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# COMPARATIVE ANALYSIS OF ESG PRACTICES AND FINANCIAL PERFORMANCE IN PUBLIC AND PRIVATE BANKS IN INDONESIA

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***Abstract:*** *This study examines the implementation of Environmental, Social, and Governance (ESG) practices and their relationship with financial performance in public and private banks in Indonesia. As stakeholder expectations regarding sustainability and corporate responsibility increase, ESG has become an important consideration in the banking sector. A qualitative descriptive approach was employed using secondary data from annual reports and sustainability reports published between 2021 and 2023. The study focuses on four major Indonesian banks: Bank Mandiri, Bank Rakyat Indonesia, Bank Central Asia, and Bank CIMB Niaga. Data were analyzed through content and comparative analysis. The findings show that both public and private banks actively implement ESG practices, although with different priorities. Public banks emphasize sustainable financing, financial inclusion, and community development, while private banks focus on operational efficiency, digital transformation, and customer-oriented strategies. ESG implementation is associated with stable financial performance, stronger stakeholder trust, and improved corporate reputation. The study concludes that ESG integration supports long-term sustainability and competitiveness in the Indonesian banking sector.*

***Keywords:*** *ESG, financial performance, sustainability, banking sector, corporate governance.*

## INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) practices have become increasingly important in the global financial sector. Investors, regulators, and other stakeholders are no longer concerned solely with financial profitability but also with how organizations address environmental sustainability, social responsibility, and corporate governance. As a result, ESG has emerged as a strategic framework for enhancing long-term business sustainability and reducing organizational risk.

The banking sector plays a significant role in supporting sustainable economic development because banks act as financial intermediaries that allocate capital across various industries. Through lending activities, investment decisions, and financial services, banks have the ability to influence environmental and social outcomes. Consequently, the integration of ESG principles into banking operations has become an important issue for both regulators and stakeholders. In Indonesia, the Financial Services Authority (OJK) has encouraged financial institutions to strengthen sustainable finance practices through sustainability reporting and ESG-related initiatives.



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Previous studies have generally reported a positive relationship between ESG implementation and financial performance. Eccles, Ioannou, and Serafeim (2014) found that companies with strong sustainability practices tend to achieve superior long-term performance. Similarly, Friede, Busch, and Bassen (2015) concluded that ESG factors are positively associated with financial performance in most empirical studies. In the banking sector, sustainable business practices have also been linked to improved risk management, stakeholder trust, and corporate reputation.

Despite the growing body of literature, most studies focus on quantitative analysis and primarily examine the statistical relationship between ESG indicators and financial performance. Limited research has explored how ESG practices are implemented in different organizational contexts, particularly in the Indonesian banking industry. Furthermore, comparative studies between public and private banks remain relatively scarce, even though differences in ownership structure may influence ESG priorities, implementation strategies, and business objectives.

Public banks, such as Bank Mandiri and Bank Rakyat Indonesia, are expected to support national development programs, financial inclusion, and sustainable economic growth. In contrast, private banks, such as Bank Central Asia and Bank CIMB Niaga, tend to emphasize operational efficiency, innovation, and customer-oriented strategies. These differences may result in distinct approaches to ESG implementation while still contributing to financial performance.

Therefore, this study aims to analyze and compare ESG implementation in public and private banks in Indonesia and examine its relationship with financial performance during the 2021–2023 period. By focusing on Bank Mandiri, Bank Rakyat Indonesia, Bank Central Asia, and Bank CIMB Niaga, this research contributes to the literature by providing a qualitative perspective on how different banking institutions integrate ESG practices into their business strategies. The findings are expected to enhance understanding of ESG implementation in the Indonesian banking sector and provide insights into its role in supporting sustainable financial performance.

## LITERATURE REVIEW

### Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) is a framework used to evaluate a company's sustainability and ethical performance. According to the Organisation for



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Economic Co-operation and Development (OECD, 2020), ESG refers to environmental responsibility, social impact, and governance practices that influence an organization's long-term sustainability. ESG has become increasingly important because stakeholders expect companies not only to generate profits but also to operate responsibly and sustainably.

The environmental dimension focuses on issues such as climate change, resource management, and environmental protection. The social dimension concerns relationships with employees, customers, and communities. Meanwhile, the governance dimension emphasizes transparency, accountability, ethical leadership, and effective risk management. The integration of these three dimensions is expected to support sustainable business performance and enhance stakeholder trust.

**Stakeholder Theory**

Stakeholder Theory was introduced by Freeman (1984), who argued that organizations should consider the interests of all stakeholders rather than focusing solely on shareholders. Stakeholders include employees, customers, investors, governments, communities, and other parties affected by organizational activities. According to Donaldson and Preston (1995), companies that effectively address stakeholder interests are more likely to achieve long-term success and sustainability. In the context of ESG, Stakeholder Theory explains why organizations adopt environmental, social, and governance practices to meet stakeholder expectations and maintain legitimacy. Therefore, ESG implementation can be viewed as a strategic effort to strengthen stakeholder relationships and support sustainable business performance.

