

The Challenge and Opportunity of Practice and Disclosure Sustainability in Central Java SMEs



Stefani Fierzca Dewi^{1*}, Theresia Dwi Hastuti²

^{1,2}Universitas Katolik Soegijapranata

¹stefanidewi@unika.ac.id, ²theresia@unika.ac.id

*Corresponding author

ARTIKEL INFO

Submitted:
March 06, 2024

Revision:
March 07, 2024

Accepted:
March 21, 2024

Keywords:

*Challenge and opportunity,
practice and disclosure,
sustainability, SEDG, SMEs*

ABSTRACT

Sustainability practices and disclosures for business organizations with large capacities can have a positive impact on the company's image and increase company profits. In contrast to SMEs with limited business capacity such as Batik SMEs in Central Java, Indonesia, they have less awareness of sustainable practices and disclosures. SMEs as business actors also have an impact on their business activities on Environmental, Social and Governance (ESG). This research aims to analyze how ESG challenges and opportunities are practices and disclosures by Batik Bayat SMEs and Batik Lasem SMEs to describe the journey of SMEs towards sustainable development. The analysis was carried out using the Simplified ESG Disclosure Guide (SEDG) for SMEs. This research uses a qualitative approach with in-depth investigation methods. The findings of this research are that there are many opportunities and challenges for Batik Lasem SMEs and Batik Bayat SMEs in sustainability practices and disclosure. The results indicate that ESG practises are dearth in Batik SMEs in Central Java, Indonesia, especially in the context of environmental and social disclosures.

1. INTRODUCTION

Companies in the current era of globalization and technological progress no longer only look at the sustainability aspect from the perspective of improving the company's

economy, but must also look at the environmental and social aspects. Companies around the world are noted to be shifting from short-term goals of maximizing profits to achieving long-term sustainable environmental, social and governance (ESG) goals (Zhao et al., 2018). This is because companies are aware that the negative impact on ecological integrity, social justice and economic stability is influenced by the company's own greedy behavior (Laine et al., 2021; Lako, 2018). Lako (2018) further stated that when the series of impacts that companies have on the environment, social and economy becomes clear, companies are increasingly being asked to be responsible for the impacts of using environmental and social resources. The company's responsibility takes the form of continuous disclosure which is not only related to the environment, but also economic and social. This is because companies that are committed to ESG disclosure can overcome possible obstacles and attract investment now and in future to strengthen the basic pillars of the business and increase market share and profit growth and owner's equity value (Chen et al., 2023; Lako, 2018).

Increasing ESG disclosure is not only carried out by companies that have large capacity, but also companies that have limited capacity such as SMEs. SMEs as business actors also have an impact on their business activities, one of which has an impact on social and environmental impacts. According to Auemsuvarn (2019) and Putri et al (2023), if SMEs cannot ensure that the environment is protected from damage, this will have an impact on disrupting the SME economy itself which will ultimately have an impact on the country's economy. SMEs can have a sustainable competitive advantage by having unique characteristics and continuing to adapt to current developments (Nugroho et al., 2023; Auemsuvarn, 2019). SMEs must also be able to adapt to developments in the current business world which are increasingly rapid, which is applied ESG with caring about the environment and social issues for have an impact on increasing profits.

Business actors such as SMEs also increasingly need to pay serious attention to the social community and environment in which they operate (Lilis et al., 2022). In line with Arena & Azzone, 2012 said, SMEs, just like large companies, can exert great pressure on the environment and society, through the combined impact of many small activities. In today's business environment, the success and survival of micro, small and medium enterprises (SMEs) depends on how they influence the natural environment and society for economic gain (Singh Manvendra Pratap Singh & Roy Mousumi, 2019). However, in

reality, currently its implementation is still limited to large companies, because for MSMEs, implementing ESG is considered quite complicated and expensive (Steinhofel et al., 2019). Based on this, Martins et al (2022), further stated that more in-depth research is urgent regarding the ESG agenda for SMEs, because a good ESG rating will strengthen the company's position (Tan & Zhu, 2022).

SMEs as business actors in carrying out their business activities also have a direct impact on the environment and one of them is Batik SMEs. Batik SMEs continues to grow, especially those in Central Java Province such as Bayat Batik SMEs and Batik Lasem SMEs. Batik SMEs such as Batik Bayat SMEs and Batik Lasem SMEs have the potential for a large environmental impact through waste such as gas waste from heating fumes, liquid waste containing chemical dyes and solid waste originating from wax waste. This is in line with what was stated by Kurniawan et al (2014), that the batik industry causes impacts in the form of organic liquid waste with large volumes, thick colors, strong odors and has temperature, acidity (pH), Biochemical Oxygen Demand (BOD), high Chemical Oxygen Demand (COD), Total Suspended Solid (TSS). Apart from environmental impacts, the importance of sustainability practices and disclosures by Batik Bayat SMEs and Batik Lasem SMEs is because these two batik SMEs have exported overseas and should be able to manage sustainability practices and disclosures. Therefore, issues related to sustainability practices and disclosures in the Batik industry are important. According to Martins et al (2022) even though SMEs are economic drivers and play an important role in managing global social and environmental resources, SMEs tend to have limited capacity.

Based on the background and presentation of several findings and facts above, researchers are interested in finding out how sustainability practices and disclosures in Batik SMEs, especially Batik Bayat SMEs and Batik Lasem SMEs support sustainability. This research aims to analyze how ESG challenges and opportunities are practiced and expressed by Batik Bayat SMEs and Batik Lasem SMEs to describe the journey of SMEs towards sustainable development. The analysis was carried out using the Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chains to see to what extent the indicators related to practices and disclosures that Batik Bayat SMEs and Batik Lasem SMEs have implemented unconsciously in their business, as well as how much environmental and social impact is produced by Batik Bayat SMEs and Batik Lasem SMEs.

