

Sustainable Tourism Transformation: Unveiling the Power of ESG Implementation in Enhancing Investor Attraction

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ABSTRACT

Lately, there has been a significant increase in the number of investors considering environmental and social issues of companies in their investment decisions. This research aims to provide an overview and understanding of the strengths of implementing ESG in enhancing investor attractiveness within the scope of the tourism industry. This study utilizes qualitative research methods with a literature review approach or literature research from various references related to the researched issues. The research findings indicate that the implementation of ESG can enhance investor attractiveness to invest in the tourism industry that implements ESG well in its operational activities.

Keywords: *ESG, Tourism Industry, Sustainable Tourism, Investor.*

1. INTRODUCTION

Over the past few decades, the tourism industry has grown rapidly and proven to be one of the most popular industries worldwide (Suban, Madhan, & Shagirbasha, 2023). The tourism industry has also become a favorite in every country because it has been proven to drive economic growth in a region, including Indonesia (Nusraningrum & Pratama, 2019). As one of the largest archipelagic countries in the world, Indonesia has tremendous opportunities to create various types of tourism industries. This is because Indonesia boasts abundant tourism potentials such as natural beauty, ancestral culture and heritage, diverse ethnicities and languages, culinary tourism, as well as various crafts in each region of Indonesia. With these opportunities, the tourism industry can make significant contributions in the form of increased foreign exchange earnings, job creation, and can trigger the growth of other tourism-related industries (Feli Rabilla Putri, Indi Vhatika, Heri Yanto, Nurul Zukhrufa, & Maya Panorama, 2022). According to Simatupang (2024) the tourism industry in Indonesia has significant opportunities to grow beyond its current condition. Based on data from the Ministry of Tourism and Creative Economy, in the first half of 2023, the number of domestic tourist visits increased by 12.57% from the previous year. Not only domestic tourists, but also international tourist visits as of July 2023 increased by 196.85% compared to the previous year (Kemenparekraf RI, 2023). This indicates that tourists' interest in tourism in Indonesia is increasing over time. This condition should be maintained and further developed to make the Indonesian tourism industry even more attractive to tourists, both domestic and international, ultimately contributing significantly to the country's economic growth.

The tourism industry creates a demand known as final tourism demand, which refers to the market demand for goods and services by tourists during their travels. Meeting this final tourism demand requires investment in transportation and communication, hospitality, other accommodations, crafts industries, consumer product industries, service industries, restaurants, and so on (Yakup & Haryanto, 2021). Fulfilling tourism final demand is a crucial factor to consider in the process of developing the tourism industry. According to Nawaz & Hassan (2016) Investments have a positive influence on tourism growth. The more investments received by the tourism industry, the greater the potential for tourism industry development. Therefore, the tourism industry needs to attract as many investors as possible to contribute to its development. Lately, there has been a significant increase in the number of investors considering environmental and social issues of companies in their investment decisions. This shift is driven by the growing recognition that financial success is influenced by social and environmental impacts (Zhan, 2023). One way that companies can attract investor interest is by implementing Environmental, Social, and Governance (ESG) standards. In this study, the author discusses the importance of the tourism industry in implementing ESG to enhance investor attractiveness.

2. LITERATURE REVIEW

According to Hastalona & Sadalia (2021) Environmental, Social, Governance commonly abbreviated as ESG, is a form of corporate social responsibility. Companies that adhere to ESG principles tend to demonstrate improved sustainability and increased recognition from stakeholders (Sibarani, 2023). The ESG framework is often utilized by investors who prioritize environmental, social, and corporate governance factors when making investment decisions (Finger & Rosenboim, 2022). ESG refers to the framework used to evaluate the extent to which a company progresses in sustainability (Brogi & Lagasio, 2019). The assessment of the ethical and sustainability implications of investing in a company involves the utilization of the ESG framework, which consists of three main elements (Li, Wang, Sueyoshi, & Wang, 2021). The three elements in the ESG framework are:

1. Environmental Factor

The environmental factor includes a company's contribution to climate change through greenhouse gas emissions, as well as waste management and energy efficiency (Cornell, 2020). Given new efforts to combat global warming, emission reduction and decarbonization are becoming more crucial. Considering environmental aspects in corporate risk management can help companies reduce the potential negative impacts on business. It also contributes to the operational assessment of the company by considering the company's commitment to environmentally supportive practices.

