

# Sustainable Business Strategy: An Analysis of an Indonesian Manufacturing Company

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**ABSTRACT-** The increasing issue of climate change has led to growing interest in sustainability especially for business. Consumers and people in general, have become more aware and concerned about their environmental footprint, which put pressure for businesses to develop and implement a comprehensive climate strategy which are included in the company's sustainable strategy. The study on sustainability and sustainable business strategy has been increasing. However, in Indonesia this topic is relatively new and unexplored, thus it needs further discussion. This study examines the sustainable business strategy in a Fast-Moving Consumers Goods manufacturing company in Indonesia. The questions asked in this research include the company's stage on sustainability effort and whether the company's sustainable strategy has an impact in terms of the triple bottom line aspects of sustainability. The sustainability dimensions in the form of triple bottom line are explained as a basis for analysis. The study uses qualitative method using document analysis and interview to examine the stage of sustainable business strategy. The results suggested that the company's sustainability effort is considered as holistic approach. It also suggests that the company's effort in sustainability contribute to the economic well-being of the company and the stakeholders as well as social and environmental contribution. This research is expected to give a glimpse of the Indonesian manufacturing company's effort on sustainable business practice which can be used as an inspiration for other companies in the same industries or by other industries to follow and implement a sustainable business strategy of their own.

**Keywords:** *sustainability, sustainable business, manufacturing, sustainability report*

## I. INTRODUCTION

Climate change has resulted in rising global temperatures, causing the increase of extreme weather events frequency such as flood and hurricane which then cause a chain of infectious disease exposure. Climate change activism had gone viral. People around the world have become more and more concerned about their environmental footprint. Companies are also exposed to the transition risks which are arising from the society's response to climate change. On the other hand, climate change also offers business opportunities such as improving resource productivity which then might help reduce the production cost, inspiring new products and services which are less carbon-intensive or which enable carbon reduction by others, and enhancing companies' resilience of their supply chains (Coppola, Krick, & Blohmke, 2019).

In practicing sustainability, companies might have gone through stages instead of going all out, adopting a total sustainability strategy. Several maturity scales for sustainability strategy have been created to illustrate how

organizations start from initial sustainability strategies to a fully integrated one. These stages include defensive, accommodative, conservative, and a proactive one (Long, 2019). The difference in stage might determine how significant the company's contribution in terms of sustainability practices into the United Nation Sustainable Development Goals.

The research will be focusing on a multinational fast-moving consumer goods manufacturing company located in Indonesia. The company has a sustainability strategy as part of its ten-year strategic plan and has been reporting its sustainability activity every year on top of the annual statement report. This company is chosen for this research because it has a seemingly comprehensive sustainability plan following its global company program as one of the big brand companies that has significant contribution to the economy. The United Nation has set a global standard represented Sustainable Development Goals (UN SDGs) which comprises of a set of seventeen interrelated goals that is aimed to end poverty, protecting the

planet, and ensuring the prosperity of humanity in the global sustainable development agenda. The company's sustainability agenda also supports the United Nation's agenda for sustainable development.

This paper research will centre on the analysis this company with the question of what stage is the company's sustainable strategy falls into and whether the sustainable business strategy actually contribute to the economic well-being of the company as well as contribute to the society and the environment. In order to answer these questions, the definition and characteristics along with the implication of sustainable business strategy must first be determined.

## II. LITERATURE REVIEW

### 1. Sustainable Business Strategy

There are numerous definitions of sustainable business strategy in organizational studies and general context. According to the Cambridge dictionary, sustainability is the quality of being able to continue over a period of time or putting it in the environmental sense, meaning the quality of causing little or no damage to the environment and therefore able to continue for a long time. As for sustainable development, it is first mentioned in the Brundtland Commission report on the global environment and development in 1987 in which sustainable development is defined as development that meets the needs of the present without compromising the ability of the future generations to meet their own needs. Thus, corporate sustainability is defined as a strategy for corporate sustainability in which corporation must meet the needs of the firm's stakeholders without compromising its ability to also meet the needs of future stakeholders. Firms must develop the capability to adapt their strategy to the new requirements (Brundtland Commission, 1987).

