green finance can improve the company's financial performance and reduce the cost of capital by managing risks more effectively. Financial sustainability is closely related to financial inclusion, efficiency, and economic growth. The relationship between financial inclusion and sustainability has an important role in the long run, indicating that the implementation of inclusive financial practices supports financial sustainability over time (Khan et al., 2022).

Good financial management can support the sustainability of an organization, including planning environmentally and socially responsible investments (Nasution & Sibuea, 2024). This can be an important strategy in achieving financial sustainability goals. One of the financial sustainability strategies in non-bank financial institutions, according to Wagner & Marsh (2006). Credit risk transfer (CRT) from banks to non-bank institutions can be beneficial for financial stability. Credit risk transfer from banks to non-bank institutions is found to be more beneficial than CRT within the banking sector, as it allows the release of aggregate risk that would otherwise remain within the more vulnerable banking sector. This suggests that regulators should encourage the development of instruments that support the transfer of aggregate credit risk across sectors, thereby enhancing the stability and sustainability of both banks and Non-Bank Financial Institutions.

The implementation of sustainable finance is also expected to help address pressing environmental issues, such as carbon emissions and their impact on climate change. One approach is to disclose carbon emissions in company reports, thereby increasing transparency and accountability. Research indicates that carbon emissions disclosure has the potential to enhance firm value by enhancing reputation and promoting long-term sustainability. It is also closely related to Corporate Social Responsibility (CSR) costs and corporate profitability that contribute positively to firm value.

METHODS

The research method used in this study is a Systematic Literature Review (SLR). A systematic literature review is a research approach used to identify, evaluate, and integrate the results of previous relevant research and studies based on the topics discussed systematically and objectively (Mubin et al., 2023). This method focuses on in-depth review and analysis in the form of theories, concepts, and findings of existing literature, be it scientific articles, books, research reports, or other documents. The main purpose of this approach is to summarize existing knowledge, explore key findings, and provide a comprehensive picture of the problem under study. This approach enables researchers to gain comprehensive insights and contribute to the advancement of knowledge in a specific research area without requiring direct collection of primary data.

RESULT

Implementation of ESG Innovation Program in Non-Bank Financial Institutions

The implementation of ESG (Environmental, Social, Governance) innovation programs in non-bank financial institutions shows that ESG integration can help non-bank financial institutions manage risks, improve long-term financial sustainability, and meet stakeholder demands as described in research of Shetty & Suraj (2024) which shows that the implementation of ESG standards can improve business image, sustainable investment efficiency, and meet regulatory demands despite facing challenges such as data quality and harmonization of short-term and long-term goals.

The ESG innovation program implemented in non-bank financial institutions focuses on integrating sustainability principles into operations, products, and services. It aims to ensure that sustainability aspects become an important part of the operations, products, and services offered. The program is an approach to addressing environmental, social, and governance (ESG) responsibilities, including supporting green investment portfolios, adopting sustainable credit policies, and enhancing transparency through non-financial reporting. Additionally, strengthening corporate governance is crucial to ensuring that the interests of all stakeholders are considered.

Table 1. ESG Innovation Programson NBFI's

Program	Purpose	Implementation	Benefit
Green Financing Lagodiyenko et al., (2024)	Finance projects that support environmental sustainability, such as those related to renewable energy, energy efficiency, or waste management.	Provide green credit to companies that invest in green technology.	Reducing carbon footprint and supporting a sustainable economy.
ESG-Based Investment Products Casciello et al., (2024)	Develop financial instruments, such as green bonds or ESG funds, that allow investors to contribute to sustainability goals.	Launched green bonds to fund sustainable infrastructure projects	Attract investors who want to support sustainability and increase transparency in the capital market.
Corporate Social Responsibility (CSR) Program Efunniyi et al. (2023)	Enhancing community welfare through social programs, including community economic empowerment and financial literacy initiatives.	Financial literacy training for vulnerable groups and support for microenterprises.	Help build public trust in non-bank financial institutions.
ESG Transparency and Reporting Shetty & Suraj (2024)	Increase stakeholder confidence by providing standardized reports on ESG performance.	Publication of an annual sustainability report with measurable sustainability indicators.	Ensure accountability and enhance the institution's reputation with investors and the public.

