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STRENGTHENING INTERNAL CAPACITY AND GOVERNANCE FOR ESG IMPLEMENTATION IN BPJS KETENAGAKERJAAN

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Abstract

The growing importance of Environmental, Social, and Governance (ESG) principles has reshaped not only investment strategies but also the internal governance and organizational structures of institutions. While existing literature predominantly focuses on ESG's impact on financial performance and risk mitigation, limited attention has been given to the internal institutional conditions that determine successful ESG implementation, particularly in public sector entities. This study addresses this gap by examining ESG implementation in BPJS Ketenagakerjaan through the lens of institutional readiness, governance structures, and organizational capacity. Using a qualitative case study approach supported by compliance analysis and benchmarking against global best practices, this research evaluates ESG implementation beyond regulatory alignment. The findings reveal that ESG adoption remains at an early stage, characterized by fragmented governance structures, lack of strategic alignment, limited data integration, and insufficient internal capacity. The study argues that ESG challenges in public institutions are not primarily driven by regulatory gaps, but by internal structural limitations. This research contributes to the literature by proposing an institutional ESG readiness framework that emphasizes governance, organizational alignment, and capability as key determinants of ESG success. The findings offer practical insights for policymakers and institutional leaders seeking to transition from ESG compliance toward full institutionalization.

Keywords: SG Governance, Institutional Readiness, Organizational Capacity, Public Sector, Sustainable Finance.

INTRODUCTION

The integration of Environmental, Social, and Governance (ESG) principles has become a defining feature of modern institutional transformation. Initially introduced as a framework to enhance investment decision-making, ESG has evolved into a broader paradigm that influences governance systems, organizational structures, and strategic direction. This evolution reflects a fundamental shift in how institutions perceive value creation—moving beyond short-term financial performance toward long-term sustainability and resilience.

In recent years, global initiatives such as the United Nations Principles for Responsible Investment (UN PRI) and regulatory frameworks issued by national authorities have accelerated ESG adoption. In Indonesia, the Financial Services Authority (Otoritas Jasa Keuangan/OJK) has introduced a series of regulations and roadmaps encouraging financial institutions to integrate sustainability considerations into their operations. These developments signal a transition toward a more responsible and sustainable financial ecosystem.

However, despite increasing regulatory pressure and growing awareness, many institutions struggle to operationalize ESG effectively. ESG implementation often remains at the level of policy statements and reporting compliance, without being fully embedded into governance structures and organizational processes. This phenomenon is particularly evident in public sector institutions, which face additional complexities due to bureaucratic structures, dual mandates, and institutional inertia.

BPJS Ketenagakerjaan, as Indonesia’s national employment social security agency, represents a critical case in understanding ESG implementation within public institutions. Managing large-scale funds with long-term obligations, BPJS Ketenagakerjaan is expected to adopt ESG principles not only as a compliance requirement but also as a strategic necessity. However, the extent to which ESG has been institutionalized within its governance and organizational systems remains unclear.

Most existing studies on ESG focus on its relationship with financial performance, portfolio returns, or risk management. While these perspectives are valuable, they overlook a fundamental question: why do institutions fail to translate ESG commitments into operational practices? This study argues that the answer lies not in external factors, but in internal institutional readiness.

Therefore, this research aims to examine ESG implementation in BPJS Ketenagakerjaan by focusing on governance structures, organizational alignment, and internal capacity. By shifting the analytical lens from compliance to institutional readiness, this study seeks to provide a deeper understanding of the structural challenges that hinder ESG institutionalization.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The concept of ESG has evolved significantly over the past two decades. Early studies primarily viewed ESG as an investment tool used to screen companies based on environmental, social, and governance criteria. However, more recent research highlights ESG as a broader institutional framework that influences organizational behavior, risk management, and strategic decision-making.

Empirical evidence suggests that ESG integration can enhance firm value by reducing cost of capital, improving operational efficiency, and strengthening stakeholder trust. Giese et al. (2019) explain that ESG contributes to value creation through risk mitigation and improved governance practices. Similarly, Friede et al. (2015) find a generally positive relationship between ESG performance and financial outcomes across a wide range of studies.