Sustainable development itself first appeared as a dimension of business strategy not long after the UN conference on Environment and Development which was held in Rio de Janeiro in 1992. In 1994, John Elkington introduced the term "Triple Bottom Line" (TBL) to revolutionize the concept of sustainability to be compatible with business practice. This new model stands on three value grounds concerning the economy, the environment, and the social aspects of value creation. The economy or profit is referring to the economic profit of an organization, the environment corresponding to the environmental aspects of the organization's operational activity, and the social aspect encompassing the benefit to society in general. Today, the business strategy of firms requires the formulation of specific strategies and related competencies that address sustainable development which recognize that it is a dynamic process that combines both planned and

emergent strategy development (Neugebauer et al, 2016; Walsh & Dodds, 2017).

The concept of sustainable development could be successfully accustomed into strategic management theory and practice in which sustainability is understood as the capacity to endure complex conditions which could be used as a guidepost for measuring business's long-term success and market effectiveness. The general rules of sustainable development in business include openness to complexity and diversity, and also the ability to find the balance between economic, social, and environmental aspects of business and to manage the conflicting interests of stakeholders. The strategic management process and the strategy content needs to be examined to implement the concept and rules of sustainability into strategic management (Witek-Crabb, 2012).

In the triple bottom line, the economic dimension of sustainability includes activities that are necessary for a business to remain functioning in the market. This dimension in close with the conventional business strategy which aim for profit. There are factors that are critical for business functions in terms of developing economically valuable products or services, such as innovation, collaboration, or knowledge management. Without the economic dimension, businesses will unlikely be successful as they will not be able to finance themselves. The ecological dimension contains environmental activities which cause or prevent environmental impacts. These activities include recycling, biodiversity, or waste management. The social dimension of a sustainable strategy has internal and external dimension. Internally, aspects such as corporate governance and employee health and safety management are important. Externally, the dimension includes business relation to its external stakeholders and its wider ethical behaviour in the community (Long, 2019).

For an organization to be considered a sustainable enterprise, there are aspects that the organization must take into account which are the purpose of the enterprise, governance, strategy, activities, capabilities, people, and last is value and culture of the organization. These seven aspects are called the transformational map toward sustainable organisation (Zollo, Cennamo, & Neumann, 2013).

The aspects or dimensions adopted in the sustainability framework are usually assessed regarding their degree of maturity and categorized into stages of business sustainability. Generally, the stages include:

1. Non-compliance, where an organization does not engage in any sustainable business practices (Senge et al, 2008).
2. Defensive or introverted, a narrow and reactive sustainability strategy focused on compliance and

risk mitigation. This approach is likely to be driven by cost constraint and is little more than compliance with regulation or public pressure. Activities included in this level include the introduction of basic environmental management systems to reduce inefficiencies or limited efforts at transparency through sustainability reporting (Long, 2019).

3. Accommodative or extroverted, it involves cautious modifications to the business without compromising the revenue logic or core business aims. Activities at this level include more enhanced use of management systems such as environmental protection or eco-efficiency. It will be focused on external relationships and the need for “license to operate”. The efforts might have positive influences, but it still has risk on being ended if they are deemed unnecessary for the firm’s core function (Lefebvre 2012; Campbell 2007).
4. Conservatives. The company focuses on cleaner production. The activities at this level include pollution prevention and eco-efficiency initiatives that alter the systems and processes that contribute to the creation of waste. Here, the company uses innovation and the use of new technologies enabling internal production processes or the actual product design to be changed. Product stewardship ideas fit with this approach where the business seeks to lengthen product usage periods, while also implement maintenance or other servicing approaches to balance fewer product sales resulted from longer product life period (Lehni 2000; Hart et al, 2005).
5. Proactive or holistic approach, where sustainability strategy is fully integrated into all business activities as part of the organization’s strategy. Competitive advantage is derived from differentiation and innovation, offering customers and stakeholders’ unique advantages through sustainability. Sustainability is fully intertwined into company strategy; thus, sustainability elements are not at risk for being ended. In this level of sustainability, stakeholders are extensively engaged and are given opportunities to share ideas and resources, creating favourable institutional context for sustainable development (Gast et al, 2017; Long, 2019).