2. LITERATURE REVIEW AND HYPOTHESIS

Stakeholders theory

Stakeholders theory according to Freeman states that the true success of a company lies in the satisfaction of all its stakeholders, not just shareholders. Stakeholders include individuals or groups who benefit or are harmed by the company's actions (Freeman, 1994). Herold (2018) further stated that stakeholders are those who have a stock in an organization and have something at risk, and they usually include internal stakeholders as well as external stakeholders (shareholders, suppliers, customers, non-profit organizations). Government, business associations or government authorities. Stakeholders claim the right to intervene in business, this is reflected in their expectations of the company. Therefore, companies must pursue two goals, the first is to generate income, and the second is to maintain good relations with the environment and stakeholders on which it depends (Galant, 2017).

Stakeholder theory is relevant to companies that seek to help protect the environment, seek to improve social welfare and community relations, and often embrace governance practices that maximize value (Peng & Isa, 2020). Peng & Isa (2020) further stated that satisfied and happy employees will be more motivated in their work; satisfied customers will foster loyalty, satisfied suppliers will provide discounts, and so on, which in turn will improve the company's reputation, and lead to better financial performance and sustainability.

Based on stakeholder theory, it can be concluded that company policies to take the initiative to implement ESG can protect profits and increase shareholder value. Because when a company contributes to compensation for environmental and social losses caused by its economic activities, and the better the company is at managing relationships with all stakeholders, the more successful the company will be over time (Peng & Isa, 2020; Herold, 2018; Galant, 2017; Freeman, 1994).

Batik Bayat SMEs and Batik Lasem SMEs

According to Law Number 20 of 2008, it is stated that SMEs is an independent productive business, developed by either individuals or business entities. This business is not a subsidiary or branch of a company, either directly or indirectly. Micro Business criteria include maximum assets of 50 million rupiah and turnover of 300 million rupiah.

The Challenge and Opportunity of Practice and Disclosure Sustainability in Central Java SMEs

In line with what was stated by Francesco Perrini et al (2007) and Martins et al (2022) that SMEs have special characteristics that differentiate them from larger SMEs, where SMEs tend to be managed by owners and are personalized, independent, and carry out many tasks, limited to cash, based on personal relationships and informality, clustered within local production systems, closely connected to local communities, and have limited access to financial resources. As business actors, SMEs also need to pay serious attention to the community, social and environment in which they operate (Lilis et al., 2022). However, according to Das et al (2020) that the use of sustainability management tools and frameworks is still poorly practiced and disclosed in most SMEs, considering that these tools and frameworks are basically designed for large companies and do not meet the specific needs of SMEs. Likewise, Batik Bayat SMEs and Batik Lasem SMEs still do not fully implement sustainability, so it is a challenge and opportunity for them to implement ESG practices and disclosures.

Batik Bayat SMEs is one of the icons in the field of batik crafts in Bayat District, Klaten Regency, Central Java Province. The typical pattern of Batik Bayat is sogen brown and the earth is ukel and grinsing which are combined. Meanwhile, the motifs are taken from classic Solo Batik motifs such as sido motifs, cement motifs and others, where the dyes used also use natural dyes. Batik Bayat crafts have been marketed not only in Klaten Regency but also outside the city and even abroad such as Malaysia, Thailand and India.

Batik Lasem SMEs is a SMEs that operates in the field of batik crafts located in Lasem District, Rembang Regency, Central Java. One of the superior products from Batik Lasem is hand-written batik made from natural dyes. Lasem hand-written batik has a special pattern with a red chicken blood color which is said to be very difficult for batik makers from any region to imitate. The uniqueness of Batik Lasem also lies in its motif which is a combination of Chinese cultural influences, local culture of the northern coastal communities of Central Java and the culture of the Solo and Yogyakarta palaces.

Practice and Disclosure SEDG for SMEs

Simplified ESG Disclosure Guide or SEDG is a guide that helps SMEs prepare to disclose Environmental, Social and Governance (ESG) data to their stakeholders in line

with international standards. The aim of SEDG is to provide an overview for SMEs as data creators to be able to provide simple and standardized disclosures so that they can be tracked and reported to stakeholders (Capital Markets Malaysia & Securities Commission Malaysia, 2023). SEDG disclosure consists of 3 pillars and 15 topics. Pillar 1 is the Environment which consists of topics Emissions, Energy, Water, Waste and Materials. Pillar 2 is the Social which consists of the topics Human Rights and Labour Standards, Employee Management, Diversity, Equity and Inclusion, Occupational Health and Safety, and Community Engagement. Pillar 3 is the Governance which consists of topics Governance Structure, Policy Commitments, Risk Management and Reporting, Anti-Corruption and Customer Privacy.

As time passes, natural resources become increasingly depleted, and environmental changes occur more rapidly; as a result, international legal bodies and most developed countries continually raise questions regarding sustainability. In the last decade, sustainability disclosure has attracted the interest of many international organizations seeking to realize a sustainable green economy (Ellili, 2022). Furthermore, Herold (2018) said that more and more companies are disclosing information related to sustainability because it is a response to global challenges and climate change. ESG disclosure increases transparency, reduces information asymmetry and increases investment efficiency, especially for companies that provide products and not services, their ESG disclosure reflects their social innovation (Ellili, 2022; Shen, 2023).

SEDG used as assess ESG disclosure because it covers indicators that can be tracked and disclosed to measure ESG progress (Capital Markets Malaysia & Securities Commission Malaysia, 2023). Furthermore, the standards and frameworks referenced include Bursa Malaysia's Listing Requirements and Sustainability Reporting Guide, FTSE4Good, GRI IFRS S1 and S2, TCFD and CDP. Specifically, the target users of SEDG are SMEs that are compelled to track and report on ESG data – usually because they want to, they are being asked to, or they want to qualify for incentives. It was concluded that the Simplified ESG Disclosure Guide (SEDG) for SMEs is appropriate to use as a disclosure guide for SMEs, especially Batik Bayat SMEs and Batik Lasem SMEs where both SMEs are companies that provide products, not services. Batik Bayat SMEs and Batik Lasem SMEs as companies with limited resources will find it difficult

and a challenge to be able to carry out overall ESG practices and disclosure, but they can do something simple by disclosing ESG on social media, where this is also an opportunity promotion for Batik Bayat SMEs and Batik Lasem SMEs.

