

Application of Environmental, Social, and Governance (ESG) Principles as Dynamic Capabilities: A Case Study of PT Mustika Ratu Tbk

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ABSTRACT

This study aims to analyze the implementation of Environmental, Social, and Governance (ESG) principles at PT Mustika Ratu Tbk (MRAT) as a dynamic capability that builds a resilient, responsible, and sustainable financial system. Using a qualitative approach with a single case study design, secondary data were collected through library research on 19 international journal articles (2025–2026) and documentation study of annual reports, sustainability reports, press releases, and national media coverage for the 2023–2026 period. Deductive thematic content analysis was conducted by classifying empirical evidence into the ESG principle framework: dynamic materiality, stakeholder orientation, long-term value creation, transparency and accountability; along with E, S, G dimensions; implementation instruments; key actors; and impacts. The results show that MRAT consistently actualizes the four main ESG principles through programs such as mangrove planting, Women Empowerment Conference, Jamunomic Ecosystem, and ISO 9001 and ISO 14001 certifications. The governance dimension (G) proves to be the foundation enabling the effectiveness of environmental (E) and social (S) dimensions. Policy, market, internal governance, and digital instruments are integrated synergistically, with digital transformation acting as a mediator of performance improvement. The five key actors (management, investors, regulators, employees/partners, consumers/public) work harmoniously to create a virtuous circle of ESG reinforcement. The impacts include economic resilience, reduction of environmental and social risks, inclusive growth, and tangible contribution to intergenerational welfare. This study contributes to ESG literature in the context of local wisdom-based family firms in developing countries and provides a best practice model for similar companies.



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1. INTRODUCTION

Over the past two decades, the concept of Environmental, Social, and Governance (ESG) has undergone a significant paradigm shift. What was previously viewed as merely an ethical framework for investment has now transformed into a strategic foundation for building a resilient, responsible, and sustainable financial system (Velasco, 2026; Laviola & Cucari, 2026). ESG is no longer

voluntary; rather, it has become a competitive necessity amid increasing pressure from regulators, investors, consumers, and civil society for business practices that account for environmental and social impacts, as well as transparent governance. Modern ESG theory posits that the effectiveness of ESG depends heavily on the temporal synchronization between short-term and long-term orientations, as well as the quality of internal governance and the ability to adapt to institutional pressures (Cao et al., 2026; Wang et al., 2026).

In Indonesia, awareness of the importance of ESG is growing, particularly after the Financial Services Authority (OJK) issued Regulation No. 29/POJK.04/2016 on Annual Reports of Issuers or Public Companies and Circular Letter No. 16/SEOJK.04/2021, which mandates the preparation of sustainability reports. However, the main challenge faced by many companies is how to implement ESG in an authentic and integrated manner, rather than merely as a tool for compliance or marketing (greenwashing). It is in this context that PT Mustika Ratu Tbk (MRAT) has emerged as one of the companies recognized for consistently incorporating ESG principles into its core business strategy. As a family-owned company rooted in local wisdom that has been in operation for more than 50 years and has been listed on the Indonesia Stock Exchange since 1995, MRAT faces unique challenges: balancing profitability, cultural preservation, women's empowerment, and environmental sustainability.

Although various studies have examined the relationship between ESG and financial performance (Al Fadhel & Manickavasagam, 2026; Leogrande et al., 2026), as well as the role of corporate governance in moderating the effectiveness of ESG (Cuomo et al., 2025), most of these studies were conducted in the context of large companies in developed countries. Research on ESG implementation in companies rooted in local wisdom specifically those in the traditional herbal medicine and cosmetics industries remains very limited. Furthermore, few studies have systematically analyzed how ESG principles such as dynamic materiality, stakeholder orientation, long-term value creation, and transparency are translated into concrete programs at the operational level of companies in Indonesia. Additionally, a research gap lies in the lack of exploration regarding the role of digital tools in mediating the relationship between ESG and corporate performance in the context of family-owned businesses (Ding et al., 2026).