2. Social Factor

The social factor includes human rights, labor standards within the supply chain, exposure to illegal child labor, and common issues such as workplace health and safety compliance (Sibarani, 2023). A company's image can be influenced by how it addresses social issues. The company's ability to adapt and make positive contributions to social issues is a key factor in evaluating these standards.

3. Governance Factor

This factor addresses how a company is internally regulated and managed. A set of rules or principles that outline the rights, responsibilities, and expectations of various stakeholders in corporate governance is called the governance factor. A well-defined corporate governance system can be used to balance or align interests among stakeholders and can serve as a tool to support the company's long-term strategy (Sjödin, Parida, & Kohtamäki, 2019). This factor can provide added value to the company as strong and transparent governance can enhance investor trust.

Companies that prioritize these three aspects typically develop specific policies that follow ESG principles. This includes the company's commitment to environmental conservation, diversity and inclusion policies, and ethical standards in corporate governance. Companies integrate ESG factors into their business decision-making processes. This includes assessing environmental and social risks and ensuring that business decisions do not harm environmental sustainability and human rights. Additionally, companies that adhere to these standards typically provide transparent reports on their performance. This includes disclosing information about environmental impacts, labor practices, and governance practices. Implementing these concepts can help companies identify relevant business opportunities, create a corporate culture that respects ESG values, drive innovation, and engage employees so that the entire organization understands and supports these principles.

3. RESEARCH METHODS

This research was conducted using qualitative research methods. According to Hennink, Hutter, & Bailey (2019) Qualitative research methods can provide a comprehensive understanding of research issues by studying a problem's context. Through qualitative research, researchers can explore an individual's understanding and experiences through methods such as in-depth interviews, observation, focus group discussions, document reviews, visual methods, or biographies. In supporting qualitative research, researchers use a literature review approach or literature research from various references related to the researched issues. The research is conducted by gathering data obtained from scientific journal publications, proceeding documents, official documents, supporting books, applicable regulations, and other sources (Wandha Dani Sarnisa; Rafianamaghfurin; Mohamad Djasuli, 2022). Through this approach, researchers can uncover the influence of ESG implementation on the tourism industry in enhancing investor attractiveness.

4. RESULTS & DISCUSSION

4.1. Sustainable Tourism

Tourism is one of the fastest-growing industries globally and serves as a source of foreign exchange and employment for a country. Additionally, tourism is one of the industries with the most significant impact on the environment, both through the development of public infrastructure and tourism facilities (Ionescu, Firoiu, Pirvu, & Vilag, 2019). This can lead to negative impacts that gradually damage the surrounding environmental resources.

Therefore, there is a critical need for awareness of the importance of sustainable tourism. The World Tourism Organization defines sustainable tourism as tourism that fully considers the current and future economic, social, and environmental impacts, addressing the needs of visitors, the industry, the environment, and the host communities (United Nations, 2018).

Currently, the significance of sustainability in the realm of tourism has evolved into a crucial force shaping the landscape of the industry today. The combination of ethical considerations and financial feasibility has propelled sustainable tourism into the forefront of global conversations, including in Indonesia. Indonesia is a country blessed with biodiversity and beautiful natural resources, making it a valuable asset for building tourism destinations. This wealth needs to be preserved and managed within an integrated and comprehensive protection and management system, thereby providing economic, social, and cultural benefits based on the precautionary principle. Therefore, through Minister of Tourism and Creative Economy Regulation Number 9 of 2021 concerning Guidelines for Sustainable Tourism Destinations, the government is promoting the creation of sustainable tourism destinations (Kemenparekraf, 2021). The purpose of this regulation is to provide comprehensive guidelines for the management of sustainable tourism destinations, thus achieving the management of protection, utilization, and development of areas as sustainable tourism destinations. To support the achievement of this goal, the Ministry of Tourism and Creative Economy has encouraged tourism destinations to implement and adhere to the Environmental, Social, and Governance (ESG) concepts (Kemenparekraf & Baparekraf, 2022). With the guidelines for sustainable tourism destinations, it is hoped that the Indonesian tourism industry can earnestly implement the ESG concept, thus providing positive impacts for the environment, society, and the companies themselves. However, to date, there are still some tourism industries that have not properly implemented ESG due to challenges faced, one of which is education and awareness (Hanggoro, 2024). Therefore, the role of the government is crucial in providing socialization regarding the implementation of ESG to achieve sustainable tourism destinations for the tourism industry and the entire Indonesian society.

