

Analysis in ESG Rating Agencies Motivation in the Process of Formulating the ESG Index: Institutional Logics

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Abstract: This study aims to evaluate the applications of institutional logic on the motivation of the Kehati Foundation in formulating a different ESG (Environment, Social, Governance) Index compared to other ESG rating agencies. The research methodology used a case study as a research strategy and a qualitative research approach with a single unit of analysis design namely Kehati Foundation. The result explains that the Kehati Foundation, in formulating the different ESG indexes compared to other rating agencies was motivated by the domination of externality (symbolic carriers) towards internality (material carriers), multiple logics that came from professional, market, self-regulatory, and sustainability logics, subsequently the dominant logics contributed by professional logics, and then competing logics between actor, routines and OPM ESG Index Scoring. The implication of the study is to demonstrate a significant positive impact in promoting sustainable investment and gaining the trust of investors (both potential and existing investors) which are expected to obtain adequate confidence in making investment decisions and to develop business practices for rating agencies. This study contributes an extensive ongoing development for future research which is currently still very limited.

Keywords: coupling/decoupling; ESG indexing/scoring; institutional logic; rating agency; symbolic/material carriers.

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INTRODUCTION

Stakeholder demands in terms of transparency related to corporate sustainability have resulted in an increase in the need for sustainability reporting over the past two decades (Siew, 2014). Companies are asked to report sustainability aspects because there are demands from stakeholders and the impact of this issue on company performance in the long term (Wachira et al., 2020). The awareness of investors in carrying out sustainable investments has grown significantly over the last ten years. Investors have understood the implications of ESG issues in the investment decision-making process (Arvidsson & Dumay, 2022). Therefore, to meet the demands of stakeholders in sustainability reporting aimed at single stakeholders, the Sustainability Report has been developed into an ESG Report which contains information in the form of Environmental, Social, and Governance



elements in one report, namely the ESG Report. The ESG Report contains more quantified ESG information with the consideration that investors need to better understand the relationship between climate change and investment risk, as well as ESG performance in the process of making sustainable investment decisions (Majeed et al., 2022).

However, ESG reporting practices are growing globally as criticisms of traditional financial reporting do not fully reflect corporate activity (Bachoo et al., 2013; Elafify, 2021). Different frameworks (which are fragmented and overloaded) are used by the preparers of ESG Reporting. The use of different standards and frameworks has led to a lack of consistency and comparability across organizations (Jose, 2017). According to Bose (2020), several observers in the ESG investment community have voiced dissatisfaction with the existence of so many different and conflicting (fragmented) sustainable frameworks. As a consequence, the diversity of frameworks in preparing the ESG Report will have an impact on increasing the use of resources to provide information for investors. Even further, the rating/scoring given by rating agencies varies greatly in value.

Based on this, this study has summarized ESG rating data generated by 2 (two) ESG rating agencies by investors in Indonesia, namely Sustainalytics and the Kehati Foundation. From the results of the assessment conducted by the two agencies, it appears that PT Japfa Comfeed Indonesia Tbk. (JPFA) is categorized as a company with Severe ESG risk by (Sustainalytics, 2022), but in the 3 Kehati Indexes, this company managed to qualify for the SRI-Kehati Index, ESG Sector Leaders IDX Kehati and ESG Quality 45 Kehati Index (IDX, 2022). Comparison of ESG Disclosures Rating & ESG Index of Indonesian Stock Exchange Issuers in the Consumer Non-cyclical (Food & Beverage) Industry (Table 1) shows that there is a condition where the ESG ratings for the household product industry in the food and beverage sector company generated by 2 (two) rating agencies, namely the Kehati Foundation and Sustainalytics have a rating or assessment results differ from one agency to another.