3. RESEARCH METHOD

This research uses a qualitative approach with phenomenological analysis, which is an approach to qualitative data analysis that aims to understand individuals' subjective experiences in dealing with certain phenomena or events. An in-depth analysis was carried out regarding environmentally friendly industrial management practices and sustainable reporting. Qualitative research is research where the type of data used is generally text, writing, phrases, groups of words or sentences that clarify events or happenings. The analysis was carried out using the Simplified ESG Disclosure Guide (SEDG) for SMEs in Supply Chains to see to what extent the indicators related to practices and disclosures that UKM Batik Bayat and UKM Batik Lasem have implemented unconsciously in their business, as well as how big the environmental and social impacts are. produced by UKM Batik Bayat and UKM Batik Lasem.

Data collection was carried out in November 2023 using several qualitative data collection techniques, namely, 1) interviews, 2) observations, and 3) documentation studies. The process of analyzing and interpreting data in this research was carried out by coding, reducing data, presenting data and drawing conclusions. Moleong (2013) states that qualitative research methodology is research that produces descriptive data, either in the form of spoken or written words from people or observed behavior. Participants in this research were 6 SME owners, namely 3 Batik Lasem SMEs owners and 3 Bayat Batik SMEs. The cities of Lasem and Bayat were chosen because their batik industry shows uniqueness in making batik with very distinctive hand-written batik models by the local wisdom of each region. Apart from that, there are also differences between the two, where Lasem batik still uses chemical dyes, while Bayat batik uses natural dyes.

4. RESULTS AND DISCUSSIONS

This research analyzes Batik Bayat SMEs and Batik Lasem SMEs in Central Java using the Simplified ESG Disclosure Guide (ESDG) for SMEs in Supply Chains as a

guide. The interview results show the real implementation and management of the Environment, Social and Governance (ESG) concept. IFAC as the world's leading accounting body recommends actions by companies and asset owners to improve reporting on the Sustainable Development Goals (SDGs) as an effort to achieve the goals. This strongly supports the national goals set by the Indonesian government, by 2030. These recommendations are detailed in the report, Disclosure of Sustainable Development Goals (SDGD).

The SDGD recommendations offer a new approach for businesses and other organizations to address sustainable development issues that aligns with three of the most influential and popular reporting frameworks. They seek to establish best practices for corporate reporting on the SDGs and enable more effective and standardized reporting and transparency on climate change, social and other environmental impacts. The Sustainable Development Goals (SDGs) are to demonstrate accountability for damage to environmental values and its governance as well as the negative impacts they cause. This is in line with Smith et al (2022), that the SDGs are a call to action for governments, companies and society to rebalance the relationship between the economy, environment and society. Therefore, companies must pursue two goals, the first is generating income, and the second is maintaining good relations with the environment and the stakeholders on which it depends (Galant, 2017). This is in line with the stakeholder theory according to Freeman which states that the true success of a company lies in the satisfaction of all its stakeholders, not just shareholders. In relation to achieving the SDGs, the role of SMEs can contribute to the 17 goals in the SDGs, as explained in the UNDESA – Report on MSMEs and the Sustainable Development Goals. However, what is most closely related is eradicating poverty (SDG 1) and ensuring livelihoods and economic growth (SDG 8) (UNDESA, 2019). Individual SMEs have the potential to adopt actions in their business practices to contribute to the goal. They can set and enforce strict policies and practices that do not discriminate against the poor. SMEs can also recruit, train, and employ local community members, including those living in poverty, and integrate them into the SME value chain.

This research describes in depth how Batik Bayat SMEs and Batik Lasem SMEs carry out activities relevant to environmental, social and governance implementation.

Batik Bayat itself is the name of a batik product typical of the Bayat area. Batik Bayat has its own distinctive batik motif compared to other batik industries. The motifs of the Batik Bayat include the parang liris, gajah birowo, baboon angram and mukti wirasat. This typical Batik Bayat motif is dominated by brown or soga coloring which is very identical to the coloring of Batik Surakarta. Batik Bayat has advantages both in terms of motifs and the creation of new creations and its natural colors (Putri & Sabardila, 2023).

Batik Bayat production is carried out using a home industry model. Batik has become a daily work and habit that can unite and support the Bayat community, especially Jarum village. Written batik made by hand requires a relatively long time so it can be classified as expensive (Putri & Sabardila, 2023). Several Bayat natural batik business owners have also penetrated the international market, there are several orders coming in from Japanese people.

Batik Lasem is very famous because of its characteristics as batik beautiful coastline with bold coloring, especially the red color. A special characteristic of Batik Lasem that you will not find in any other batik is its red color which is known as the color of abang getih pithik or the color of chicken blood. This color is made from noni root and jiruk root plus Lasem water which has a unique mineral content. This color cannot even be created in a laboratory. Apart from being beautiful, Batik is also strong. The more you wash it, the more the color comes out. The red color has been recognized as the best red color that cannot be imitated in other batik centers (Fitinline, 2013).

This batik from Lasem, Rembang Regency, is characterized by a combination of Javanese batik motifs and Chinese patterns, the result of cultural acculturation since the end of the 14th century AD when the fleet under the leadership of Admiral Cheng Ho stopped in the archipelago. In 2022, Batik Lasem makers received environmentally friendly textile training and tried to print motifs such as Peony, Lung-lungan and Ringgit Gunung on white viscose rayon fabric using natural indigofera dye. The result is high quality batik cloth with a sinuous motif in an elegant blue color. Various efforts have been made by both the government and the private sector so that traditional batik in this area plays an important role in the local economy, and encourages its growth (APR, 2022).