**Financial Performance**

Financial performance reflects an organization's ability to utilize its resources efficiently to generate profits and create value. According to Brigham and Houston (2019, p. 45), the primary objective of financial management is to maximize firm value while maintaining sustainable growth. Financial performance is commonly measured using indicators such as profitability, Return on Assets (ROA), Return on Equity (ROE), and net profit. Kieso, Weygandt, and Warfield (2018, p. 12) state that strong financial performance indicates effective management of company resources and operations. In the banking sector, financial performance is particularly important because it reflects operational efficiency, profitability, and the institution’s ability to maintain public confidence.



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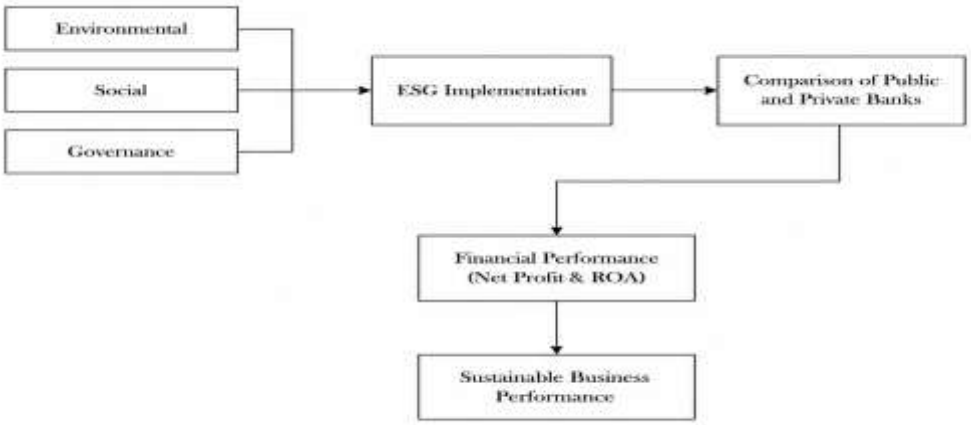
**ESG and Financial Performance in the Banking Sector**

Previous studies have reported a positive relationship between ESG implementation and financial performance. Eccles, Ioannou, and Serafeim (2014) found that companies with strong sustainability practices tend to outperform those with weaker sustainability performance over the long term. Similarly, Friede, Busch, and Bassen (2015) concluded that ESG factors are positively associated with financial performance in most empirical studies.

In the banking sector, ESG implementation contributes to improved risk management, stakeholder trust, and corporate reputation. Weber (2017) stated that sustainable banking practices support long-term financial stability, while Scholtens (2009) emphasized that ESG adoption can strengthen a bank's competitive position and reputation.

Although previous studies provide evidence regarding the relationship between ESG and financial performance, most research employs quantitative methods. Limited studies have qualitatively compared ESG implementation between public and private banks in Indonesia. Therefore, this study seeks to fill this gap by analyzing how ESG practices are implemented and how they relate to financial performance in selected Indonesian banks.

**Image 1. Conceptual Framework**




**RESEARCH METHODOLOGY**

This study employs a qualitative descriptive research design to analyze the implementation of Environmental, Social, and Governance (ESG) practices and their relationship with financial performance in the Indonesian banking sector. A qualitative approach was selected because the study aims to understand and interpret ESG implementation strategies rather than examine statistical relationships between variables.



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The research focuses on four major banks in Indonesia, consisting of two public banks, Bank Mandiri and Bank Rakyat Indonesia (BRI), and two private banks, Bank Central Asia (BCA) and Bank CIMB Niaga. These banks were selected because they are among the largest banking institutions in Indonesia and consistently publish annual reports and sustainability reports containing ESG-related information. The research problem was identified through a review of previous studies, which revealed that most ESG studies in the banking sector use quantitative methods and provide limited discussion regarding differences in ESG implementation between public and private banks. This gap led to the formulation of the research question concerning how ESG practices are implemented and how they relate to financial performance in different banking ownership structures.

This study utilizes secondary data obtained from annual reports, sustainability reports, financial statements, and other official publications issued by the selected banks during the 2021–2023 period. The collected data include information related to environmental initiatives, social responsibility programs, governance practices, net profit, and Return on Assets (ROA). Data were collected using the documentation method. Relevant information from the published reports was identified, categorized, and organized according to the Environmental, Social, and Governance dimensions. Financial performance data were also compiled to support the comparative analysis.

