

Evaluation of PROPER (business performance rating on environmental management) in Indonesia

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Abstract. Proper or Business Performance Rating on Environmental Management is a program promoted by Ministry of Environment, Republic of Indonesia since 1997. Since 2013, innovation was the framework of proper in which participating companies pursue green and gold rank or beyond compliance must adopt eco-innovation and social innovation. In 2023 the number of participating companies reach to 3694 industries. The benefits of achieving gold rank of proper include access to financial institution and investors, and create a good relation with stakeholders. This paper observes the development of proper and analyses the issues arise. The type of research is descriptive analysis relying on secondary data from Proper Secretariat and observation during the presentation of candidate gold rank. The research shows that the number of participants of Proper have been growing, however the level of compliance is declined. With the large number of gold candidate rank, there was no opportunity for the evaluator to do site visit confirming the report with the actual performance. The decentralization and the involvement of more experts in evaluating Proper is required to maintain and to improve Proper as an instrument for achieving business sustainability.

1 Introduction

Proper or business performance rating on environmental management is an excellent program promoted by Ministry of Environment, Republic of Indonesia since 1997. The objective of Proper is to create environmental compliance and environmental excellent. The embryo of Proper was called clean river program intended to obliged manufacturers sited along the rivers of Java to treat its waste water fulfilling environmental quality standard to make it the rivers clean [11]. The coverage of the program solely on water quality and the number of industry participate was still 85 industries. In 2005 Proper covered three elements namely water quality, air quality and hazardous waste with the number of industries involved were 360 industries [2]. Proper has been continuously developing. In 2013, innovation was the frame work proper and in 2020 the participating industries are obliged to deal with natural disaster. The number of participants have been growing and in

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2023 was 3694. The benefit of having good reputation of Proper include the access to financial institution and to investors, and also the good relation with stakeholders such as government and community living surrounding the industries. The components of Proper are compatible with the components of ESG (Environment, Social and Government). Good ESG meaning low risk is required by investors to invest their capital to the industries.

2 Literature Review

From the perspective of environmental management, Proper is categorized as incentive and disincentive approach. The participating companies manage its environmental impact well and provide environmental report regularly is awarded a blue rank meaning that the industries are compliance. The industries have tried to manage its environmental impacts but still not meeting the standard are given the red rank. The industries disobey the compulsory managing the environmental impacts are given the black rank. The industries with black rank then to be followed up with law enforcement. The industries with blue rank three times consecutively are eligible to follow the beyond compliance level to reach the green and gold rank. To achieve the green rank, the industries must adopt LCA (life cycle assessment) for practicing eco-innovation resulting energy and water efficiency, reduction of water utilized, emission and waste generation. To follow the gold level, the industries must hold green rank three times consecutively. To achieve the gold rank, the industries must adopt social innovation, an evolution of community development creating self-reliance community, social welfare etc [10].

There are 5 (five) indicators of the success of Proper implementation: (1) decreased pollution load released by companies into the environment (2) decreased levels of pollution and environmental damage (3) increased environmental quality (4) increased number of companies complying with environmental regulations and (5) increased stakeholder trust in the results of company performance assessments that have been carried out [12].

Some of the benefits of Proper are that the time and costs required to encourage company compliance are relatively shorter and cheaper compared to other compliance instruments, for example environmental law enforcement; can encourage the active role of stakeholders in environmental management; and increasing the intensity and quality of communication between stakeholders; and increasing added value for companies that carry out environmental management better than required. For the companies obtained green and gold rank will have the access to financial institutions and investors. Many Banks now require debtor or borrower to have a good reputation of Proper. Components of Proper at beyond compliance match with the components of ESG (Environment, Social and Governance) risk rating required by investors. Beyond compliance of Proper also contributes to have a good business sustainability report [13].

Several studies related to the implementation of Proper in Indonesia show that there is a real relationship between companies' environmental performance and their business implementation. Companies that perform well/excellent as assessed by PROPER have a positive relationship with increases in share prices, while no relationship was found regarding share prices with companies that performed poorly. This confirms that the market assesses the environmental performance of superior and inferior performers differently. Environmental performance information complements accounting information and can be useful in explaining the market value of the Indonesian stock market [15]. The company's financial performance also has an influence on environmental performance. Financial performance with profitability indicators can influence environmental performance based on Proper [1, 9]. Companies that have the ability to generate good profits make the company have excess funds that can be allocated to improve its environmental performance. Companies that are sensitive to environmental issues and carry out eco-

efficient operations will strengthen the company's profitability [9]. Then, in terms of its influence on firm value, environmental performance through a good Proper rating has a significant and positive effect on increasing firm value [14]. Ultimately, environmental performance variables described by PROPER ratings and environmental management systems as well as company size variables will influence the extent of environmental disclosure by the company [3].