Table 1 Comparison of ESG Disclosures Rating & ESG Index of Indonesian Stock Exchange Issuers in the Consumer Non-cyclical (Food & Beverage) Industry

No	Companies	KEHATI INDEX				
		Sustainalytics		SRI KEHATI	ESG Sector Leaders IDX KEHATI	ESG Quality 45 IDX KEHATI
		Score	Description			
1	Unilever Indonesia Tbk (UNVR)	18.4	Low	Yes	Yes	Yes
2	PT Mayora Indah Tbk (MYOR)	38.2	High	No	No	No
3	PT Japfa Comfeed Indonesia Tbk (JPFA)	41.8	Severe	Yes	Yes	Yes
4	Charoen Pokphand Indonesia Tbk (CPIN)	44.8	Severe	Yes	Yes	Yes
5	Indofood CBP Sukses Makmur Tbk (ICBP)	42.1	Severe	No	Yes	Yes

Source: IDX (2022); Sustainalytics (2022); and has been reworked by the author

Although several pieces of research on ESG have been carried out, research that specifically covers topics related to ESG rating agencies is still very limited. In addition, other research that also discusses the motivation of ESG rating agencies that relate to the theory of institutional logic has not yet been conducted. However, researchers have performed their study using various variables using institutional logic theory. The study aims to answer the phenomenon of behavior change in restructuring non-performing loans at BPRs in West Java

Province by Kasmuri & Shauki (2019), explaining the application of institutional logic that motivate behavior, preferences and beliefs to coupling or decoupling material carriers (practices) to symbolic carriers (regulations). Contrary to this study, this study uses research objects that are no longer oriented and are not governed by mandatory rules as symbolic carriers. Similarly, in Berg et al. (2019) also uses ESG rating agencies as research objects, but this research uses a different research methodology, especially in terms of research strategy and approach. The research strategy used in this study is an empirical research strategy with a quantitative approach. Therefore, the motivation for carrying out this study is extended to the limited existing literature which studies ESG rating agencies using Institutional Logics Theory.

The academic reviews carried out a study about Institutional Logics theory implementation in the evaluation of a phenomenon in ESG rating agencies are limited. According to DiMaggio & Powell (1983) Institutional Logics Theory will be able to answer how individual behavior is formed in organizations. Institutionalization in decision-making related to the application of a rule/instruction/guidelines in the ESG Score calculation method for the formulation of the Kehati Index at the Kehati Foundation in this study uses the concept of Institutional Logics which consists of symbolic carriers which are practices in institutions and factors material carriers as rules that serve as a reference for organizations (Zilber, 2013) and can also explain practices or decoupling (abandonment) of applicable regulations (symbolic carriers) (Scott, 2008). This study overcomes the limitation by considering the Kehati Foundation as the unit of analysis.

Building upon the above discussions, the study focuses on understanding the motivation of ESG rating agencies in making decisions regarding ESG rating calculations using institutional logics theory (Zilber, 2013) with the following problem formulation 1) How is The Kehati Foundation in formulating the different Scoring and Index compared to the other ESG Rating Agencies in terms of externality aspects (external regulations) and internality aspects (internal practices) or the occurrence of coupling/decoupling practices? 2) How the institutional logic occurs on the internality aspect (material carriers) in determining the different Kehati Scoring and Index compared to the other ESG Rating Agencies? (Multiple Logics, Competing Logics, Overarching Dominant Logic).

The primary objective of this study is to evaluate in more depth how the Kehati Foundation formulates the different Scoring and Index compared to the other ESG Rating Agencies in terms of externality aspects (external regulations) and internality aspects (internal practices) and how the institutional logics (Multiple Logics, Competing Logics, and Dominant Logic occurs on the internality aspect (material carriers) in determining the different Kehati Scoring and Index compared to the other ESG Rating Agencies. To conclude, this research aims to fill in the research gap and become a reference and refinement for further research and the development of literature related to the concepts of Institutional Logic.