Despite these findings, ESG implementation is highly dependent on internal organizational conditions. Governance, in particular, plays a central role in determining the effectiveness of ESG integration. Institutions with strong governance structures, including dedicated ESG committees and clear accountability mechanisms, tend to achieve higher levels of ESG performance. Conversely, weak governance leads to fragmented implementation and inconsistent practices.

Institutional readiness theory provides a useful lens for understanding ESG implementation challenges. Institutional readiness refers to an organization’s ability to integrate new frameworks into its structures, processes, and culture. In the context of ESG, readiness involves not only policy adoption but also the development of governance systems, organizational alignment, and internal capabilities.

Public sector institutions face unique challenges in achieving ESG readiness. Unlike private firms, they must balance financial objectives with social and political considerations. This dual mandate often results in a compliance-driven approach, where ESG is treated as a regulatory requirement rather than a strategic priority.

This study proposes an Institutional ESG Readiness Framework consisting of four interrelated layers:

Governance Foundation

The presence of formal ESG governance structures, including committees, roles, and accountability mechanisms.

Organizational Alignment

The extent to which ESG principles are integrated into vision, strategy, and performance management systems.

Internal Capacity

The availability of human capital, knowledge, and skills required to implement ESG effectively. This section contains literature that is referenced and linked to hypothesis research and development.

Enabling Systems

Data infrastructure, tools, and monitoring systems that support ESG integration.

These layers interact sequentially. Weakness in governance leads to misalignment in strategy, which in turn limits capacity development and system implementation. Ultimately, ESG institutionalization can only be achieved when all four layers are aligned.

RESEARCH METHODS

Research Design

This study employs a qualitative case study approach to investigate the implementation of Environmental, Social, and Governance (ESG) principles within BPJS Ketenagakerjaan. The case study method is selected due to its suitability for exploring complex institutional phenomena within real-life contexts, particularly when the boundaries between the phenomenon and its context are not clearly defined (Yin, 2018).

Unlike quantitative ESG studies that focus on financial outcomes, this research adopts an institutional perspective, emphasizing governance structures, organizational alignment, and internal capacity as key determinants of ESG implementation. The study is exploratory and explanatory in nature, aiming to uncover underlying structural constraints rather than test causal relationships.

Data Collection

Secondary data from institutional and publically accessible documents is used in the study. Internal investment policies (PERDIR), which specify the operational and strategic guidelines for asset management, organizational structures posted on BPJS Ketenagakerjaan's official website, annual reports, sustainability or integrated reports, and other official publications pertaining to investment practices and governance are the main sources of information. These documents shed light on the organization's formal integration of ESG concepts.

Analytical Framework

The data analysis process begins with document review and extraction of ESG-related information. Relevant statements, policies, structures, and practices are then categorized according to the three analytical dimensions: governance, organizational alignment, and internal capacity. After categorization, each finding is interpreted by comparing it with ESG standards and peer practices. This process enables the study to identify not only the existence of gaps, but also the underlying institutional causes that prevent ESG from being fully operationalized.

To strengthen validity, this study applies framework-based analysis using internationally recognized ESG references. The use of UN PRI and OJK frameworks provides a standardized basis for evaluating ESG readiness, while benchmarking with global peers strengthens interpretive validity. Nevertheless, this study has limitations. Since the analysis relies mainly on secondary data, it may not fully capture informal internal practices or behavioral dynamics within the organization. In addition, the single-case study design limits generalizability. However, the case remains analytically valuable because it provides deep insight into ESG institutionalization challenges within a public sector institution in an emerging market context.

Compliance Analysis

First, compliance analysis is used to assess the extent to which BPJS Ketenagakerjaan's ESG practices align with recognized ESG standards, particularly UN PRI principles and OJK sustainable finance expectations. This stage examines whether ESG considerations are reflected in governance arrangements, decision-making processes, organizational policies, and disclosure practices.

Gap Analysis

gap analysis is applied to identify differences between expected ESG practices and the current institutional condition of BPJS Ketenagakerjaan. The gaps are examined across three main dimensions: governance, organizational alignment, and internal capacity. The governance dimension focuses on the existence of ESG oversight structures, clarity of roles and responsibilities, accountability mechanisms, and integration of ESG into decision-making. The organizational alignment dimension evaluates whether sustainability vision has been translated into measurable objectives, key performance indicators, strategic roadmap, and operational planning. Meanwhile, the internal capacity dimension assesses the availability of ESG-related knowledge, training programs, data systems, analytical tools, and integration of ESG into risk management.