3 Research Method

The type of research employed is descriptive analysis. The data collection techniques include literature review and observation during the presentation of Gold Candidate Proper. The data gathered then is analyzed qualitatively.

4 Result and Discussions

The number of Proper participants increase every year and during the last 5 (five) years [4-8] can be seen in the following table:

Table 1. Number of Proper Participants in 2019-2023

No	Year	Beyond & Compliance Category			Disobedient Category		Rating Suspenden Due to In Legal Enforcement Process and/or Not Operating	Total Participants
		Gold Rank	Green Rank	Blue Rank	Red Rank	Black Rank		
1.	2019	26	174	1507	303	2	33	2045
2.	2020	32	125	1629	233	2	17	2038
3.	2021	47	186	1670	645	0	43	2593
4.	2022	51	170	2031	887	2	27	3200
5.	2023	79	196	2131	1077	0	12	3694
Total								13570

Based on Table 1, it can be seen that every year the number of participants increases, the average increase in the last five years is 2%/year. The number of Proper participants is very large in the last five years, the total number of participants participating in Proper is 13,570 companies. There issues arise follow:

4.1 Level of Compliance of Proper Participants Declines

Based on the results of the Company Performance Rating Assessment in Environmental Management over the last 5 (five) years, there has been a decrease in the level of compliance of Proper participants as follows:

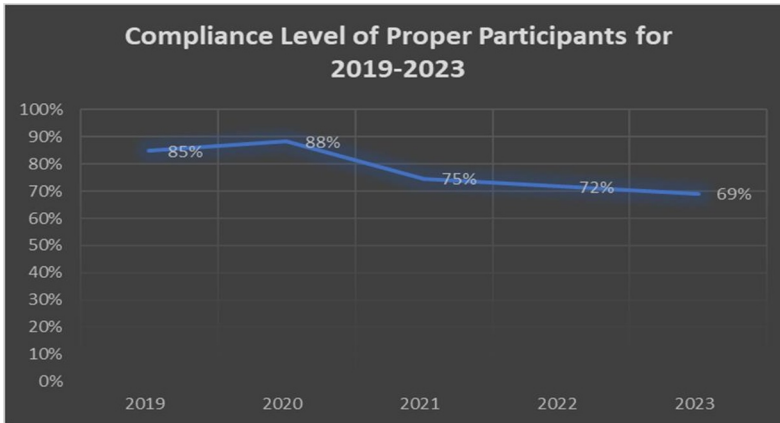


Fig. 1. Compliance Level of Proper Participants for 2019-2023

The level of compliance of Proper participant companies is seen based on companies that receive gold, green, and blue ratings. There has been a decline in the level of compliance for 3 (three) consecutive years, the highest decline occurred in 2023, which was 69%. This decline in the level of compliance indicates that the implementation of Proper has not met the success indicators.

4.2 Constraints of Direct Assessment

The implementation of Proper is carried out indirectly and directly. In direct assessment, there are constraints related to the large number of companies participating in Proper and the assessment deadline. While at the gold candidate rank, the Assessment Team cannot have the opportunity to conduct field visits to all companies to verify or to ensure reports with actual performance.

The average participation trend of Proper participants increases by 27% every year. However, this increase in the number of participants resulted in a decrease in the level of compliance. Companies that have just become participants experience difficulties in fulfilling data monitoring and reporting obligations, technical provisions for B3 waste management, as well as licensing issues. The assessment results in 2023 show that companies from the textile and palm oil industry sectors experienced the largest decline in compliance levels. The number of companies achieving compliance in 2023 has increased by 35% from 2022, totalling 79 companies. Meanwhile, non-compliance also increased by 30.95%, reaching 1,079 companies. Based on the results of the Proper rating determination by the Ministry of Environment and Forestry in 2023, as many as 79 companies received a gold ranking, 196 were ranked green, 2,131 were ranked blue, 1,077 companies were ranked red, and 211 companies were subject to law enforcement/not operating/suspended.

5 Conclusions and Recommendations

The research results show that the number of Proper participants have been growing, meaning that managing environment is considered as a need not merely obligation. However the level of compliance is declined because of new participants of Proper which are not familiar with the substance and procedure of Proper. Meanwhile at the level of Gold candidate rank, because of the large number of candidate there is no opportunity for evaluators to carry out field visit assessments as a form of verification/confirmation of reports on actual performance. Meanwhile, there is a tendency for participating industries to

be more results-oriented than process-oriented. It is recommended to facilitate intensively for new participants on Proper. Coaching and facilitating could be given by given by the Environmental Office at Provincial level to make it efficient. At the evaluation of gold rank level, Proper could hire the experts from the universities across the countries to conduct field visit verifying the report with the actual performance. The experts as assessors then report to Advisory Council of Proper.

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