This study contributes to the extensive ongoing development for future research which is currently still very limited. The research is expected to be able to assist the Kehati Foundation in promoting sustainable responsible investment and to provide sufficient confidence for investors in making investment decisions. Besides that, this study will help ESG rating users/investors, existing and potential investors those who have used the Kehati Index, and potential investors who have an interest to use the Kehati Index as a reference in the future are expected to be able to obtain reasonable assurance in making investment decisions by explaining the motivation of the Kehati Foundation in producing a different ESG rating compared to other ESG rating agencies. It is expected that the study will give implications not only to the investors but also to the capital market regulators in recommending the rating agency as a reference for their decision-making process.

METHODS

This study used a research strategy in the form of a case study to find out and explore the phenomenon of differences in the results of the ESG rating/index produced by the Kehati Foundation based on the differences in the ESG rating of the two agencies (i.e., Kehati Foundation and Sustainalytics). This case study research uses a triangulation research approach using a research design in the form of a single unit of analysis as a research object, namely the Kehati Foundation. The study applies triangulation at the data collection and data analysis stages, data triangulation was conducted by validating both primary data processed from interviews in the discourse interview format and secondary data obtained from the Kehati Foundation's 2021 Annual Report to enhance validity and mitigate biases for using only one data source. Triangulation was also conducted at the analysis stage where 3 (three) analytical methods, namely: content, thematic, and constant comparative analyses were performed in analysing the above research instruments (i.e., interviews and documentation). Data from the interviews were recorded and transcribed for further processing using the NVivo 12 Plus application. The research questions posed to respondents were presented in the form of semi-structured questions to evaluate the Kehati Index analysis process to produce different ESG ratings.

RESULTS AND DISCUSSION

The results of the interviews were analyzed using content analysis, thematic analysis, and constant comparative analysis to analyze the words most frequently mentioned by the respondents in the interviews that came to the attention of the respondents and were relevant to the research question. Figure 1 is the result of processing all interview data using Word cloud visualization for further use in the process of answering research questions.



Source: NVIVO12 Plus data, processed by the author

Figure 1 Word Cloud Processing Results of Interview Data

The role of actors/parties who manage index formulation and carry out routines using their professional logic is very dominating since the beginning process of the formulation of the ESG scoring index Kehati. This can be seen from the internal Kehati initiative to produce the ESG Scoring Index to promote sustainability and meet the aspirations of capital market players. Internal processes are carried out by actors through routine and self-regulatory logic in the OPM (Operation Procedure Manuals) ESG Scoring Kehati Index. Scoring Methodology in determining the OPM ESG Index Scoring which is compiled based on the dominance of symbolic carriers coming from an external institution, consisting of the global institution (GRI, SASB, UN PRI) and local institution (OJK), using independent professional logic due to there was no regulator mandate for the Kehati Foundation in carrying out the process of formulating the Kehati ESG Index. Hence this condition resulting a different ESG Index/rating compared to other ESG rating agencies.

“So yes, that’s also one of the reasons why it’s easier for me to be familiar with everything related to the Exchange. So, in the past, in 2009, on the one hand, we wanted to become pioneers, and we had a strong background in the capital market with him and his resources, you could say that he was qualified enough to enter there, and behind that, the spirit of Kehati was so that we could embrace the capital market...” (Respondent #1, 2023)

In the management structure of the Kehati Foundation, actors are in the Investment Team who manages the routine process of formulating the ESG Index, the practitioners come from the capital market and some come from securities companies and investment management companies who understand how to practice the formulation of an index on the capital market. Thus, this study found that professional logic emerged and dominated in the material carrier in the formulation process of the Kehati ESG Index, starting from the formulation of guidelines, procedures such as the OPM - ESG Scoring Index of Kehati, to the company/issuer decision-making process and which companies can enter the Kehati ESG Index Family.

The formulation of the ESG Scoring Index for Kehati was produced by the dominance of professional logic in the area of the material carrier component associated with the actor. This is evidenced by the acquisition of words such as “committee”, “direct”, “review” and “discuss” as well as the emergence of the dominant “professional logic” phrase/theme in the results of processing interview data using thematic analysis. This point discusses the multiple logics that emerge from the results of data analysis using content analysis and thematic analysis techniques.