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## 2. Indonesian Regulation on Sustainable Business

Sustainability of businesses in Indonesia can be determined and recognized through the Indonesian Financial Service Authority (OJK) from its regulation regarding sustainability reporting in regulation number 51/POJK.03/2017 regarding the implementation of

financial sustainability for finance service institution, public issuers, and Public Companies. In the regulation, the sustainability has to contain statement on the company’s sustainability strategy, overview of sustainability aspect which include the triple bottom line, brief profile of the company, director’s statement, sustainable governance, written verification from an independent party if available, feedback sheet for readers if available, and the company’s response to reader’s feedback from the previous year if available. The detailed content of each information that should be included in the company’s sustainability report is also explained in the regulation. This regulation should be used by companies mentioned in the regulation as a guide for sustainability reporting. The detailed information on the sustainability aspects can also be used as a benchmark whether a company has followed sustainability regulation as ordained by the authority or not.

The Indonesian government has also been encouraging and regulating the practice of sustainable business through the Ministry of Industry, and regulations on environmental sustainability through the Ministry of Environment and Forestry. The regulations issued by the ministry on environmental regulations are updated accordingly and can be accessed through the Ministry’s webpage. The Ministry of Environment and Forestry has been evaluating companies’ compliance on environmental regulation through Company Performance Rating Assessment Program in Environmental Management or PROPER (*Program Penilaian Peringkat Kinerja Perusahaan Dalam Pengelolaan Lingkungan*). PROPER assessment is carried out through an evaluation process of compliance with environmental management regulations, application of environmental management systems, energy efficiency, water conservation, emission reduction, biodiversity protection, 3R B3 waste and Non B3 solid waste along with community empowerment. For the period of 2018-2019 assessment, PROPER has evaluated 2,045 companies. Based on the results of an evaluation of 2,045 companies, there are 26 companies with gold rating performance, 174 green, 157 blue, 303 red, and 2 companies black.

## 3. Conceptual Framework

The conceptual framework for this study is comprised of economic, ecological, and social dimensions of sustainability, which are then implemented in the sustainability strategy creating an integrated sustainable business model, in order to recognize the stage of sustainability in the company. The criteria for each dimension of sustainability will be taken from the triple bottom line aspects of sustainability and as mentioned in the FSA (OJK) regulation number 51. The document from company’s sustainability report and plan will be assessed in accordance to each criterion and dimension as per the

regulation. According to the five-level hierarchy framework, the triple bottom line aspects of sustainability are reflected through the company's performance, and this should be shown in the company's sustainability report. The framework took the three dimensions of sustainability criteria from the framework in order to recognize the company's economic, social, and environmental performance in terms of sustainability.

### III. METHOD, DATA, AND ANALYSIS

In this research, the qualitative analysis method is using document and interview content analysis by analysing documents that are already available and the interview result. In qualitative research, interviewing is one of the most frequently used methods when generating data (King, Horrocks, & Brooks, 2019). For the interview, non-probability sampling is used. After all the data from the documents and interviews are collected, it will be assessed and categorized according to the triple bottom line of sustainability. As the data is qualitative, the information gathered is in a narrative form.

The object study of this research is a manufacturing company in Indonesia. The company is part of a multinational corporation that has been established in Indonesia since 1933. The documents that will be analysed is the company's sustainability report and sustainable plan. Interview with the company's employees will also be included.

### IV. RESULT AND DISCUSSION

In order to be recognized as a sustainable business, a company must at least follow the regulation that and be accommodative of what the regulation required. For the sustainability report, it has been standardized by the Financial Service Authority in its regulation number 51/POJK.03/2017. To analyze how integrated and comprehensive the implementation of sustainability strategy in the company, the sustainability report will be compared to the FSA's regulation and the requirement for a sustainable report. The company has overall followed through with the regulation as all the data that is required to be disclosed are presented in the sustainability report except a few points. The company's sustainability report especially does not mention regarding biodiversity conservation. According to the participants, the employee who is part of the team who made the sustainability report that biodiversity conservation is not the main concern for the company, at least not the one in Indonesia. The company also does not disclose its environmental sustainability cost because the company does not have a separate budget for sustainability as the sustainability program is already integrated with the company's operational activities.