Environment Disclosures

Batik SMEs awareness in processing waste as an aspect of environmental protection. Table 1 is a summary of interviews with 6 participants regarding their business practices and efforts to maintain a healthy business environment. The results of interviews with batik owners show that Batik Bayat SMEs and Batik Lasem SMEs are still not aware of the importance of waste management, this can be seen from the use of batik dyes which still use chemical dyes and from interviews with them we found that Mr. Rudi, Mrs. Winarti and Mr. Samsul conveyed that in the industry They stated that there was some waste in their batik, namely:

1. Waste gas from heating smoke: Liquid waste contains acids, oils, detergents. Waste gas from heating fumes and wax vapor.
2. When dyeing there is liquid waste containing dye, Turkish solution Red Oil (TRO), diazo salts, caustic soda (NaOH), waste gas from heating fumes Solid waste in the form of wax impurities. Liquid waste contains starch and soda ash.

Table 1: Environmental Considerations in The Batik Business

ENVIRONMENTAL DISCLOSURES						PARTICIPANTS					
Code	Level	Topic	Topic Descriptions	Indicators	Units	RDL	WNL	SSL	SWB	TAB	DOB
ESDQ-01.1	Health	Chemical emissions	Chemical emissions	Total Scope 1 GHG emissions	Waste gas from heating fumes, liquid waste, cochineal ash, oils, detergents, waste gas from heating fumes and wax vapor						
ESDQ-01.2	Health	Chemical emissions	Chemical emissions	Total Scope 2 GHG emissions	Contains dyes, Turkish solution, Red Oil (TRO), diazo salts, caustic soda (NaOH), potassium waste gas from heating fumes (Solid waste in the form of wax impurities) liquid waste contains starch and soda ash						
ESDQ-02.1	Energy	Energy consumption	Renewable heat sources	Renewable heat sources	Waste from the batik making process is disposed off to its own garden only to its own area, and cannot be processed	Waste from the batik making process is disposed off to the garden track, but the drain flows into the surrounding environment	Waste from the batik making process is disposed off to the garden track, but the drain flows into the surrounding environment	The waste is in the form of leaves and wood as input of dye, which can be processed into fertilizer. Manure of domestic animals can be processed into fertilizer. Domestic green manure can be used as manure for rice and corn	The waste is in the form of leaves and wood as input of dye, which can be processed into fertilizer. Manure of domestic animals can be processed into fertilizer. Domestic green manure can be used as manure for rice and corn	The waste is in the form of leaves and wood as input of dye, which can be processed into fertilizer. Manure of domestic animals can be processed into fertilizer. Domestic green manure can be used as manure for rice and corn	The waste is in the form of leaves and wood as input of dye, which can be processed into fertilizer. Manure of domestic animals can be processed into fertilizer. Domestic green manure can be used as manure for rice and corn
ESDQ-03.1	Energy	Energy consumption	Wax emissions	Wax emissions	Wax emissions that cannot be recycled inside factory	The melted wax is used for the batik making process	Wax emissions that cannot be recycled inside factory	Wax emissions that cannot be recycled inside factory	Wax emissions that cannot be recycled inside factory	Wax emissions that cannot be recycled inside factory	Wax emissions that cannot be recycled inside factory
ESDQ-04.1	Energy	Energy consumption	Electricity	Electricity	Electricity is only used for lighting production locations and offices	Electricity is only used for lighting production locations and offices	Electricity is only used for lighting production locations and offices	Electricity is only used for lighting production locations and offices	Electricity is only used for lighting production locations and offices	Electricity is only used for lighting production locations and offices	Electricity is only used for lighting production locations and offices
ESDQ-05.1	Water	Water consumption	Purchased water	Water	They use water to wash the cloth, also to wash the dye and for the dye tray	They use water to wash the cloth, also to wash the dye and for the dye tray	They use water to wash the cloth, also to wash the dye and for the dye tray	They use water to wash the cloth, also to wash the dye and for the dye tray	They use water to wash the cloth, also to wash the dye and for the dye tray	They use water to wash the cloth, also to wash the dye and for the dye tray	They use water to wash the cloth, also to wash the dye and for the dye tray
ESDQ-06.1	Water	Water consumption	Surface water (if applicable)	Water	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs
ESDQ-07.1	Water	Water consumption	Waste water (if applicable)	Water	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs	They make waste water reservoir and channel them into these reservoirs
ESDQ-08.1	Material	Material	Material	Material	Waste dye, potassium, fabric	Waste dye, potassium, fabric	Waste dye, potassium, fabric	Waste dye, potassium, fabric	Waste dye, potassium, fabric	Waste dye, potassium, fabric	Waste dye, potassium, fabric

Source: processed data, 2024

In the production process, waste management is carried out in a very traditional way, the three of them differ in their waste handling processes. Mr. Rudi said that waste

is disposed of in its own ditch only in its own area, it cannot be processed. Mrs. Winarti and Mr. Samsul said that the waste was disposed of in the ditch itself, but the ditch flowed into the surrounding environment. Apart from that, from the waste produced there is also energy, which is non-renewable fuel, namely materials that cannot be replaced, including NaOH, Turkish solution. Red Oil (TRO), diazo salts, caustic soda (NaOH), starch and soda ash, plasticine Electricity is also used for activities in factories and offices, but it is only used for lighting production locations and offices.

In contrast to the Batik Lasem SMEs, based on the results of interviews, it is known that the Batik Bayat SMEs has taken concrete steps to reduce negative impacts on the environment. This is because the Batik Bayat SMEs are colored with natural dyes. The natural dyes used in the form of leaves and wood can be processed to make fertilizer for agriculture. However, some other waste is still not processed properly, such as Batik Lasem SMEs.