Benchmarking Analysis

This study uses a benchmarking analysis is conducted by comparing BPJS Ketenagakerjaan's current ESG readiness with selected global institutional investors that have more advanced ESG practices, such as CPP Investments, Norges Bank Investment Management, and CDC Group. The purpose of benchmarking is not to directly equate BPJS Ketenagakerjaan with these institutions, but to identify relevant best practices and maturity gaps. The comparison focuses on governance structures, ESG integration mechanisms, internal capability development, data infrastructure, and disclosure practices.

Research Limitation

This study has some limitations even though it offers a thorough evaluation of ESG implementation using a compliance-based methodology. The analysis mostly reliance on secondary data may not fully capture internal operational dynamics, single-case study limits generalizability and especially using for intenal BPJS Ketenagakerjaan perpective, and absence of primary interviews restricts deeper behavioral insights.

DISCUSSION

The findings of this study reveal that the implementation of Environmental, Social, and Governance (ESG) principles within BPJS Ketenagakerjaan remains at an early stage of institutional maturity. While ESG awareness is evident at the strategic level, its operationalization across governance structures, organizational systems, and internal capabilities is still limited. This section discusses the findings through three interrelated dimensions: governance structure, organizational alignment, and internal capacity, followed by a synthesis of the root causes of ESG implementation gaps.

Governance Structure: From Absence to Fragmentation

One of the most critical findings of this study is the absence of a formal ESG governance structure within BPJS Ketenagakerjaan. ESG-related responsibilities are not centralized within a dedicated unit or committee, but rather dispersed across multiple organizational functions. This fragmentation creates ambiguity in accountability and weakens the organization's ability to coordinate ESG-related initiatives.

From an institutional perspective, governance plays a foundational role in translating strategic intent into operational execution. The absence of a formal ESG governance body indicates that ESG has not yet been institutionalized as a core organizational function. Instead, ESG considerations remain implicit and are often embedded informally within existing processes without clear ownership.

This condition contrasts sharply with global best practices, where leading institutional investors establish dedicated ESG committees or sustainability units with clearly defined mandates. These governance structures serve not only as oversight mechanisms but also as strategic drivers that ensure ESG integration across all decision-making processes.

The lack of such a structure in BPJS Ketenagakerjaan suggests that ESG implementation is currently driven more by regulatory awareness than by institutional commitment. As a result, ESG initiatives tend to be reactive and compliance-oriented, rather than proactive and strategy-driven.

Organizational Alignment: Symbolic Commitment vs Operational Reality

Another key finding relates to the misalignment between sustainability vision and organizational execution. BPJS Ketenagakerjaan has incorporated sustainability into its vision, reflecting an awareness of ESG importance at the strategic level. However, this vision has not been translated into measurable targets, key performance indicators, or a structured ESG roadmap.

This misalignment indicates that sustainability remains largely symbolic rather than operational. Without clear targets and performance metrics, ESG cannot be effectively monitored or integrated into organizational processes. As a result, different units may interpret ESG differently, leading to inconsistent implementation across the organization.

From a theoretical standpoint, this finding highlights the importance of strategic alignment in ESG implementation. A sustainability vision alone is insufficient; it must be supported by formal mechanisms that connect strategic intent with operational execution. This includes the development of ESG-based KPIs, integration into planning systems, and alignment with organizational incentives.

The absence of such mechanisms in BPJS Ketenagakerjaan reflects a common challenge in public institutions, where strategic commitments are often not fully translated into operational frameworks. This gap reinforces the notion that ESG implementation requires not only awareness, but also structural transformation within the organization.

Internal Capacity: The Core Constraint of ESG Implementation

Beyond governance and alignment, the study identifies internal capacity as the most significant constraint in ESG implementation. The analysis reveals that ESG-related knowledge and expertise within the organization are still limited, with training primarily focused on top management and not systematically extended to broader staff.