Thus, it makes it difficult for the company to disclose a separate expense report for environmental sustainability.

This study found that all of the participants are aware of the implementation of the company's sustainability strategy. The informants mentioned that the only profit that the company made is sustainable profit, thus all the operational activities done by the company are actually based on sustainability. The company's products are also starting to consider introducing the eco-friendly feature, as the market for sustainable products is shifting. There are more people who are becoming aware of products sustainability and environmental impact. Other than that, the company also consider the economic well-being of its stakeholders along the value chain through the establishment of inclusive business which align with one of the pillars of the company's sustainability in enhancing livelihoods. The social aspect of sustainability in the company is especially highlighted in the business through the health and well-being division of the company's foundation. The informants mentioned that the company provides training for employees starting from basic, soft-skill, and technical that can be chosen by the employees. The company integrated social sustainability effort can also be seen from the programs or events created by the health and well-being division for community or school-based. Other than the two big programs mentioned, there are also other programs that are included with the brand with purpose events such as hand washing events, dental and oral health programs, healing projects, etc.

The company is an FMCG company that also produces home care products involving chemical material. Thus, the environmental aspect of sustainability is monitored closely. From the employee's perspective, they are also encouraged to implement a green life-style through habituation in the office area. Plastic usage is not allowed, no waste policy in the office, and the cafeteria also encouraged the employees to finish their food. Other than that, the company's office is considered as green infrastructure with a smart feature to reduce energy usage and emission. In the waste management effort, the company also has established a plastic waste processing factory in East Java other than the already established waste banks in Indonesia. The challenge faced by the company in managing plastic waste came from collecting the plastic waste. The Indonesian consumers are not yet getting used to sorting out their waste. Thus, it takes a lot of time and effort to collect all the plastic waste.

In accordance with the analysis of the sustainability report and the interviews, the sustainability business strategy is definitely having an impact on the company as well as the environment and the community. The company's financial performance, as seen on the net

profit, is steadily increasing, although from 2018 to 2019, there was a steep decrease in net profit but overall, it is still sustainable. The company's effort to introduce eco-friendly product and brand with purpose is also receiving good response from the consumers. The shifting in consumer behavior towards eco-friendly products in Indonesia is also in line with the increasing issue on climate change and sustainability. Thus, the market is also starting to shift on eco-friendly products. The company is also seeing a reduction in energy use, emission, and waste on top of an increasing number of recycled waste and waste banks in Indonesia.

## CONCLUSION

Based on the stage of business sustainability, the company's effort on sustainability strategy can be considered as having a holistic approach. According to Gast et al (2017) and Long (2019), a holistic approach is when the triple bottom line of sustainability is integrated into the company's operational activity as well as becoming the pillar of the company's foundation. The company is also gaining competitive advantage through innovation with the newly introduced eco-friendly product as well as the technology in the factory that is purposed for plastic waste processing. Sustainability strategy in the form of the triple bottom line is already intertwined in the company's operational activities, and the elements of sustainability are not at risk for being ended. Stakeholders are extensively engaged as employees are also considered as an ambassador for the company, its brand, and its sustainability effort. In accordance with Zollo et al (2013), to be considered sustainable, the company should also consider the purpose of organization, governance, strategy, activities, capabilities, people, value, and culture, which are all included in the sustainability report. The company's sustainability strategy has also had an impact on the economic well-being of the company and the stakeholders as well as the society and the environment.

## IMPLICATION, LIMITATION, AND SUGGESTIONS

The company has shown a positive impact on the use of a sustainable business strategy. However, the company should put more effort into cooperating with external stakeholders, especially the government or NGOs, in order to solve the plastic waste problem and helping the plastic waste processing factory that the company has to function properly. The efforts in achieving sustainability cannot be conducted alone even though the company is considered big. Sustainable development for business is when it considers the impacts and engages with stakeholders (Long, 2019) which also includes external stakeholders.

The limitation for this process lies in the practical aspect as the research only use a qualitative approach. Using the quantitative method should be giving the exact number or degree of the benefit and impact in terms of the triple bottom line for the company or society. The research is also focusing only in one company in one industry. Thus, the result of this study cannot be generalized for all company in the industry or all companies in general.

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