Social Disclosures

Table 2: Social Considerations in The Batik Business

SOCIAL DISCLOSURES						PARTICIPANT					
Code	Level	Topic	Topic Description	Indicators	Units	RDL	WNL	SSL	SWB	TNB	DOB
SEDG-S1.1	Basic	Human rights and	Child labour and forced	Number of child labour	number	0	0	0	0	0	0
SEDG-S1.1	Basic	Human rights and	Child labour and forced	Nature of child labour	description	0	0	0	0	0	0
SEDG-S1.1	Basic	Human rights and	Child labour and forced	Number of forced	number	0	0	0	0	0	0
SEDG-S1.1	Basic	Human rights and	Child labour and forced	Nature of forced	description	0	0	0	0	0	0
SEDG-S2.1	Basic	Employee managemen	Employee training	Average hours of	hours	48	96	32	48	24	16
SEDG-S3.1	Basic	Diversity, equity and	Company's employees	Percentage of	percent	95% women	80% women	90% women	80% women	80% women	90% women
SEDG-S3.1	Basic	Diversity, equity and	Company's employees	Percentage of	percent	majority > 50 years	majority > 50 years	majority > 50 years	between 35-50 years	between 35-50 years	between 35-50 years
SEDG-S4.1	Basic	Occupational health	Company's OHS	Number of fatalities	number	0	0	0	0	0	0
SEDG-S4.1	Basic	Occupational health	Company's OHS	Number of injuries	number	1 of 40 employees	3 of 80 employees	1 of 30 employees	1 of 35 employees	3 of 15 employees	1 of 10 employees
SEDG-S5.1	Basic	Community engagemen	Community investments	Total number of	MYR	20 million/year	30 million/year	5 million/year	15 million/year	5 million/year	1,5 million/year

Source: data processes, 2024

The implementation of sustainability by companies does not only focus on the environment but is also socially related. According to Ziolo et al., (2020), companies that state they are running a sustainable business model are more likely to carry out social and environmental activities than companies that state otherwise. Furthermore, Lako (2018) stated that the increasingly intensive implementation of Corporate Social

The Challenge and Opportunity of Practice and Disclosure Sustainability in Central Java SMEs

Environmental Responsibility (TJSLP) and CSR by companies can be used as an investment strategy now and in the future to strengthen the basic pillars of business and increase market share and profit growth and owner's equity value. Based on the results of interviews related to social disclosures with Batik Lasem SMEs, it is known that:

1. In the batik industry, Mr. RDL, Mrs. WNL and Mr. SSL do not employ children in the batik industry, so there are no work accidents related to children working in their batik. The involvement of children is only an introduction to their families about how to manage the batik business. This is done as a first step to prepare the family as heirs to the business, so that Lasem batik can continue to be sustainable.
2. Training given to employees to be able to carry out their duties in the batik industry, such as sketching, canting, blocking, coloring. The training in the batik business of Mr. RDL, Mr. SSL and Ms. WNL is generally the same. They provide training internally and externally. Internal training means training provided by the owner himself or by his senior employees, while external training is carried out by involving them in official training that develops batik, as well as training from various external agencies.
3. The number of employees varies. Mr. RDL has 40 employees, Mrs. WNL has 80 people and Mr. SSL has 30 people. Of the number of employees, Mr. RDL is 95% female, Ms. WNL 80% is female, and Mr. SSL is 90% female.
4. Most of their batik workers are 59 years old. This is a concern for the three of them regarding the scarcity of employees who can make batik. So, the regeneration process is carried out to ensure the sustainability of the business.
5. Based on the health needs of the employees, the production process is maintained in such a way. Apart from that, this industry also does not use many modern tools which pose a big risk of work accidents. The tools used include canting, plasticine stoves, steamers, tools for drying and bleaching, tubs for dyeing. In the traditional batik industry, work accidents that occur include being poured with hot water, being exposed to hot wax/plasticine, and forgetting to turn off the stove. From work experience, only around 2-3% of accidents occur. And the owner directly handles and cares for workers who experience work accidents.
6. Mrs. WNL's batik business is often used as a place for school children, for other

batik industries both from within and outside the region. Also received assignments from the government to attend various training courses run by the department. Mr. RDL's batik industry is also the same. Mr. RDL, as well as being a cooperative administrator, is often asked to be a speaker in several forums and in discussions about the development of Lasem batik. Several universities also use Mr. RDL's selected batik as research material. Pak Samsul's batik business is also often used by the government as a model. There is also a forum between batik makers, between provinces which is facilitated by Bank, which is part of its CSR, where the bank holds a meeting forum between inter-provincial batik makers. Mrs. WNL's batik business is a place for batik businesses from Bali to learn about Batik Lasem patterns.

As for the results of the interview with Batik Bayat, it is known that:

1. In the batik industry, Mr. SWB, Mrs. TNB and Mr. DDB do not employ children in the batik industry, so there are no work accidents related to children working in their batik. The involvement of children is only an introduction to their families about how to manage the batik business. This is done as an initial step to prepare the family as heirs to the business, so that Bayat natural batik can be sustainable.
2. Training given to employees to be able to carry out their duties in the batik industry, such as sketching, painting, blocking, coloring and for natural colored batik, namely mixing the natural dyes themselves. The training in the batik business of Mr. SWB, Mr. DDB and Ms. TNB is generally the same. They provide internal training, especially for new employees who have never done the job. According to the three of them, the ability to make batik is a talent inherited from their ancestors. Internal training emphasizes training in walling batik cloth that has been drawn and will be colored. Apart from that, there is also coloring practice, because in natural Batik Bayat, the natural dye is made and mixed by yourself from leaves and wood. External training is carried out by involving them in official training that develops batik, as well as training from various external agencies.
3. The number of employees varies. Mr. SWB has 48 employees, Mrs. TNB has

24 employees and Mr. DDB has 16 employees. Of the number of employees, Mr. SWB and Mrs. TNB, 80% are women, while Mr. DDB has a workforce of 90% women.

4. Most of their batik workers are between 35-50 years old. This is a concern for the three of them regarding the scarcity of employees who can make batik and efforts have been made to regenerate them. One way to carry out regeneration is by involving the owner's children in managing the business and placing them as employees. So, the regeneration process is carried out to ensure the sustainability of the business.
5. Based on the need for employee health, as a very important part of the batik business, it is hoped that batik business owners can guarantee the health of their employees. This industry also does not use many modern tools which pose a big risk of work accidents. The tools used include canting, plasticine stoves, steamers, tools for drying and bleaching, tubs for dyeing. In the traditional batik industry, work accidents that occur include being poured with hot water, being exposed to hot wax/plasticine, and forgetting to turn off the stove. From work experience, only around 1-2% of accidents occur. And the owner directly handles and cares for workers who experience work accidents.
6. Mr. SWB's batik business is often used as a place for school children, for other batik industries both from within and outside the region. Mr. SWB is also often invited by several organizations and universities to share his batik business experience.