In addition, ESG data and analytical systems are not yet integrated into decision-making processes. The organization continues to rely heavily on traditional financial data, while ESG-related information is not systematically collected, analyzed, or utilized. This limitation reduces the organization's ability to identify ESG risks and opportunities effectively.

Furthermore, ESG considerations have not been embedded into the risk management framework. This absence suggests that ESG is not yet recognized as a critical risk factor within institutional processes. Consequently, potential sustainability risks—such as environmental exposure or governance weaknesses—may not be adequately captured or managed.

From an institutional readiness perspective, these findings indicate that ESG implementation is constrained not by lack of awareness, but by insufficient capability. ESG requires new competencies, tools, and systems, which must be developed intentionally. Without these capabilities, ESG integration remains superficial and cannot influence core decision-making processes.

Benchmarking Insights: Structural and Capability Gaps

The benchmarking analysis further highlights the gap between BPJS Ketenagakerjaan and leading global institutions. Global peers have developed comprehensive ESG frameworks supported by strong governance structures, advanced data systems, and specialized human resources.

In contrast, BPJS Ketenagakerjaan exhibits a more fragmented and less developed ESG system. Governance is not centralized, data infrastructure is limited, and organizational capability is still evolving. These differences suggest that ESG maturity is not solely determined by regulatory compliance, but by the extent to which institutions invest in governance and capability development.

Benchmarking results reinforce the argument that ESG implementation is a process of institutional transformation rather than a checklist of compliance requirements. Institutions that successfully implement ESG do so by embedding sustainability into their governance systems, organizational culture, and operational processes.

Table 1. Comparative Summary of ESG Integration Readiness Across Peer Institutions

Vol. 02 Year 2026, 1563 – 1571
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Institution	Governance Foundation	Organizational Alignment	Internal Capacity	Enabling Systems
Australian Super	Mature ESG and Stewardship Policy approved by the Board, supervised by the Investment Committee, and implemented by the CIO and ESG team.	ESG is embedded in due diligence, ownership, stewardship, and exit decisions.	Dedicated ESG and Stewardship Team supported by asset-class teams and ESG-related training for key governance bodies.	Uses ESG data, research, collaborative networks, carbon footprint monitoring, and GRESB for property assets.
CPP Canada	Strong governance structure involving the Board, CEO, Chief Sustainability Officer, Investment Strategy and Risk Committee, and Sustainable Investing Committee.	ESG is integrated across the full investment lifecycle, from pre-investment analysis to post-investment monitoring and active ownership.	Strong sustainability function with a dedicated Sustainability Investing Group and extensive internal training programs.	Uses portfolio carbon data, ESG data initiatives, external manager data, and analytical tools to support investment decisions.
GIC Singapore	Board-level sustainability oversight supported by a Sustainability Committee and Sustainability Office.	ESG is aligned through the O-D-E framework: opportunity capture, risk protection, and enterprise excellence.	Sustainability Office and asset-class-focused teams support climate-related and transition investment strategies.	Uses climate scenario tools, generative AI, external ESG ratings, and sustainability data, although quantitative ESG disclosure remains limited.
EPF Malaysia	Sustainable investment governance is led by the Investment Panel, Management Investment Committee, and Sustainable Investment Centre.	ESG alignment is reflected in long-term targets, including an ESG-compliant portfolio by 2030 and climate-neutral portfolio by 2050.	Moderate capacity through the Sustainable Investment Centre and general training on governance, integrity, cybersecurity, and employee development.	Relies on investee disclosure, engagement, public information, and third-party ESG data providers; dedicated technology systems are not clearly disclosed.

Vol. 02 Year 2026, 1563 – 1571
ISSN: 3109-3337

Caisse des Dépôts/ CDC France	Very strong governance involving the Supervisory Board, Executive Committee, CSR and Ethics Committee, and dedicated Sustainable Development Policy division.	ESG is systematically integrated into investment decisions, monitoring, exclusion policies, double materiality assessment, and SDG-based targets.	Strong ESG expertise supported by a dedicated division covering responsible investment, climate, biodiversity, taxonomy, and ESG reporting.	Uses ESG data platforms, MSCI, CDP, annual monitoring, ESG rating matrices, and SaaS-based data centralization for ESG reporting.
NPS Korea	Strong responsible investment framework supported by ESG integration guidelines, active ownership guidelines, and voting mechanisms.	ESG is integrated mainly into domestic equities and fixed income, with gradual expansion to global equities and fixed income.	ESG Strategy Team and Corporate Governance Teams support ESG implementation, although senior-level ESG expertise disclosure is limited.	Uses an internal ESG evaluation system, third-party ESG data, the NPS-FnGuide Responsible Investment Index, and an ESG Information Sharing Platform.