The data were analyzed using content analysis and comparative analysis techniques. Content analysis was employed to examine ESG disclosures and identify key themes within each ESG dimension. Comparative analysis was then conducted to compare ESG implementation and financial performance between public and private banks. Through these methods, the study provides a comprehensive understanding of ESG practices and their contribution to sustainable financial performance in the Indonesian banking sector.

## RESULTS AND DISCUSSION

### ESG Implementation in Public and Private Banks

The analysis of annual reports and sustainability reports published by the selected banks during the 2021–2023 period indicates that both public and private banks have actively integrated Environmental, Social, and Governance (ESG) principles into their business strategies. ESG implementation has become an important component of banking operations as financial institutions increasingly respond to regulatory requirements, stakeholder expectations, and global sustainability initiatives. Although all four banks demonstrate a



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commitment to ESG, differences are evident in the way ESG priorities are incorporated into their strategic objectives.

Public banks, represented by Bank Mandiri and Bank Rakyat Indonesia (BRI), primarily emphasize sustainable financing, financial inclusion, and community development. These initiatives are consistent with their role as state-owned enterprises that support national economic development and government sustainability programs. ESG implementation in public banks extends beyond profitability by promoting inclusive financial services, supporting environmentally responsible investments, and contributing to broader social welfare.

Conversely, private banks, represented by Bank Central Asia (BCA) and Bank CIMB Niaga, integrate ESG into strategies that emphasize operational efficiency, digital transformation, innovation, and customer-oriented services. Their sustainability initiatives focus on improving operational effectiveness, enhancing customer experience, strengthening corporate governance, and increasing organizational competitiveness. The growing adoption of digital banking services also contributes to environmental sustainability by reducing paper usage and improving resource efficiency.

The differences in ESG priorities between public and private banks are summarized in Table 1.

Table 1. Comparison of ESG Implementation Between Public and Private Banks

| ESG Aspect | Public Banks | Private Banks |
|---|---|---|
| **Environmental** | Sustainable financing, green lending initiatives | Energy efficiency, digital banking, paperless operations |
| **Social** | Financial inclusion, MSME support, community development | Customer satisfaction, employee development, digital services |
| **Governance** | Regulatory compliance, transparency, public accountability | Corporate governance, innovation, operational efficiency |



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| | | |
|---|---|---|
| **Strategic Focus** | National development and social impact | Business competitiveness and operational excellence |

**Source:** Compiled from the Annual Reports and Sustainability Reports of Bank Mandiri, BRI, BCA, and CIMB Niaga (2021–2023).

As presented in Table 1, both public and private banks have successfully integrated ESG principles into their business operations, although their strategic priorities differ. Public banks emphasize ESG initiatives that generate broader economic and social benefits through sustainable financing and financial inclusion. In contrast, private banks prioritize initiatives that strengthen operational performance, digital innovation, and customer satisfaction to enhance long-term competitiveness.

These findings suggest that ownership structure plays an important role in shaping ESG implementation strategies. Rather than adopting identical sustainability practices, each group of banks aligns ESG initiatives with its organizational objectives and stakeholder expectations. This indicates that effective ESG implementation is not determined by a single standardized model but by how sustainability principles are strategically integrated into business operations.

The observed differences in ESG implementation provide the basis for examining whether these varying strategies are accompanied by differences in financial performance. Therefore, the following section compares the financial performance of public and private banks using Net Profit and Return on Assets (ROA) during the 2021–2023 observation period.

**Financial Performance of Public and Private Banks**

To examine the relationship between ESG implementation and financial performance, this study analyzes net profit and Return on Assets (ROA) from 2021–2023.

**Table 1. Net Profit Comparison of Selected Banks (Trillion Rupiah)**

| Bank | 2021 | 2022 | 2023 |
|---|---|---|---|
| **Bank Mandiri** | 28.1 | 41.2 | 55.1 |
| **Bank Rakyat Indonesia** | 32.4 | 51.4 | 60.4 |



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| | | | |
|---|---|---|---|
| **Bank Central Asia** | 31.4 | 40.7 | 48.6 |
| **Bank CIMB Niaga** | 4.3 | 5.0 | 6.5 |

Table 1 shows a consistent increase in net profit across all selected banks during the observation period. BRI recorded the highest net profit in 2023, while CIMB Niaga showed steady growth despite operating on a smaller scale. The results indicate that both public and private banks maintained strong profitability while implementing ESG initiatives

