

Integrating Sustainability, Digital Transformation and State Policy Post 2024

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Abstract

This study examines the latest phenomena in capital budgeting in Indonesia, characterized by the integration of sustainability principles (Environmental, Social, and Governance/ESG) and the utilization of digital technology in investment decision-making processes. This transformation marks a paradigm shift from the traditional approach focused solely on financial efficiency to a more holistic strategic approach that incorporates social, environmental, and corporate governance aspects. The study also explores the role of government policies and technological advancements in supporting the implementation of adaptive and transparent capital budgeting. The findings reveal that although challenges in adopting technology and ESG remain significant, especially among small and medium enterprises, companies that successfully integrate these aspects demonstrate greater resilience and competitive advantage. The research emphasizes the importance of collaboration among the private sector, government, and academia to accelerate the transformation of capital budgeting towards a more inclusive and sustainable economic development in Indonesia.

Keywords: Capital Budgeting, Sustainability, Esg, Digitalization, Investment, Indonesia

INTRODUCTION

Capital budgeting is a fundamental process in long-term investment decision-making that determines the future growth direction of a company. Traditionally, capital budgeting is conducted using quantitative deterministic approaches such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period. However, in recent years, especially from 2023 to 2025, these traditional methods have begun to show their limitations in responding to increasingly dynamic, complex, and high risk business environments.

In Indonesia, the phenomenon of capital budgeting has undergone a transformation alongside structural changes at both macro and micro levels. Global uncertainties following the COVID-19 pandemic, rising geopolitical tensions, energy price volatility, and accelerated digitalization have become the main catalysts for a paradigm shift in long-term investment decision-making. Additionally, sustainability factors reflected in the principles of Environmental, Social, and Governance (ESG) have become a primary consideration in project feasibility evaluation. Not only global investors but also domestic financial institutions and regulators such as the Financial Services Authority (OJK) and the Ministry of Finance of the Republic of Indonesia have promoted the application of ESG principles in all capital investment policies.

RESEARCH METHODS

1. Research Approach

This study employs a descriptive qualitative approach with the aim of comprehensively

portraying the latest phenomena in capital budgeting in Indonesia. This approach is chosen because it is well-suited to explore the underlying meaning behind the dynamic and complex changes in capital budgeting practices, as well as to understand the perceptions, strategies, and challenges faced by industry players and policymakers in implementing sustainability (ESG) principles and digital transformation.

2. Data Type and Source

This research adopts a multi-unit case study design involving several entities, including large private companies, state-owned enterprises (SOEs), technology based startups, and government institutions involved in capital budgeting. Through this method, the researcher can compare capital budgeting practices across institutions and identify common patterns as well as significant differences in implementation.

3. Data Collection Technique

Data collection techniques are carried out through a combination of several methods, namely in- depth interviews, document analysis, and indirect observation. Interviews were conducted with financial managers, project planners, regulatory officials (from the Financial Services Authority/OJK and the Ministry of Finance), and ESG analysts from national financing institutions. Document analysis includes corporate annual reports, the 2024–2025 State Budget (APBN) documents, the OJK green taxonomy, and national fiscal policy reports.

4. Data Analysis Technique

The collected data were analyzed using thematic analysis, a qualitative technique that involves identifying, analyzing, and reporting patterns or themes that emerge from the data. The analysis process was conducted in several stages:

- (1) Transcription of interview data
- (2) Initial coding
- (3) Theme searching
- (4) Theme reviewing
- (5) Theme naming
- (6) Construction of an interpretative narrative.

5. Objects of Research

Informants were selected purposively, based on the criterion that they possess direct experience and understanding of capital budgeting processes, ESG implementation, and digital transformation in investment decision-making. Informant selection criteria included a minimum of five years of professional experience in the relevant field and active involvement in investment planning processes.

6. Research Time and Location

The research was conducted in key economic, financial, and technological hubs in Indonesia, including the Greater Jakarta area (Jabodetabek), Surabaya, and Bandung. The fieldwork took place over a six-month period, from January to June 2025. During this period, the researcher conducted a series of interviews, document reviews, and concurrent data analysis.