Non-bank financial institutions in Indonesia urgently need to adopt innovative programs that focus on Environmental, Social, and Governance (ESG) as part of their sustainability strategy. This will not only enhance their reputation and stakeholder trust but also ensure their relevance in the face of increasing global demands for sustainability. However, a key challenge is the need for resources and the potential for short-term financial burdens, especially during economic crises. Studies suggest that financial risk management supported by transparent ESG reporting can be an effective approach to overcome these barriers (L. Wang, 2024).

To optimize the benefits of ESG programs, non-bank financial institutions need to pay balanced attention to all three ESG pillars. The Environmental pillar encompasses environmentally friendly innovations, such as the utilization of renewable energy and efficient resource management, which have been proven to support business sustainability (Pinheiro et al., 2024). The Social pillar focuses on enhancing community engagement and employee well-being, which can foster workforce loyalty while cultivating positive relationships with surrounding communities (Sun, 2024). On the other hand, the Governance Pillar, which prioritizes transparency and a robust management system, can enhance investor confidence and foster long-term stability (Yu, 2023).

The use of digital technologies, such as big data, blockchain, and artificial intelligence (AI), can play a significant role in enhancing the ESG performance of non-bank financial institutions. These technologies not only provide greater efficiency and transparency in ESG reporting but also allow financial institutions to more quickly adjust to changing regulations and market needs (Sun, 2024). In addition, the application of these technologies enables more efficient management of ESG data, improves the accuracy of analysis, and reduces the risk of errors that could affect the credibility of their reports (Feng & Nie, 2024). Therefore, ESG has become a crucial element in the global business landscape. Organizations such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) have developed ESG reporting standards to help companies assess and address their social and environmental impacts.

ESG practices have been shown to have a positive impact on financial performance and firm value (Lee & Isa, 2023). For non-bank financial institutions, applying ESG principles can enhance their operational efficiency and market valuation by fostering a better reputation and attracting sustainability-oriented investors. Based on several research results, the proper implementation of ESG can lead to improved environmental and social performance (Qoyum et al., 2022), increased cost efficiency (Chang et al., 2021), and enhanced firm value (Lee & Isa, 2023). However, institutions should also be aware of the potential short-term costs, especially during the economic crisis, and focus on long-term sustainability goals.

Analysis of Policies and Regulations that Support ESG Implementation

Research on policies and regulations that support the implementation of Environmental, Social, and Governance (ESG) in non-bank financial institutions shows that structured and integrated regulations play a crucial role in encouraging the adoption of ESG principles. Several studies illustrate how regulatory frameworks are implemented in different countries. For example, policies in Europe have shown progress in adopting ESG standards through increased transparency and non-financial reporting, although challenges related to regulatory harmonization between countries persist (Bruno & Lagasio, 2021).

In many developing countries, such as Malaysia, the application of Environmental, Social, and Governance (ESG) principles has received increasing attention from regulatory authorities as a means to promote sustainable development. The authorities in Malaysia have adopted a sustainable financing framework that aims to broaden the participation of financial industry players, including institutional investors, in supporting environmentally and socially sound investments. This includes developing policies that promote transparency, sustainability reporting, and the adoption of international ESG standards, thereby ensuring that the financial sector makes a significant contribution to achieving long-term development goals. In addition, Vietnam has shown commitment to integrating ESG principles through green credit policies and environmental reporting, including the financing of renewable energy and energy efficiency projects. However, its implementation still faces challenges, particularly the high cost of adopting green technology and developing supporting infrastructure (Thi Dung & Khanh, 2024).

Environmental, Social, and Governance (ESG) practices are becoming increasingly important in the business world, with stakeholders demanding greater transparency and accountability. In Indonesia, factors such as strategic orientation, risk-taking, and company life cycle are key determinants for companies implementing ESG practices, which is now a primary focus in promoting sustainable development in response to increasing global pressure on environmental, social, and governance issues (Setiarini et al., 2023). Governments and regulators, such as the Financial Services Authority (OJK), have demonstrated a genuine commitment through a series of strategic policies to ensure that ESG principles are widely adopted, including by non-bank financial institutions. One of the significant steps taken is the issuance of OJK Regulations that require financial institutions to integrate transparency and sustainability reporting in their operations. This policy encourages non-bank financial institutions to focus not only on economic growth but also on contributing to environmental preservation and social welfare.