“Companies that YK didn’t invite either, so we assessed everything on the list without the companies knowing. We’re just independent, that’s why the presentation hasn’t finished yet. So there’s no company approaching us... So maybe it’s a bit different compared to other commercial ESG rating providers, I don’t know what the motive is, but the background story is certain why I stopped by, I don’t know. But for YK, earlier it was returned to its “Kitoh” because of Kehati. Yes, we automatically try to embrace all aspects...” (Respondent #1, 2023)

The data that has gone through the auto-coding process is in the form of a visualization in the form of a hierarchical chart consisting of themes and sub-themes. In terms of answering all research questions related to how the Kehati Foundation’s motivation is in formulating the Kehati Index and how are the institutional logics and other logics (multiple logics, competing logics, overarching dominant logic in the material carrier elements) that arise and inspire the process of formulating the Kehati Index which is different from other rating agencies, the researcher carries out the visualization process again for coding/codes related to the theme of each research question.

Based on the results of the thematic analysis, this logic appears in the multiple logics theme quadrant as child nodes. Therefore, the ESG Scoring Index for Kehati has been prepared by combining various logics, such as market, sustainability, regulatory, and professional logic.

“Now, let’s return to the context of Kehati Foundation as an NGO, if we promote sustainability, it must be the holders who are embraced, right? So of course, you can’t deny that there is a fairly dominant role from corporations, for example, or from regulators for corporations... Besides Do know HAM but We also Do Good. If you do know ham, it just doesn’t damage it. But if it’s done well, it’s more towards impact right, like impact investment the trend of impact investment is also trending, but it doesn’t reach the philanthropy spectrum, right?...” (Respondent #1, 2023)

By reflecting on these words to the results of the interviews, it can be concluded that in carrying out the vision of sustainability, the Kehati Foundation does not only pay attention to aspects related to the environment but also related to aspects of sustainable investment. This effort is channelled through the launch of an ESG Index compiled using references that combine various guidelines, rules, frameworks, and standards originating from various external institutions, both originating from global institutions (such as GRI, PRI, SASB) or originating from local institutions such as Financial Services Authority (OJK), as the dominant symbolic carriers. The domination of the symbolic carrier towards the material carrier in the process of formulating the Kehati ESG index describes that the coupling process occurred. In addition, the use of various standards and references in preparing ESG reporting by issuers will be a motivation in creating a Kehati Index and a driver for the Kehati Foundation to produce guidelines in the process of formulating the Kehati Index. Even though the nature of this coupling practice is not a mandatory rule, as an ESG rating agency, both globally and in Indonesia, there are currently no rules, references, guidelines, or sets of regulations that require an organization to conduct ESG ratings. But in this condition, it can be concluded that the coupling process exists in the process of ESG scoring in Kehati.

The preparation of ESG index scoring involves professional judgment, the experience of actors within the organization, and the aspirations of market players (“market”). As previously explained, the Kehati Foundation often interacts with the capital market not only regarding the process of formulating OPM through FGDs but also regular coordination also occurs to ensure that the index that has been launched together with the capital market/IDX can run well.

“If we don’t cooperate. So, if we cooperate, we must work together because if we don’t cooperate who will calculate the index? It’s also impossible for Kehati Foundation to be able to, maybe the other institution other than Kehati Foundation, it’s a bit difficult, right? Because it has to be in line with other indices, like adjustments, there has to be Corporate Action, how about that? know where that is. .”(Respondent #2, 2023)

Regarding the competing logic, according to the interview data and visualization results of the thematic analysis, themes related to competing logic appear to be unlikely as shown in the hierarchical chart (Figure 3). Even though the respondents did not state that there was a logical competition between the material carrier elements in the Kehati Foundation, there were conflicts that occurred between routines, actors, and the OPM ESG Scoring Index for Kehati. Then it can be found that competing logic occurs in the liver foundation when associated with the respondent’s remarks in the interview which stated.