Governance Disclosures

Hendro & Bowo Pranogyo (2023) state that companies that have initiatives towards good business management are the company's foundation for implementing ESG. Furthermore, Zhao et al (2018) stated that companies that implement ESG well will have an impact on improving the company's financial performance. The results of interviews with Batik Lasem SMEs show that the company's business governance structure is still very simple, because the owner of Batik Lasem SMEs and the manager still manages the batik business himself.

Financial reporting and risk management for Batik Lasem SMEs is fully carried out and borne by the batik business owner. The risks faced are varied, including the risk of fluctuating prices for the fabric, marketing risk, production risk, and financial risk in the form of incorrect recording. Meanwhile, financial management is still very simple. For Mr. RDL's business, he uses the Excel system, as does Mrs. WNL's batik business.

Meanwhile, Mr. SSL's batik business is still carried out by recording manually. This happened because their emphasis was on sustainability in their sales in the past and more energy was spent on marketing and efforts to make it known to the wider community, even Mr RDL's Batik Lasem business could reach overseas (Malaysia and Japan). The financial reporting that is prepared does not yet reach the balance sheet or cash flow, but only reaches the profit and loss calculation, which is very simple. Mr. SSL is more traditional, only recording sales manuals. and costs, some have been recorded but there are also some which haven't been recorded because they feel they are not costs, even though there are expenses.

The Batik Bayat SMEs does not have much difference from the Batik Lasem SMEs where the governance structure is very simple because the director is also the owner. Mr. SWB, Mrs. TNB and Mr. DDB manage their own batik business, they are the owners and act as managers. Financial reporting and risk management are fully carried out and borne by the batik business owner. The risks faced are varied, including the risk of fluctuating prices for the fabric, marketing risk, production risk and financial risk of misprinting. Meanwhile, financial management is still very simple. For Mr. SWB, Mrs. TNB, and Mr. DDB's business, it is still done manually. This happened because their emphasis was on sustainability in sales in the past and more energy was spent on marketing and efforts to make it known to the wider community, even for Pak SWB's Batik Lase, business to reach overseas (Japan). The financial reporting that is prepared does not yet reach the balance sheet or cash flow, but only reaches the profit and loss calculation, which is very simple. Mrs. TNB and Mr. DDB are more traditional, only recording sales manuals and costs, some of which have been recorded but some things have not been recorded because they feel that they are not costs, even though there are expenses.

Table 3: Governance practice in The Batik Business

GOVERNANCE DISCLOSURES						PARTICIPANTS					
Code	Level	Topic	Topic Description	Indicators	Units	pak radi	bu Wisam	pak sarreal	Pak sarwidi bayat	bu Tini bayat	pak dodo bayat
SDG-G1.1	Basic	Governance structure	Company governance structure	Number of directors	number	2	2	1	2	2	1
SDG-G1.1	Basic	Policy commitments	Company policy commitments	List of company policies	list	Policies are made by the owner and conveyed verbally to employees	Policies are made by the owner and conveyed verbally to employees	Policies are made by the owner and conveyed verbally to employees	Policies are made by the owner and conveyed verbally to employees	Policies are made by the owner and conveyed verbally to employees	Policies are made by the owner and conveyed verbally to employees
SDG-G3.1	Basic	Risk management and reporting	Report company's risk	Year of last submitted audited financial report	year	financial reports are still very simple and have not been audited	financial reports are still very simple and have not been audited	financial reports are still very simple and have not been audited	financial reports are still very simple and have not been audited	financial reports are still very simple and have not been audited	financial reports are still very simple and have not been audited
SDG-G4.1	Basic	Anti corruption	Incidents of anti-corruption	Number of confirmed incidents of corruption, if any	number	2	1	1	2	2	1
SDG-G4.1	Basic	Anti corruption	Incidents of anti-corruption	Nature of confirmed incidents of corruption, if any	description	there is no fraud, because the management is also the owner of the business	there is no fraud, because the management is also the owner of the business	there is no fraud, because the management is also the owner of the business	there is no fraud, because the management is also the owner of the business	there is no fraud, because the management is also the owner of the business	there is no fraud, because the management is also the owner of the business

Source: data processes, 2024

Challenges and Opportunities

Based on the business processes that occur in Batik Lasem SMEs and Batik Bayat SMEs, operational implementation can be part of the ESG implementation process in Batik SMEs. From the description presented in detail in the discussion, there are many things that need to be explored more deeply so that Batik Lasem SMEs and Batik Bayat SMEs can implement ESG in more detail. from the focus group discussion can be described as follows:

Batik SMEs' responses regarding the challenges in implementing ESG:

1. For the batik industry, green entrepreneurship is one way to answer the challenges of environmental sustainability and reduce negative impacts on the environment generated from its business activities. This is consistent with Gatut & Aryanto (2010), what needs to be pursued to encourage green entrepreneurship is a positive attitude from the batik entrepreneur owner and a sense of trust that employees and other people will feel the positive impact and can change environmentally friendly behaviour. This is closely related to self-actualization, personal abilities improvement, and concern for the preservation of culture as well as humans and the surrounding environment (Gatut & Aryanto, 2010).
2. For environmentally friendly business owners, it is a must have strong ethical

values underlying their adoption of green entrepreneurship (Gifford & Sussman, 2012).

3. Use resources wisely and employ environmentally friendly manufacturing techniques in an effort to encourage development green industry (Indrayani & Triwiswara, 2020).