This study aims to: (1) analyze the application of the four main ESG principles at MRAT; (2) describe the implementation of the three ESG dimensions with an emphasis on the role of governance as the foundation; (3) identify the instruments used; (4) map the roles of key actors; and (5) assess the impact of ESG implementation on corporate resilience, social responsibility, and its contribution to intergenerational well-being. ESG has evolved from a mere concept of ethical investing into a strategic framework that shapes corporate behavior and global capital allocation. This theory posits that ESG is not merely a set of compliance metrics or a marketing tool, but rather a dynamic system of capabilities that, when authentically and integrally implemented, serves as the foundation for creating a resilient, responsible, and sustainable financial system to support intergenerational well-being (Velasco, 2026; Laviola & Cucari, 2026).

Four key principles underpin ESG effectiveness. 1) First, the principle of dynamic materiality: this states that the importance of ESG issues is not static but changes over time depending on the industry context, stakeholder expectations, and external shocks. Al Fadhel and Manickavasagam (2026) note that the effects of ESG vary across market regimes, crisis conditions, and governance environments. 2) Second, the stakeholder orientation principle: emphasizes that authentic ESG goes beyond simply maximizing shareholder value. Cao et al. (2026) state that companies achieve long-term success by balancing the needs of all stakeholders. 3) Third, the principle of long-term value creation: this principle asserts that ESG investments often entail upfront costs but yield benefits in the long run (Velasco, 2026). 4) Fourth, the principle of transparency and accountability: emphasizes that ESG disclosures are only valuable if they are credible. Dossa et al. (2026) found that higher ESG transparency significantly reduces the bid-ask spread and increases stock liquidity.

The three ESG dimensions are not independent of one another. 1) Environmental (E) Dimension: focuses on the management of physical risks (carbon emissions, resource efficiency, pollution) and transition risks. Environmental performance is associated with lower equity and debt costs (Al Fadhel & Manickavasagam, 2026). 2) Social Dimension (S): covers human capital, community relations, human rights, and product responsibility, but is often the earliest indicator of

greenwashing. 3) Governance Dimension (G): serves as the foundation for all other dimensions. Cuomo et al. (2025) assert that the governance pillar is the most influential factor; higher governance ratings are associated with better board oversight and reduced agency conflicts.

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2. RESEARCH METHOD

This study employs a qualitative approach using a single-case study design (Yin, 2018). The case study approach was chosen because the research focuses on a single specific entity (PT Mustika Ratu Tbk) with a clearly defined scope: the implementation of ESG at that company. The data sources consist entirely of secondary data obtained through two techniques: (1) a literature review of 19 articles from reputable international journals (published in 2025–2026) that serve as the theoretical foundation for ESG principles, and (2) a documentary review of PT Mustika Ratu Tbk's 2023 and 2024 Annual Reports and Sustainability Reports, the company's official press releases (2023–2026), news from national media (Kompas.com, Bisnis.com, Media Indonesia, ANTARA News, Katadata.co.id, SWA, KabarCSR, Republika), as well as ratings reports (Pefindo, MSCI) and the website sustainabilityreports.com. The data analysis technique employed content analysis using a deductive-thematic approach. The collected data was reduced and then categorized based on a predetermined theoretical framework: the four main ESG principles, the three ESG dimensions, implementation instruments, key actors, and ESG impacts. Next, a thematic analysis was conducted by mapping empirical evidence from MRAT practices onto theoretical codes, followed by interpretation and the drawing of conclusions. Data validity was ensured through source triangulation (comparing information from company reports, news articles, and press releases), referential adequacy (using original documents), dependability (systematic documentation of the research process), and confirmability (an audit trail citing specific sources).