“If it’s a factor, we will determine it in the ESG factor, we will determine it ourselves, so based on input, of course, it refers to OJK regulations, so it will be used as a reference, POJK 51, then we also refer to the materiality aspect of SASB. We use SASB, then use GRI, then PRI also exists, but let’s just let it be the same. Usually, when you make a report, GRI is. We also use it, but the dominance is POJK 51. It’s made for the local, right, like GRI. SASB is more like a compliment but practically it’s like we blend it .”(Respondent#1, 2023)

The themes related to leadership and symbolic carriers which refer to the ESG scoring process will be used to support discussions to answer research questions related to coupling and decoupling practices. The practice of coupling or the practice of following the rules occurs at the Kehati Foundation in the process of formulating a different ESG Index Kehati compared to other rating agencies. The scoring results refer to OPM which had adopted the rules from external institutions. Then, the scoring result is in the form of a list of companies that have made it into the Kehati Universe ESG list and were submitted by the Investment Team for the review process by the Index Committee.

“...the challenge was that, so this factor doesn’t require anything you have to use this, that means that Kehati Foundation isn’t regulated, no one told you to do that, guys, that means you have to use this based on this rule, isn’t that so even if we use the POJK reference when referring to GRI, PRI, SASB, it’s more internally/Kehati Foundation has a decision...” (Respondent#1, 2023)

Another research instrument used to support the discussion and findings of the research instrument is documentation. The results of this document were obtained from secondary data derived from information published by the Kehati Foundation to the public. This secondary information can be obtained through: published articles, reports on the official website of the Kehati Foundation (Kehati Foundation, <https://kehati.or.id/>) as well as other general information spread in mass media such as television, the internet, and so on.

As an NGO organization that aims to promote sustainability issues in all aspects in strengthening organizational legitimacy, the Kehati Foundation does not only pay attention to environmental-related aspects related to sustainable investment aspects. This goal was launched through the launch of an ESG Index which was compiled using references by combining various guidelines, rules, frameworks, and standards originating from various external institutions, both originating from global institutions (such as GRI, PRI, SASB) or comes from local institutions such as Financial Services Authority (OJK), as symbolic carriers. The application of ESG reporting prepared by issuers still uses various standards and references and references/guidelines/references. This is in line with the research conducted by Bose (2020), which states that some observers in the ESG investment community have resolved dissatisfaction with the existence of so many different and contradictory (fragmented) sustainable frameworks. The diversity of frameworks in preparing ESG Reports will have an impact on increasing the use of resources to provide information for investors. Then there are no specific references, guidelines, standards, or frameworks governing ESG rating agencies. Therefore, this has become a driver for the Kehati Foundation to produce an ESG Index which can serve as a guide providing high-reliability information for investors in making investment decisions that support sustainable values.

This application describes that the institutional logic that comes from symbolic carriers dominates the material carriers triggering the coupling practice in the process of formulating the OPM ESG Indexing and Scoring in Kehati Foundation. From the point of view of the symbolic and material carrier (following existing rules), the factors such as actors that emerged in the initial formulation process of ESG Index Scoring, the actors followed and referred to existing external regulations, such as those from GRI, SASB, PRI, and POJK 51. This can describe that the practice of coupling in the process of developing the OPM ESG Scoring existed and contributed to the dominance of symbolic carriers towards material carriers. This argument is in line with research conducted by Meyer & Rowan (1977), the practice of following (coupling) or not following the reference (decoupling) carried out by actors within the organization on the procedures, rules, and guidelines that apply, is motivated by various institutional logics as material carriers so that symbolic carriers cannot be applied.

Furthermore, the practice of decoupling or the practice of ignoring the rules occurred at the Kehati Foundation on the stage of constructing the ESG Kehati Universe (The Scoring Results). The scoring results

are in the form of a list of companies/issuers reviewed by the Index Committee. The results of the review and decision of the Index Committee are the Kehati Index ESG Family which will be submitted to the Indonesia Stock Exchange for further process (published to investors). The practice of decoupling in the process of formulating the ESG Index Kehati index has resulted in differences in the results of the ESG rating with other ESG rating agencies. These findings are in line with the research conducted by Meyer & Rowan (1977), where conflicts can occur in organizations motivated by rules that are applied not too strictly (loosely/voluntarily). As well as, this study is following research conducted by Friedland & Alford (1991) that some rules would be appropriate and could be implemented by the organization, and other rules could conflict and thus not be adopted.