Opportunities for batik SMEs when they can implement ESG:

There is a megatrend that has developed in the last decade or so, namely human awareness to be friendlier to the environment and the damage caused by many consumer products on the market, both to consumers themselves and the environment, making consumers look for alternative products that are more environmentally friendly. This is an opportunity for batik SMEs to market their products to a market that is fanatical about environmentally friendly products (Nurtjahjadi, 2020). Apart from that, it also encourages sustainable behaviour related to its products, including recycling products, buying organic products, using green transportation, having an anti-materialistic view, and donating or doing charity in a sustainable manner (sustainable charities) (Peterson et al., 2021). This will also expand marketing overseas because there is a lot of awareness about environmentally friendly products abroad.

5. CONCLUSIONS

Based on the results of the discussion above, the challenges and opportunities faced by Batik Lasem SMEs and Batik Bayat SMEs business owners can be summarized as follows:

Opportunity:

1. Many opportunities can be achieved by Batik Lasem SMEs and Batik Bayat SMEs. There are characteristics inherent in the condition of each batik, so that it can be used as promotional material. Batik Lasem SMEs has the characteristics of batik from 3 countries with distinctive patterns and colors, while for Batik Bayat its uniqueness is in its natural colors and ancient motifs. If they can market it well, several domestic and even foreign batik lovers will look for their

products.

2. Opportunities for the younger generation to learn batik, so that it will increase the sustainability of batik itself. Batik as Indonesia's cultural heritage is an opportunity to be developed and known more internationally, especially now that batik has been recognized by Unesco.
3. Opportunities for Batik Lasem SMEs and Batik Bayat SMEs is obtain the financial benefits arising from more sustainable choices. Protecting the environment and social helps SMEs gain a good name and trust from customers.

Challenge:

1. The current shortage of labor is a problem that needs to be resolved. The current generation is less interested in continuing to make batik, because they are more interested in other fields that are considered more modern by society. The solution that can be done is to conduct training for new batik makers. The owners of Batik Lasem SMEs and Batik Bayat SMEs do not yet realize the importance of business and financial management based on correct accounting standards. These challenges cause SMEs to have difficulty producing the information needed for faster decision making for both internal and external parties.
2. Awareness regarding waste management is still quite low, where batik SMEs are not yet aware of the dangers of environmental pollution and the importance of protecting the environment. Apart from that, batik SMEs owners also feel that funds for investment in waste management are still considered a waste. These challenges mean that SMEs cannot be fully declared environmentally friendly, so SMEs need to be aware that the importance of protecting the environment can have an impact on business sustainability and increasing profits.

6. IMPLICATIONS, LIMITATIONS AND SUGGESTIONS

SMEs have limited resources and finances to manage the environment, besides that it is quite complicated and expensive for SMEs to implement ESG. In future research, empirical research (using survey and mixed methods approaches) can be conducted to evaluate company and stakeholder perceptions of the economic, social and governance of

sustainability. The participants used in this research were limited to Batik Lasem SMEs and Batik Bayat SMEs. Suggestions for further research are to expand the scope of SMEs to other industrial fields like manufacturing, so that they can fully reflect the company's concern for the ESG, especially in SMEs. Finally, comparative research can be conducted between large sector companies and SMEs to understand their ESG practices and explore opportunities for SMEs.

ACKNOWLEDGMENTS

REFERENCES

- APR. (2022). *The Story Behind Batik Lasem Making*. <https://www.aprayon.com/en/media-english/articles/the-story-behind-batik-lasem-making>.
- Arena, M., & Azzone, G. (2012). A process-based operational framework for sustainability reporting in SMEs. *Journal of Small Business and Enterprise Development*, 19(4), 669–686. <https://doi.org/10.1108/14626001211277460>
- Auemsuvarn, P. (2019). “How brand personality can assist in achieving the sustainable development goals (SDGs) for small and medium-sized enterprises (SMEs) in developing countries.” *Journal of Business & Retail Management Research*, 13(Special Edition). <https://doi.org/10.24052/jbrmr/v13issp/art-6>
- Capital Markets Malaysia, & Securities Commission Malaysia. (2023). *Simplified ESG Disclosure Guide*. <https://sedg.capitalmarketsmalaysia.com/wpcontent/uploads/2023/10/SEDG-Full-Guide.pdf>.
- Chen, L., Khurram, M. U., Gao, Y., Abedin, M. Z., & Lucey, B. (2023). ESG disclosure and technological innovation capabilities of the Chinese listed companies. *Research in International Business and Finance*, 65(April), 101974. <https://doi.org/10.1016/j.ribaf.2023.101974>
- Das, M., Rangarajan, K., & Dutta, G. (2020). Corporate sustainability in small and medium-sized enterprises: a literature analysis and road ahead. *Journal of Indian Business Research*, 12(2), 271–300.
- Ellili, N. O. D. (2022). Impact of ESG disclosure and financial reporting quality on investment efficiency. *Corporate Governance*, 22(5). doi:10.1108/CG-06-2021-0209
- Fitinline. (2013). *Keistimewaan Batik Lasem (Laseman) yang Kaya akan Motif dan Warna*. <https://fitinline.com/article/read/batik-lasem/>