Environmental, Social, and Governance (ESG) practices are becoming increasingly important in the business world, with stakeholders demanding greater transparency and accountability. In Indonesia, factors such as strategic orientation, risk-taking, and company life cycle are key determinants for companies implementing ESG practices, which is now a primary focus in promoting sustainable development in response to increasing global pressure on environmental, social, and governance issues (Setiarini et al., 2023). Governments and regulators, such as the Financial Services Authority (OJK), have demonstrated a genuine commitment through a series of strategic policies to ensure that ESG principles are widely adopted, including by non-bank financial institutions. One of the significant steps taken is the issuance of OJK Regulations that require financial institutions to integrate transparency and sustainability reporting in their operations. This policy encourages non-bank financial institutions to focus not only on economic growth but also on contributing to environmental preservation and social welfare.

Table 2. Policies and Regulations of ESG

Policies and Regulations	Description	Reference
POJK No. 51/POJK.03/2017	Regulations from the Financial Services Authority (OJK) require financial services institutions, issuers, and public companies to prepare sustainability reports. This report includes information on the management of environmental, social, and corporate governance aspects to support sustainability goals.	(Muthiah & Anggoro, 2024)
POJK No. 60/POJK.04/2017	Regulates the issuance of environmentally-based securities, also known as Green Bonds. This regulation enables companies to raise funds allocated to environmentally friendly projects, such as renewable energy, energy efficiency, or waste management.	(Jovita, 2023)
Government Regulation No. 46/2017	Regulates the implementation of economic instruments for environmental management. These regulations include environmental taxes, incentives for companies that implement good environmental management, and a carbon trading system in Indonesia.	(Salim & Palullungan, 2021)
Law No. 32/2009	Law on Environmental Protection and Management. This law requires every company to obtain an environmental license as an operational requirement, as well as to fulfill its responsibilities in maintaining the sustainability of the environmental ecosystem.	(Salim & Palullungan, 2021)
ESG Framework Ministry of Finance	The Ministry of Finance has launched a framework to integrate Environmental, Social, and Governance (ESG) considerations into infrastructure financing, including support for Public-Private Partnership (PPP) projects. The move aims to promote green investment and sustainable financing for low-carbon infrastructure.	(Pambudi et al., 2023)
Indonesia Stock Exchange (IDX)	The Indonesia Stock Exchange is working with Sustainalytics to publish an ESG Score for public companies. This step aims to increase transparency and corporate responsibility in meeting globally recognized ESG standards.	(Aresteria et al., 2024)

Policies and regulations that support ESG implementation play a crucial role in encouraging financial institutions and companies to adopt sustainable practices. Clear legal frameworks, both at the national and international levels, provide a foundation for transparency, accountability, and risk management related to environmental, social, and governance aspects. Regulations such as sustainability reporting and mandatory ESG audits encourage corporate responsibility for their impacts. Additionally, incentive policies enhance the motivation to innovate in sustainability. However, strengthening implementation and oversight is still needed to ensure the effectiveness of regulations, and consistent enforcement will determine the success of ESG implementation in the future.

Impact of ESG Implementation on Sustainability Performance

Environmental, Social, and Governance (ESG) implementation has a positive impact on a company's sustainability performance. The empirical study by Alsayegh et al. (2020) demonstrates that the disclosure of ESG information can enhance the economic, environmental, and social sustainability performance (EES) of companies in Asia from 2005 to 2017. This approach aligns with stakeholder theory and the concept of shared value, which emphasizes that transparency in ESG information disclosure to all stakeholders plays a crucial role in building a competitive advantage to enhance corporate sustainability performance (Alsayegh et al., 2020). A study on Malaysian companies found that ESG controversies provide positive signals for investors in developing countries and improve performance (Raja Ahmad et al., 2023). In addition, other studies suggest that ESG disclosures alone may not necessarily lead to improved sustainability; corporate management practices and investor engagement in ESG issues also play a crucial role.

ESG practices are generally positively correlated with financial performance, thus contributing to increased firm value (Lee & Isa, 2023). These benefits are more pronounced under normal conditions. However, in times of crisis, such as the COVID-19 pandemic, implementing ESG can incur significant costs and potentially harm financial performance (Nareswari et al., 2023). In general, the impact of ESG on firm performance tends to follow a U-curve pattern, where there are high initial costs but long-term benefits (Nareswari et al., 2023). Regarding the impact of ESG, several studies show mixed findings. Based on the research of Cao et al., (2024), it is stated that investments in environmental and governance components generally contribute to increasing efficiency, while social factors have the potential to reduce it. The study by Maama (2021) demonstrates that environmental reporting can negatively impact financial sustainability, whereas social reporting has a positive effect.