In producing the formulation of the ESG scoring and indexing on the material carrier's area, the Kehati Foundation is motivated by internal processes carried out by actors through routines, as well as the self-regulatory logic contained in the Kehati OPM ESG Scoring Index. Then, the process of assessing the ESG aspect material carrier component related to the routines of the formulation of the Kehati Index refers to the OPM ESG Scoring originating from external, such as GRI, SASB, UN PRI, and OJK. The assessment resulting from this process is in the form of a list of companies that will be used in compiling the Index.

From the competing logic point of view, not only the routine component that exists in the process of calculating ESG scoring, but the role of the actor /party managing the formulation of the index/ Investment Team also competes. From the beginning of the formulation of the OPM ESG Scoring Index for Kehati, it was seen that there was an internal initiative coming from actors at the Kehati Foundation in updating the OPM ESG Scoring Index to fulfil the aspirations of capital market players. In addition, in the process of examining the index, the actors dominate this process by prioritizing professionalism and independence. The process for the ESG Scoring Index Kehati was prepared by combining various logic, such as professional logic, market logic, self-regulatory logic, and sustainability logic.

In formulating the Kehati ESG Index, guidelines or OPMs as an internal reference for actors who used their professional logic as the dominant logic. The logic that emerges dominates and competes in the material carriers' elements, such as actors, OPM ESG Scoring Index, and routines, involving multiple logics, namely: professional logic, market logic, and self-regulatory logic. The character of the Kehati Foundation, which refers to the vision of sustainability, is also open to accepting aspirations from the market fulfilling the definition of a hybrid organization. A hybrid organization is an organization that utilizes a multiplicity of logic to fulfil its social mission and provide value to users of the ESG Index information, such as investors. This is following the opinion of Pine & James (1998) which states that for some organizations, both social and non-profit organizations, creating opportunities to change consumers is part of their value proposition.

When related to the organizational character of the Kehati Foundation, researchers can say that the Kehati Foundation has the characteristics of a hybrid organization, because in carrying out its activities, this non-profit organization also faces multiple logics that inspire the practices carried out within the material carriers element in the organization. The process of ESG scoring involves professional judgment, the experience of actors within the organization, and the aspirations of market participants ("market"). The ESG Scoring Index Kehati is performed by combining various logic, such as professional logic, market logic, self-regulatory logic, and sustainability logic, and that comes from the actors, routines, OPM ESG Index Scoring Kehati, and artifacts. These findings are supported by the research by Fortezza et al. (2022), which explains there are types of organizations that will be inspired by various institutional logics, namely hybrid organizations (hybrid organizations).

The management structure of the Kehati Foundation, where actors who are in the Investment Team a department that manages the routine process of calculating the ESG Index Scoring, have experience as

capital market practitioners and are also from securities companies and investment management company that understands well how the practice of formulating an index in the capital market. So that this study found that professional logic that comes from the actors emerged and dominated the self-regulatory logic that come from OPM ESG Index Scoring Kehati, market logic obtained from the aspirations of capital market players then sustainability logic that comes from the artifact in the process of formulating the Kehati ESG Index. OPM constructed by involving professional logic by the actor also defines the criteria by which issuers can enter the Kehati ESG Index Family in the decision-making process by the Index Committee. This is not in line with the research conducted by Scott et al. (2000), which explains the multiple logics related to sustainability logic, professional logic, self-regulatory logic, and market logic form a transformation in an organization dominated by professional logic where all of this logic coexist and no one dominates.