With the approach and methods employed, this research is expected to provide a comprehensive overview of how capital budgeting in Indonesia has evolved, particularly in response to global challenges and national policies related to sustainability and digitalization. This methodology also allows for the emergence of new insights that are contextual, relevant, and applicable for the development of long-term investment strategies.

Overall, this methodological design supports the research objectives by facilitating a deep

understanding of the paradigm shift in capital budgeting and its implications for corporate financial governance and public policy direction in Indonesia.

RESULTS AND DISCUSSION

The findings of this study reveal a significant shift in capital budgeting approaches across various sectors in Indonesia. Companies have begun to integrate sustainability and digitalization aspects into the evaluation and decision-making processes for investments. This is reflected in the growing allocation of capital toward projects involving renewable energy, green technology, and the digitalization of business processes.

One of the main findings is the adoption of ESG (Environmental, Social, and Governance) criteria in investment project evaluations. Companies operating in the energy and manufacturing sectors have started incorporating environmental indicators such as carbon emissions, energy efficiency, and the use of renewable raw materials into investment feasibility assessments. Meanwhile, social and governance aspects are evaluated through metrics like local community engagement, human resource management, and transparent corporate governance structures.

In the context of digitalization, many companies have shifted part of their capital budgets toward investments in digital infrastructure, such as Enterprise Resource Planning (ERP) systems, Artificial Intelligence (AI) technologies for financial planning, and cloud-based data integration. These initiatives not only enhance operational efficiency but also enable companies to make more accurate projections based on real-time data.

In the public sector, the integration of ESG and digital transformation in capital budgeting is also becoming evident. Regional governments involved in this study have begun formulating development plans based on green indicators and budget efficiency supported by technology. This shift contributes to greater transparency and accountability in regional financial management.

However, the implementation of ESG-based and digital capital budgeting is not without challenges. Some companies still struggle with accessing valid and consistent ESG data. Additionally, a lack of human resources with expertise in new technologies hinders the digital transformation process.

Another challenge lies in the inconsistency of ESG measurement standards across institutions and the limited availability of fiscal incentives for companies adopting sustainability principles. These findings underscore the need for a more active governmental role in establishing consistent regulations and providing technical and financial support to accelerate this transformation.

The study also reveals that companies which have adopted modern capital budgeting approaches tend to demonstrate better financial performance and stronger reputations than those still relying on conventional methods. This is reflected in indicators such as profit growth, cost efficiency, and increased market valuation.

From a decision-making standpoint, the adoption of analytics technologies and digital systems contributes to improved accuracy and speed in investment planning processes. Companies are able to test multiple investment scenarios simultaneously, make more data driven decisions, and reduce human bias.

In conclusion, the transformation of capital budgeting in Indonesia is moving toward a

model that is more adaptive to global changes. The adoption of ESG and digital technologies has proven to be key factors in creating a more resilient, sustainable, and efficient investment decision-making system.

CONCLUSION

Capital budgeting in Indonesia is currently undergoing a strategic transformation by increasingly integrating sustainability and digitalization into the investment decision making process. Companies are beginning to recognize the importance of considering environmental, social, and governance (ESG) factors as essential components of project feasibility evaluations, beyond mere financial profitability. At the same time, advancements in information technology have had a significant impact on the efficiency and accuracy of preparing, analyzing, and monitoring capital budgets. This evolution reinforces the role of capital budgeting as a critical tool for supporting long-term business sustainability and competitiveness.

Despite this positive progress, significant implementation challenges remain particularly for small and medium-sized enterprises (SMEs) that often lack adequate digital infrastructure and a comprehensive understanding of ESG principles. Therefore, the role of government, financial institutions, and educational entities is crucial in creating an ecosystem that facilitates the full adoption of this transformation. Through strong collaboration and consistent policy support, capital budgeting in Indonesia has the potential to become a strategic instrument for fostering more inclusive, adaptive, and sustainable economic development in the future.

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