Source: Author's synthesis based on publicly

Overall, CPP Investments and Caisse des Dépôts (CDC France) demonstrate the highest level of ESG integration maturity among the peer institutions. Their maturity is reflected in well-defined governance structures, systematic ESG integration across investment strategies, dedicated sustainability teams, structured internal training, the use of ESG data providers, portfolio-level performance metrics, and formal monitoring mechanisms. This indicates that ESG implementation in both institutions has moved beyond policy commitment and has been embedded into organizational processes, investment decision-making, and performance oversight.

AustralianSuper also reflects a mature ESG governance model, particularly through its ESG and Stewardship Policy, the involvement of ESG considerations in due diligence processes, and portfolio carbon monitoring. However, the available disclosure suggests that its dedicated technology infrastructure for ESG integration remains less clearly articulated compared with more advanced peers.

GIC Singapore stands out for its strategic and system-oriented approach, particularly through the use of climate scenario tools and emerging technologies such as generative AI to support investment analysis. Nevertheless, its quantitative ESG disclosure remains relatively limited compared with CPP Investments and CDC France. EPF Malaysia shows strong policy direction through its ESG-compliant portfolio target by 2030 and climate-neutral portfolio target by 2050, but further development is needed in ESG risk methodology, technology enablement, and transparency regarding team capacity. Meanwhile, NPS Korea demonstrates strength in ESG evaluation systems and information platforms, although greater disclosure on human capital capacity and senior-level ESG training would further strengthen its institutional readiness.

To reinforce the human capital argument, the benchmarking evidence from CPP Investments and CDC France may be emphasized. CPP Investments provides a strong example of ESG governance institutionalization through the presence of a Chief Sustainability Officer, a Sustainable Investing Committee under the Investment Strategy and Risk Committee, and a dedicated Sustainability

Investing Group consisting of 25 professionals. CDC France offers a strong capacity-building benchmark, as its public sustainability indicators report that 95% of staff within financial entities were trained on ESG issues in 2022. These examples provide empirical support that ESG integration requires not only formal governance and policy frameworks, but also structured investment in human capital, technical expertise, and continuous learning systems.

CONCLUSION

This study set out to examine the implementation of Environmental, Social, and Governance (ESG) principles within BPJS Ketenagakerjaan by shifting the analytical focus from compliance to institutional readiness. The findings reveal that ESG adoption within the organization is still at an early stage and has not yet reached full institutionalization.

A key conclusion of this study is that ESG challenges are not primarily driven by external regulatory limitations, but by internal structural constraints. The absence of a formal governance structure, combined with weak organizational alignment and limited internal capacity, prevents ESG from being effectively integrated into core institutional processes.

Although sustainability has been recognized at the strategic level, this recognition has not been translated into measurable targets, operational frameworks, or decision-making systems. As a result, ESG remains largely symbolic and compliance-driven, rather than strategic and transformative.

The study also highlights the importance of internal capacity in enabling ESG implementation. Without adequate human resources, data systems, and risk management integration, ESG cannot be effectively operationalized. This underscores the need for institutions to invest in capability development as part of their ESG strategy.

From a broader perspective, this research contributes to the growing body of ESG literature by emphasizing the role of institutional readiness. It demonstrates that successful ESG implementation depends not only on external frameworks and regulations, but also on the internal ability of organizations to align governance, strategy, and capability.

In conclusion, ESG should not be viewed merely as a compliance requirement, but as a process of institutional transformation. For BPJS Ketenagakerjaan, this transformation requires a shift from fragmented and reactive practices toward a more structured, governance-driven, and capability-based approach. Strengthening governance structures, aligning organizational strategy, and developing internal capacity will be essential steps toward achieving meaningful and sustainable ESG integration.

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Vol. 02 Year 2026, 1563 – 1571
ISSN: 3109-3337

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