The resulting formulation of the ESG Index Scoring Kehati refers to local wisdom. This finding is supported by previous research conducted by Davies & Doherty (2019) and Grassl (2011) who noted that organizations influenced by various logics can produce an innovative way of creating value because these organizations reconcile market and non-market logic into their business models resulting in a unique business model (Godinho et al., 2017). This will certainly impact a different ESG index/rating compared to other rating agencies because the subjectivity included in the OPM formulation process for issuers has been successfully registered into the Kehati Index in the formulation process of the Kehati Index. This practice is in line with research conducted by Friedland & Alford (1991) which states that organization as a pattern of supra-organizational activity is rooted in material practices and symbolic systems in which individuals and organizations will produce and reproduce their material life.

The implication of the study is to demonstrate a significant positive impact in promoting sustainable investment and gaining the trust of investors (both potential and existing investors) which are expected to obtain adequate confidence in making investment decisions and to develop business practices for rating agencies. This study contributes an extensive ongoing development for future research which is currently still very limited.

CONCLUSION

The findings of this study have explained the answers to the research questions presented in the introduction regarding the phenomenon of differences in ESG rating results between the two ESG rating agencies, namely, Kehati Foundation and Sustainalytics. The first Research question answer was to evaluate the motivation of The Kehati Foundation in formulating the different Scoring and Index compared to the other ESG Rating Agencies in terms of externality aspects (external regulations) and internality aspects (internal practices) or the occurrence of coupling/decoupling practices. The study revealed that from the point of view of the symbolic and material carrier, Kehati Foundation participates in adapting rules (coupling practices) originating from external sources, such as GRI, SASB, UN PRI, and POJK 51/2017. The factors such as actors that emerged in the initial formulation process of ESG Indexing and Scoring followed and referred to those existing external regulations. Furthermore, the practice of decoupling or the practice of ignoring the rules occurred at the Kehati Foundation on the stage of constructing the ESG Kehati Universe (The Scoring Results). These findings are in line with the research conducted by Meyer & Rowan (1977), where conflicts can occur in organizations motivated by rules that are applied not too strictly (loosely/voluntarily). As well as, this study is following research conducted by Friedland & Alford (1991) that some rules would be appropriate and could be implemented by the organization, and other rules could conflict and thus not be adopted. The last Research question was to evaluate how the institutional

logic (Multiple, Competing, Overarching Dominant Logic) occurs on the internality aspect (material carriers). This evaluation found combining multiple logics that occur due to the formulation of the ESG Index Scoring Kehati involves professional judgment/professional logic derived from the experiences of actors within the organization. In formulating the Kehati ESG Index, guidelines or OPMs as an internal reference for actors who used their professional logic as the dominant logic. The character of the Kehati Foundation, which refers to the vision of sustainability, is also open to accepting aspirations from the market fulfils the definition of a hybrid organization. This is following the opinion of Pine & James (1998) which states that for some organizations, both social and non-profit organizations, creating opportunities to change consumers is part of their value proposition. The implementation of the ESG Scoring Index is carried out with competing logic, such as market logic (routines), self-regulatory logic (OPM ESG Scoring Index Kehati), as well as professional logic (actors). This finding is supported by previous research conducted by Davies & Doherty (2019) and Grassl (2011) who noted that organizations influenced by various logics can produce an innovative way of creating value because these organizations reconcile market and non-market logic into their business models resulting in a unique business model (Godinho et al., 2017). The limitation of this study came from the selection of the object of analysis due to the limited market players in the ESG rating agency industry in Indonesia so researchers cannot make comparisons with similar research objects originating from local rating agencies that are already credible. Other limitations are contributed by the number of respondents interviewed and the use of expert opinion in the field of ESG which has not been conducted as a more complete data source. Based on the limitation previously mentioned, future research is expected to use expert opinion as a primary data source to obtain a better understanding of ESG concepts. Further research can also make a comparison between research objects by using multiple units of analysis and use different but relevant theories and conceptual frameworks to analyze in a more precise explanation how the motivation of ESG rating agencies in formulating the ESG Index.

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