A comparison between institutions that have implemented ESG and those that have not reveals that ESG is not just a trend, but an essential strategy in achieving long-term sustainability. Institutions that have integrated ESG are better equipped to withstand economic uncertainty, more effectively manage risks, and generate long-term value for investors and society (Zatonatskiy, 2024).

Table 3. Comparison of Financial Performance and Sustainability Between ESG and Non-ESG Institutions

Aspect	Institutions that Implement ESG	Institutions That Have Not Implemented ESG	Short-term Impact	Long-term Impact	Reference
Finance & Profitability	More financially stable and attract more sustainability-oriented investors.	Likely to have higher financial risk due to lack of ESG-based risk management.	High implementation costs, but can reduce short-term risks.	Long-term benefits with improved financial stability and easier access to green capital.	(Zatonatskiy, 2024)
Regulatory & Compliance	Better prepared for stringent environmental and sustainability regulations.	Vulnerable to regulatory risks and potential sanctions for failing to meet ESG standards.	High cost of adaptation to ESG policies.	It is easier to comply with regulations and get government incentives.	(Kosztowniak, 2024)
Reputation & Public Trust	Have a positive image in the eyes of stakeholders, including investors and customers.	Risk of reputational crisis due to lack of transparency and ESG awareness.	May experience challenges in building trust due to accusations of greenwashing.	A better reputation fosters increased customer loyalty and enhances business opportunities.	(Widia & Wibisono, 2024)
Operational Risk	More capable of managing environmental, social, and governance risks through sustainable policies and practices.	More vulnerable to operational disruptions and reputational risks due to ESG issues.	High adaptation cost in implementing ESG framework.	Be more resilient to global challenges such as climate change and the financial crisis.	(Dovbiy et al., 2022; Yu, 2023)
Competitiveness & Innovation	Be more innovative in creating sustainable financial products, such as green bonds and social investments.	Lack of innovation as they focus on short-term gains.	Adaptation and innovation require substantial investment in ESG technology and expertise.	Increase competitiveness and market share by attracting sustainability-minded investors and customers.	(Vetrova, 2022)

By integrating ESG factors into their business operations and strategies, non-bank financial institutions not only enhance their reputation and public trust but also strengthen their competitiveness in a market that is increasingly prioritizing social and environmental responsibility. In particular, the application of ESG can help such institutions manage environmental and social risks that may affect financial stability, as well as enhance transparency and accountability in corporate management. In addition, institutions that implement ESG principles tend to exhibit better financial performance in the long run, as they can attract sustainability-focused investors and enhance relationships with a broader range of stakeholders. Thus, ESG implementation is not only a moral obligation but also a strategy that supports achieving more optimal sustainability performance for non-bank financial institutions.

DISCUSSION

Effective ESG implementation requires a focus on firm characteristics, earnings quality, and environmental performance as key factors (Khamisu et al., 2024). Non-bank financial institutions should structure their attributes to support the implementation of the ESG framework, ensuring that business profits are consistent and aligned with financial transparency and sustainability goals, and continuously monitor their environmental performance. Involving various stakeholder groups is also essential for successful implementation, not only contributing to better transparency but also assisting firms in mitigating financial and operational risks associated with environmental uncertainties (Wang et al., 2022). ESG has been demonstrated to enhance a company's performance at various stages of its life cycle, particularly during the growth and maturity phases (Gao et al., 2023). To optimize the implementation of Environmental, Social, and Governance (ESG) principles in non-bank financial institutions, practical and strategic recommendations are needed that cover aspects of policy, technology, and resource management. Non-bank financial institutions should adapt their corporate attributes to quickly and efficiently operationalize the ESG framework, given the growing demand for sustainability in the financial industry.

One such strategic approach includes policies that support sustainability. From a policy perspective, non-bank financial institutions must adopt regulations and policies that promote ESG transparency and disclosure as part of their business strategy to enhance accountability and competitiveness in the global market. Transparency in ESG disclosure not only enhances investor confidence but also enables companies to manage financial risks that may arise from non-compliance with sustainability standards. Studies have shown that companies that actively implement ESG disclosure policies tend to exhibit better financial stability and experience a reduced risk of financial distress. Thus, integrating ESG regulations into corporate policies is not just a matter of regulatory compliance, but also a business strategy that can enhance the long-term sustainability and financial resilience of non-bank financial institutions.