3. RESULTS AND DISCUSSIONS

Implementation of Key ESG Principles at PT Mustika Ratu Tbk

The principle of dynamic materiality is reflected in MRAT's ability to identify and respond to sustainability issues whose materiality changes over time. The company is progressively strengthening its environmental commitment, moving beyond mere regulatory compliance to strategic initiatives such as planting 1,000 mangrove trees in 2023 and a tree-planting campaign in Bogor to support the 2060 Net Zero Emissions target. MRAT's President Director emphasized that these activities are not mere ceremonies but rather part of the company's sustainability roadmap. This aligns with the findings of Al Fadhel and Manickavasagam (2026) that ESG effects vary across market regimes and crisis conditions. The principle of stakeholder orientation is implemented through the empowerment of women, local farmers, and SMEs, as well as the preservation of Indonesian culture. Through the 2025 Women's Empowerment Conference, themed "Unlock Our Potential, Shaping the Future of Indonesia," the company has launched various skills training programs. The company also developed the Jamunomic Ecosystem, a sustainable business ecosystem that optimizes the value chain of products based on cosmetics, traditional herbal medicine (jamu), and natural ingredients by partnering with local farmers, SMEs, and communities. This aligns with the

findings of Cao et al. (2026) that companies achieve long-term success by balancing the needs of all stakeholders.

The principle of long-term value creation is realized through the Jamunomic Ecosystem concept, which not only focuses on strengthening the local economy but also encourages the local community to participate in cultural and environmental conservation. This ecosystem received the 2024 ESG Award from Republika in the "Innovation for Cultural Sustainability" category. Additionally, MRAT obtained ISO 9001:2015 and ISO 14001:2015 certifications in 2023. Velasco (2026) emphasizes that ESG is a long-term commitment that yields rewards for companies. The principles of transparency and accountability are demonstrated through the publication of Annual and Sustainability Reports prepared in accordance with OJK Regulation No. 29/POJK.04/2016 and SEOJK No. 16/SEOJK.04/2021. Financial statements are audited by an independent auditor. An IdA rating with a stable outlook from Pefindo (2025) and MRAT's inclusion in the MSCI Indonesia Small Cap Index less than a year after its IPO are forms of recognition for the company's consistent financial performance, governance, and business strategy. Dossa et al. (2026) found that higher ESG transparency significantly reduces the bid-ask spread and increases stock liquidity.

Key ESG Dimensions: Governance as the Foundation

In the Environmental (E) dimension, MRAT implements the ISO 14001 Environmental Management System, reduces production waste, uses eco-friendly and recyclable packaging, and processes herbal medicine residue into organic fertilizer. Mangrove planting and tree-planting initiatives are examples of climate change mitigation. Supply chain digitization through WMS technology and real-time inventory reduces operational inefficiencies, energy consumption, and waste. Al Fadhel and Manickavasagam (2026) show that environmental performance is associated with lower equity and debt costs. In the Social (S) dimension, MRAT's key strength lies in the empowerment of women and communities. The number of female employees increased from 422 to 545 in 2024. Through the Jamunomic Ecosystem, the company empowers local farmers. Although Al Fadhel and Manickavasagam (2026) note that social performance may be viewed by creditors as an increase in costs, MRAT instead positions social investment as a competitive differentiator that strengthens stakeholder loyalty.

In the Governance (G) dimension, MRAT received an idA corporate rating from Pefindo, was included in the MSCI Indonesia Small Cap Index, and holds ISO 9001, ISO 14001, CPOTB, CPKB, and Halal Assurance System certifications. The company adheres to the five fundamental principles of GCG: transparency, accountability, responsibility, independence, and fairness and equality. The highest recognition came in the form of the 2024 ESG Award from Republika. Cuomo et al. (2025) emphasize that the governance pillar is the most influential factor, and without strong governance, E and S practices tend to be merely symbolic.