**Discussion: ESG and Financial Performance**

The findings indicate that both public and private banks have integrated Environmental, Social, and Governance (ESG) principles into their business strategies, although they differ in their implementation priorities. Public banks, such as Bank Mandiri and Bank Rakyat Indonesia (BRI), place greater emphasis on sustainable financing, financial inclusion, and community development. This orientation reflects their strategic role as state-owned enterprises that support government policies, promote inclusive economic growth, and contribute to national sustainable development objectives. Through ESG initiatives, public banks not only strengthen their social responsibility but also enhance public trust and expand access to financial services for underserved communities. In contrast, private banks, represented by Bank Central Asia (BCA) and Bank CIMB Niaga, primarily utilize ESG as a means of improving operational efficiency, digital transformation, innovation, and customer satisfaction. Their ESG strategies are closely integrated with business competitiveness, focusing on optimizing internal processes, improving service quality, and enhancing the customer experience. The increasing adoption of digital banking services also supports environmental sustainability by reducing paper consumption and improving resource efficiency. These findings suggest that ownership structure influences how ESG is incorporated into corporate strategy, with public banks emphasizing broader socio-economic impacts and private banks prioritizing operational excellence and market competitiveness.

Despite these strategic differences, the analysis demonstrates that both groups of banks maintained stable financial performance during the 2021–2023 observation period, as reflected by consistent growth in Net Profit and Return on Assets (ROA). This finding indicates that effective ESG implementation is not limited to a single organizational model. Instead, organizations can achieve favorable financial outcomes through different ESG approaches, provided that sustainability initiatives are aligned with their institutional



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objectives, governance structures, and stakeholder expectations. Therefore, the effectiveness of ESG should be assessed based on its strategic integration into business operations rather than the adoption of uniform sustainability practices.

These findings support Stakeholder Theory proposed by Freeman (1984), which argues that organizations create long-term value by addressing the interests of multiple stakeholder groups rather than focusing exclusively on shareholders. ESG implementation enables banks to strengthen relationships with customers, investors, employees, regulators, governments, and local communities while simultaneously improving transparency, accountability, and organizational legitimacy. As stakeholder confidence increases, banks are more likely to maintain customer loyalty, attract investment, reduce reputational risks, and strengthen their competitive position within the financial industry. Consequently, ESG functions not only as a corporate responsibility initiative but also as an important strategic mechanism for sustaining long-term organizational performance.

The results are also consistent with previous empirical studies. Eccles, Ioannou, and Serafeim (2014) reported that organizations with strong sustainability practices generally outperform those with weaker sustainability performance over the long term. Similarly, Friede, Busch, and Bassen (2015), through a comprehensive meta-analysis, concluded that ESG performance is positively associated with financial performance across a wide range of industries. Within the banking sector, Weber (2017) emphasized that sustainable banking practices strengthen risk management, while Scholtens (2009) highlighted the importance of ESG in enhancing corporate reputation and financial stability. The findings of this study reinforce these conclusions by demonstrating that ESG contributes to sustainable financial performance in both public and private banking institutions.

However, this study also provides an additional perspective that extends previous research. Rather than identifying a single best approach to ESG implementation, the findings demonstrate that different ownership structures lead to different ESG priorities while producing similarly positive organizational outcomes. Public banks tend to emphasize social and developmental objectives through sustainable financing and financial inclusion, whereas private banks concentrate on operational efficiency, digital innovation, and customer-oriented services. This suggests that successful ESG implementation depends less on ownership type and more on how sustainability initiatives are strategically aligned with organizational missions, stakeholder needs, and long-term business objectives. Overall, the findings indicate that ESG should no longer be viewed solely as a regulatory obligation or corporate social



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responsibility program. Instead, ESG represents a strategic business investment capable of strengthening corporate resilience, improving financial performance, enhancing stakeholder confidence, and supporting long-term competitiveness. As sustainability expectations continue to evolve, banks that effectively integrate ESG into their governance structures and operational strategies will be better positioned to manage emerging risks, create sustainable value, and maintain competitive advantages within the Indonesian banking sector.

## CONCLUSION

This study examined the implementation of Environmental, Social, and Governance (ESG) practices and their relationship with financial performance in public and private banks in Indonesia during the 2021–2023 period. The analysis focused on four major banks: Bank Mandiri, Bank Rakyat Indonesia (BRI), Bank Central Asia (BCA), and Bank CIMB Niaga.

The findings indicate that both public and private banks have actively integrated ESG principles into their business strategies, although they emphasize different priorities. Public banks focus on sustainable financing, financial inclusion, and community development, while private banks emphasize operational efficiency, digital transformation, and customer-oriented services. These differences reflect variations in ownership structure and organizational objectives.

The study also found that ESG implementation is associated with stable financial performance, as reflected in the consistent growth of net profit and Return on Assets (ROA) during the observation period. ESG practices contribute to improved stakeholder trust, stronger risk management, operational efficiency, and enhanced corporate reputation, which support long-term business sustainability. This research contributes to the literature by providing a qualitative comparison of ESG implementation between public and private banks in Indonesia. The findings suggest that there is no single model of ESG implementation that guarantees financial success. Instead, ESG effectiveness depends on how well sustainability initiatives are aligned with organizational goals and stakeholder expectations.

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