4.2. The Strength of Implementing ESG in Enhancing Investor Attractiveness

Aside from providing positive impacts on environmental sustainability, social welfare, and corporate governance quality, the implementation of ESG has been proven to enhance investor attraction towards the tourism industry that effectively integrates ESG into its operational activities. This applies both to companies in the tourism sector that are already publicly listed and to companies that are not listed on the Indonesia Stock Exchange (IDX) or tourism start-up companies.

In tourism industry companies listed on the Indonesia Stock Exchange, the implementation of ESG can attract investor interest in investing capital. In his research, Zhan (2023) outlined three key points indicating that the implementation of ESG can enhance investor attraction. Firstly, good ESG performance can provide a positive signal to investors. Through ESG reporting, companies can give investors an overview of their contributions to maintaining environmental, social, and corporate governance standards. Secondly, investors' exposure to risk can be decreased by strong ESG performance. Companies can communicate non-financial information to investors through ESG reporting, allowing them to assess the company's value more impartially and lowering investment risks. Thirdly, employing strong ESG performance as the main determinant of a company's sustainability makes it easier for investors to assess the caliber of investment targets. Businesses with strong ESG performance are thought to be better equipped to sustain stability and profitability in erratic market conditions and are expected to benefit more from resource efficiency, social responsibility, and corporate governance. Additionally, Egorova, Grishunin, & Karminsky (2021) found that investors are increasingly interested in companies operating on ESG principles because adherence to these principles is much more sustainable and correlates with strong financial performance. Furthermore, Keindahan (2023) It also states that ESG in the tourism sector can help companies improve customer acquisition and retention, manage risks and comply with regulations, gain access to sustainable financing, and enhance relationships with investors.

Not only does the implementation of ESG through the concept of green tourism have a positive impact on companies listed on the Indonesia Stock Exchange (IDX), but it also has the potential to positively impact companies not listed on the IDX or tourism start-up companies by increasing investor attraction. The Minister of Tourism and Creative Economy stated that the green investment trend in the tourism industry in 2024 indicates increasing interest from investors (Koezman, 2023). This is evidenced by data showing that the trend during the period of 2018-2022 indicates that hotels and tourism activities contributed to almost two-thirds of all Foreign Direct Investment (FDI) projects, followed by software and IT services in the second rank. The Minister of Tourism and Creative Economy also stated that currently, investor attention is focused on climate change, which is increasingly a concern in the coming years. This concern increased by 10% from 2022 to 2023 (Hendriyani, 2023). Not only are investors starting to prioritize green tourism, but tourists are also more interested in destinations that implement the concept of green tourism. Tourism

observers state that the tourism trend in 2024 will focus on sustainable tourism, and tourists have a high interest in environmentally friendly and sustainable tourism destinations (Koezman, 2023). With the increasing attention to climate change issues and the rising interest in green tourism, it's time for tourism destinations to commit to strengthening the development of quality and sustainable tourism.

5. CONCLUSION

Currently, sustainable tourism has become a major focus in global conversations, including in Indonesia. Considering the importance of sustainable tourism today, the Ministry of Tourism and Creative Economy (Kemenparekraf) is urging the tourism industry in Indonesia to develop sustainable tourism through Minister of Tourism and Creative Economy Regulation Number 9 of 2021 concerning Guidelines for Sustainable Tourism Destinations. Additionally, Kemenparekraf is also encouraging tourist destinations to implement and comply with the concepts of Environmental, Social, and Governance (ESG) to achieve sustainable tourism. Besides helping to develop sustainable tourism, the implementation of ESG has also been proven to enhance investor attraction to invest in the tourism industry that implements ESG in its operational activities. This applies both to publicly traded companies in the tourism sector and to companies not listed on the IDX or tourism start-up companies. When it comes to publicly traded enterprises, the tourism industry that effectively integrates ESG practices typically has high governance efficiency and minimal risks of environmental and social violations. This lowers the probability of investment losses and offers investors reliable profits. Listed businesses that actively carry out their ESG obligations can boost stock prices by boosting investor trust. Furthermore, for companies not listed on the IDX or tourism start-up companies, implementing ESG through the concept of green tourism also has the potential to attract investors to contribute to the development of tourist destinations. This is because many investors are concerned about climate change that could endanger the environment in the future, so they are more interested in investing in companies that implement green tourism concepts. Not only are investors beginning to prioritize green tourism, but tourists are also more interested in destinations that implement green tourism concepts. With increasing attention to climate change issues and a growing interest in green tourism, it is time for tourist destinations to commit to strengthening the development of quality and sustainable tourism by focusing on the application of ESG principles.

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