Integrated ESG Instruments and Implementation

MRAT synergistically combines four types of instruments. Policy instruments are realized through compliance with OJK regulations and support for the national Net Zero Emission 2060 target, creating coercive pressure that drives standardization (Niyudachayakoon & Mayakul, 2026). Market instruments are reflected in MRAT's inclusion in the MSCI Indonesia Small Cap Index, its idA rating from Pefindo, and the 2024 ESG Award. Governance instruments include ISO 9001, ISO 14001, CPOTB, CPKB, and PROPER Blue Rating certifications. Digital instruments are implemented through e-commerce optimization (a 199% increase in sales in 2024), an ERP upgrade to Microsoft BC365 with a budget of Rp915 million, supply chain digitization using RstockTech (WMS, real-time inventory dashboard), and digital platforms for distribution and partner loyalty. Ding et al. (2026) state that digital transformation mediates the relationship between ESG, open innovation, and corporate performance.

Key Actors in ESG MRAT

The company and management as signalers: President Director Bingar Egidius Situmorang, Director Kusuma Ida Anjani, and Director Jodi Andrea Suryokusumo perform active oversight functions. Cao et al. (2026) emphasize that managerial capabilities shape how ESG investments

translate into performance. Investors and rating agencies as external validators: Pefindo and MSCI provide credibility signals that strengthen access to capital. The regulator (OJK) as the rule setter creates a legal framework that promotes transparency. Employees and business partners as implementers: an increase in female employees, the National Sales Meeting, and the Jamunomic Ecosystem empower local farmers. Consumers and civil society as drivers of awareness: MRAT develops green marketing strategies and receives positive media coverage. These five actors work in harmony to create a virtuous cycle that sustainably strengthens ESG performance.

The Impact of ESG Implementation

Long-term economic stability is evident in MRAT's resilience. An integrated management system (ISO 9001, ISO 14001) builds operational resilience. Postiglione et al. (2026) note that ESG performance is associated with lower downside risk and reduced volatility in stock returns. Environmental and social risk reduction is achieved through waste management, tree planting, and the empowerment of local farmers, which mitigates supply chain risks. Inclusive growth is driven by the empowerment of women (545 female employees) and the strengthening of an economy based on traditional crops. Saktiawan et al. (2026) found that gender diversity on the board significantly improves ESG performance. Achieving the Sustainable Development Goals (SDGs) is made possible by aligning ESG indicators with SDG targets. Ultimately, MRAT demonstrates three characteristics of an ideal financial system: (1) resilient: capable of absorbing shocks; (2) accountable: full transparency through audited sustainability reports; (3) supportive of intergenerational well-being: MRAT's President Director emphasized that through this Climate Action, Mustika Ratu is not only fulfilling its environmental responsibilities but also sowing hope for future generations, in line with Díaz Rodríguez and Robles (2026), who state that the primary goal is to ensure future generations inherit a planet and an economic system that are no worse off.

4. CONCLUSION

PT Mustika Ratu Tbk has demonstrated that ESG is not merely a compliance or marketing tool, but rather a strategic foundation for creating sustainable shared value. The four core ESG principles dynamic materiality, stakeholder orientation, long-term value creation, and transparency and accountability are tangibly realized through strategic programs such as mangrove planting, the Women Empowerment Conference, the Jamunomic Ecosystem, ISO certification, and transparent sustainability reporting. The governance (G) dimension has proven to be the foundation that enables the effectiveness of the environmental (E) and social (S) dimensions. Policy, market, governance, and digital instruments are integrated synergistically, with digital transformation serving as a catalyst for performance improvement. The five key actors work in harmony to create a virtuous cycle of ESG strengthening. As a result, MRAT demonstrates economic resilience, risk reduction, inclusive growth, and tangible contributions to intergenerational well-being. Thus, ESG at MRAT has transformed into a dynamic capability that builds a resilient, responsible, and sustainable financial system.

For other companies, particularly in the herbal medicine, cosmetics, and natural-ingredient-based industries, this study recommends adopting an integrated approach that establishes governance as its foundation, integrates digital transformation, and authentically empowers local stakeholders. For regulators, it is necessary to continue strengthening ESG reporting standards and provide incentives for companies that demonstrate verified ESG performance. For academics, further research can be conducted using quantitative methods to test the causal relationship between ESG dimensions and financial performance in Indonesian family-owned companies, as well as comparative studies among similar companies.

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