From a technological perspective, the implementation of a digital-based financial system is a key factor in increasing operational efficiency and strengthening the transparency of financial reports for non-bank financial institutions. Digitalization allows companies to automate various accounting and reporting processes, thereby reducing the risk of human error and increasing the speed and accuracy of delivering financial information. For example, the implementation of a technology-based accounting system has been shown to increase public sector accountability and the effectiveness of financial reports, thereby strengthening stakeholder trust in the company. The implementation of a technology-based accounting system that complies with ESG standards also enhances the effectiveness of financial reporting and ensures compliance with applicable regulations (Sri & Elwisam, 2024). Digitalization in ESG management plays a crucial role in ensuring compliance with increasingly stringent sustainability standards. By leveraging technologies such as big data analytics and artificial intelligence (AI), financial institutions can more precisely monitor their environmental and social performance, identify areas for improvement, and take strategic steps to enhance their positive impact. Digital transformation also facilitates the creation of real-time ESG reports, enhances transparency for investors and regulators, and strengthens the integration of ESG into business strategies. Therefore, the adoption of technology in ESG management is not just a trend but an urgent need for non-bank financial institutions to remain competitive in a global market that increasingly demands transparency and sustainability.

In managing resources, non-bank financial institutions can adopt green financing strategies as a strategic step in supporting a sustainable economy while creating long-term value for companies and stakeholders. Green financing plays a crucial role in channeling financing towards sustainable projects that have a positive impact on the environment, such as renewable energy, energy efficiency, and improved waste management. The implementation of green financing has been proven to support sustainable economic growth while increasing the competitiveness of financial institutions in attracting sustainability-oriented investors (Bapang, 2023). A structured implementation of green financing can mitigate financial risks associated with environmental impacts and enhance transparency in accordance with ESG standards. This enables non-bank financial institutions to attract more sustainability-oriented investors, enhance business stability, and foster long-term economic growth. Therefore, ESG optimization in financing strategy is not only an ethical choice but also a strategic move to improve competitiveness in the global financial industry.

Non-bank financial institutions must develop a comprehensive and contextually relevant ESG strategy that balances environmental, social, and governance factors as key components of their business sustainability. This approach involves enhancing corporate characteristics, including the adoption of green technologies and inclusive social policies, as well as ensuring sustainable earnings quality through responsible investment practices. Additionally, environmental performance must be continuously monitored and improved to minimize negative impacts on ecosystems and comply with increasingly stringent regulations. The involvement of various stakeholders, including regulators, investors, and communities, is key to ensuring the success of ESG implementation and enhancing corporate transparency and accountability. Participation in global initiatives, such as the sustainable finance principles adopted by international organizations, can help non-bank financial institutions align their practices with international standards. On the other hand, adapting to the local institutional environment is also important for effective ESG implementation that aligns with domestic market and regulatory conditions. With an integrated and flexible strategy, non-bank financial institutions can strengthen their competitiveness in the global financial industry while contributing to more inclusive and sustainable economic development.

CONCLUSION

Non-bank financial Institutions (NBFIs) have become an important pillar in the global financial sector, providing alternative financing and supporting economic growth. In Indonesia, NBFIs are increasingly adopting Environmental, Social, and Governance (ESG) principles as a strategic move to improve competitiveness and meet stakeholder demands. In the digital era, non-banking financial technology (fintech) is becoming increasingly important for reaching underserved segments. Supervision and risk mitigation by regulators such as OJK are critical to maintaining financial sector stability. NBFIs are beginning to integrate ESG principles in the face of sustainability challenges. ESG implementation enhances operational efficiency and competitiveness, attracting investors who prioritize sustainability issues. Although ESG integration faces challenges, such as reporting diversity, research shows that ESG has a positive impact on corporate sustainability performance.

The implementation of ESG (Environmental, Social, Governance) innovation programs in non-bank financial institutions demonstrates that ESG integration can help manage risk, enhance long-term financial sustainability, and meet stakeholder expectations. The program focuses on integrating sustainability principles into operations, products, and services through green financing, ESG-based investment products, corporate social responsibility programs, and ESG transparency and reporting. Digital technologies, including big data, blockchain, and AI, can significantly enhance ESG performance. Structured and integrated regulations play an important role in driving ESG implementation. In Indonesia, factors such as strategic orientation, risk-taking, and company life cycle determine ESG practices. Policies and regulations that support ESG implementation provide a framework for transparency, accountability, and risk management. ESG practices generally have a positive impact on sustainability performance and financial performance, contributing to increased firm value. Institutions that implement ESG are more financially stable, better equipped to handle stringent regulations, have a more positive public image, and are better able to manage environmental, social, and governance risks compared to those that do not implement ESG.

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