- Francesco Perrini, Russo, A., & Tencati, A. (2007). CSR strategies of SMEs and large firms. Evidence from Italy. *Journal of Business Ethics*, 74, 285–300.
- Freeman, r edward. (1994). The politics of stakeholder theory: Some future directions. *Business Ethics Quarterly*,. *BMC Public Health*,5(1), 1–8.
<https://ejournal.poltektegal>.
- Galant, M. (2017). the Stakeholders Theory As a Starting Point for the Critique of Corporate Social Responsibility. *Prace Naukowe Uniwersytetu Ekonomicznego We Wroclawiu*, 464, 31–42. <https://doi.org/10.15611/pn.2017.464.03>
- Gatut, B., & Aryanto, V. (2010). Batik Industry of Indonesia: the Rise, Fall and Prospects *Studies in Business & Economics*, 5(3), 156–170.
- Gifford, R., & Sussman, R. (2012). Environmental Attitudes. *The Oxford Handbook of Environmental and Conservation Psychology*, November 2012, 65–80.
<https://doi.org/10.1093/oxfordhb/9780199733026.013.0004>
- Hendro, J., & Bowo Pranogyo, A. (2023). Inovasi Berkelanjutan: ESG Initiatives Untuk Masa Depan Yang Bertanggung Jawab. *Jurnal Ilmu Sosial, Manajemen, Akuntansi Dan Bisnis*, 4(4), 135–147. <https://doi.org/10.47747/jismab.v4i4.1445>
- Herold, D. M. (2018). Demystifying the link between institutional theory and stakeholder theory in sustainability reporting. *Economics, Management and Sustainability*, 3(2), 6–19. <https://doi.org/10.14254/jems.2018.3-2.1>
- Indrayani, L., & Triwiswara, M. (2020). The implementation of green industry standard batik industry to develop eco-friendly. *IOP Conference Series: Materials Science and Engineering*, 980(1). <https://doi.org/10.1088/1757-899X/980/1/012081>
- Kurniawan, M. W., -, P. P., & -, S. S. (2014). Strategi Pengelolaan Air Limbah Sentra Umkm Batik Yang Berkelanjutan Di Kabupaten Sukoharjo. *Jurnal Ilmu Lingkungan*, 11(2), 62. <https://doi.org/10.14710/jil.11.2.62-72>
- Laine, M., Tregidga, H., & Unerman, J. (2021). Sustainability accounting and accountability. In *Sustainability Accounting and Accountability*.
<https://doi.org/10.4324/9781003185611>
- Lako, A. (2018). *Akuntansi Hijau: Isu, Teori & Aplikasi*. Salemba Empat.
- Lilis, A., Dinnurahmi, D., & Pertiwi, C. Y. (2022). Analisis Penerapan Lingkungan, Sosial dan Tata Kelola (ESG) di UMKM dalam Menunjang Keberlanjutan. *Prosiding ASIC*, 1(1), 1–21.

- Martins, A., Branco, M. C., Melo, P. N., & Machado, C. (2022). Sustainability in Small and Medium-Sized Enterprises: A Systematic Literature Review and Future Research Agenda. *Sustainability (Switzerland)*, *14*(11), 1–26.
<https://doi.org/10.3390/su14116493>
- Mendatang, D. G., & Nurtjahjadi, E. (2020). *Sustainable Marketing : Pemasaran Ramah Lingkungan Dan Sosial Sustainable Marketing : Pemasaran Ramah Lingkungan Dan Sosial Demi Generasi Mendatang*. October 2014, 1–5.
- Moleong, L. J. (2013). *Metode Penelitian Kualitatif. Edisi Revisi*. PT. Remaja Rosdakarya.
- Nugroho, A., Hermiati, N. F., Wulandari, A., & Putra, M. (2023). Pemberdayaan masyarakat desa dalam mewujudkan sustainability business UMKM rengginang desa karangsari. *Lebah*, *16*(2), 62–66. <https://doi.org/10.35335/lebah.v16i2.116>
- Peng, L. S., & Isa, M. (2020). Environmental, social and governance (Esg) practices and performance in shariah firms: Agency or stakeholder theory? *Asian Academy of Management Journal of Accounting and Finance*, *16*(1), 1–34.
<https://doi.org/10.21315/aamjaf2020.16.1.1>
- Peterson, M., Minton, E. A., Liu, R. L., Bartholomew, & E., D. (2021). Sustainable Marketing and Consumer Support for Sustainable Businesses. *Sustainable Production and Consumption*, *27*, 157–168.
- Putri, N. A., & Sabardila, A. (2023). Pelestarian Batik Bayat sebagai Upaya Menumbuhkan Kecintaan Budaya di Masyarakat Kecamatan Bayat Kabupaten Klaten. *Syntax Literate: Jurnal Ilmiah Indonesia*, *8*(2).
- Putri, N. S., Handayani, T., Sulistyani, W., & Sukarda, H. M. (2023). Peran Perbankan Dalam Pengawasan Pembiayaan Korporasi (Sektor Hijau). *Warta Pengabdian*, *17*(1), 47.
<https://doi.org/10.19184/wrtp.v17i1.37046>
- Shen, Y. (2023). ESG and Firm Performance: A Literature Review. *BCP Business & Management*, *46*, 283–288. <https://doi.org/10.54691/bcpbm.v46i.5107>
- SinghManvendra Pratap Singh, & Roy Mousumi. (2019). A study of sustainability reporting disclosures for manufacturing MSMEs : evidence from India. *International Journal of Entrepreneurship and Small Business*, *38*(4), 395–414.
- Smith, H., Discetti, R., Bellucci, M., & Diletta Acuti. (2022). SMEs engagement with the Sustainable Development Goals: A power perspective. *Journal of Business Research*, *149*, 112–122. <https://doi.org/10.1016/j.jbusres.2022.05.021>

- Steinhofel, E., Galeitzke, M., Kohl, H., & Orth, R. (2019). Sustainability reporting in German manufacturing SMEs. *Procedia Manufacturing*, 33, 610–617. <https://doi.org/10.1016/j.promfg.2019.04.076>
- Tan, Y., & Zhu, Z. (2022). The effect of ESG rating events on corporate green innovation in China: The mediating role of financial constraints and managers' environmental awareness. *Technology in Society*, 68(January 2022), 101906. <https://doi.org/10.1016/j.techsoc.2022.101906>.
- UNDESA. (2019). Micro-, small and medium-sized enterprises (MSMEs) and their role in achieving the Sustainable Development Goals. *United Nations Department of Economic and Social Affairs Division for Sustainable Development Goals*, 1–44.
- Zhao, C., Guo, Y., Yuan, J., Wu, M., Li, D., Zhou, Y., & Kang, J. (2018). ESG and corporate financial performance: Empirical evidence from China's listed power generation companies. *Sustainability (Switzerland)*, 10(8), 1–18. <https://doi.org/10.3390/su10082607>.