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The influence of Diversity, Inclusion, and People Development (DIP) on ESG performance in conventional banking

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Abstract: This study aims to analyze the influence of Diversity, Inclusion, and People Development (DIP) on Environmental, Social, and Governance (ESG) performance in the conventional banking sector in Indonesia during the 2021–2023 period. Based on Stakeholder Theory, this study argues that a bank's success is not only measured by profitability, but also by its ability to accommodate the interests of employees and communities through robust DIP practices. Using an explanatory quantitative method with a purposive sampling technique, this study involved 24 conventional banks listed on the Indonesia Stock Exchange, resulting in a total of 72 observation units analyzed using multiple linear regression. The results of the hypothesis testing indicate that the Diversity and People Development variables have a positive and significant influence on ESG performance, confirming that diverse perspectives and investment in human capital development are key pillars in strengthening corporate sustainability. Conversely, the Inclusion variable was found to have a negative and significant influence on ESG performance, indicating strategic inefficiency where current inclusion policies are still considered an operational burden that increases costs without providing direct returns on ESG scores. This study concludes that although HR development has become a mature industry standard, banks need to re-evaluate the effectiveness of the implementation of inclusion policies so that they can create sustainable strategic value and not just become an administrative formality.

Keywords: Diversity, Inclusion, People Development, ESG, Conventional Banking

INTRODUCTION

The implementation of sustainable finance in Indonesia has entered a crucial phase since the issuance of Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017. This regulation requires Financial Services Institutions (LJK) to begin gradually reporting on Environmental, Social, and Governance (ESG) practices. This policy is not simply a matter of compliance, but rather a strategy to maintain national economic stability and banking health. This is evidenced by the significant asset growth in the post-regulation period (2017–2024), with banking assets growing by 57.3% to IDR 11,968 trillion. Although influenced by

macroeconomic factors, strengthening ESG standards is recognized as a catalyst for increasing investor confidence and market access.

For the banking sector, ESG is seen as a strategic framework for mitigating new financial risks, such as climate risk in the agricultural sector and social risk in corporate financing. The implementation of ESG allows banks to map long-term risks previously undetected in traditional credit analysis, while also opening up opportunities for green financing instruments.

Amidst digital competition, the Diversity, Inclusion, and People Development (DIP) pillar has evolved into a key determinant of bank competitiveness. According to reports by global institutions such as McKinsey and PwC (2023), diversity is not simply an issue of gender representation but encompasses the diversity of thought that drives product innovation. However, diversity without inclusion will fail to foster talent retention. In the highly regulated banking industry, an inclusive culture serves as a risk management tool to prevent dangerous groupthink. Meanwhile, People Development has become a strategic mandate for massive upskilling in data analytics and cybersecurity to support digital transformation.

Despite the increasing urgency of ESG, the current literature remains fragmented. Previous research tends to be limited to gender diversity at the board level and its financial links. There is a significant lack of attention to dimensions of inclusion (such as access for employees with disabilities and flexible work policies) and sustainable human resource development. Most studies remain stuck in traditional financial performance analysis, failing to uncover how ESG values are integrated into bank operations through human capital management.

This study aims to fill this literature gap by comprehensively analyzing the influence of Diversity, Inclusion, and People Development on ESG performance in Indonesian banks for the 2021–2023 period. Based on Stakeholder Theory, this study argues that a bank's long-term success is measured not solely by profits, but by its ability to accommodate the interests of employees and the community through robust DIP practices. The results of this study are expected to provide a framework for banking regulators and management in aligning human capital management with sustainable finance targets.

METHOD

This research uses an empirical explanatory quantitative design to analyze the influence of Diversity, Inclusion, and People Development (DIP) on Environmental, Social, and Governance (ESG) performance in the Indonesian banking sector. The study population included all banks listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The sample was selected using a purposive sampling technique, with the primary criteria being that banks publish separate annual reports and sustainability reports (stand-alone), have an independent ownership structure, and do not have overseas branches. Based on these criteria, a final sample of 24 conventional banks was obtained, resulting in a total of 72 observation units during the study period. The independent variable in this study is DIP, measured through 19 assessment indicators, covering aspects of gender and cultural diversity (Paolone et al., 2024), workplace inclusion policies (Tumewang et al., 2024), and investment in human resource development (Shrestha et al., 2025). The dependent variable, ESG performance, is assessed based on three main dimensions: environmental, social, and governance, using the Menicucci and Paolucci (2023) framework. To ensure the validity of the estimation results, this study includes bank size as a control variable, proxied by the company's total assets.

Data collection was conducted using secondary data documentation techniques sourced from the annual reports and sustainability reports of each bank, as well as official

publications of the Financial Services Authority (OJK). The use of separately published sustainability reports was the primary focus because they are considered more comprehensive in presenting strategic information related to ESG issues than annual reports (Al-Shaer et al., 2022). Data analysis in this study was conducted using a quantitative approach, using a multiple linear regression model as the primary tool to evaluate the influence of Diversity, Inclusion, and People Development (DIP) on ESG performance. The initial stage of the analysis began with descriptive statistics to map the basic characteristics of the data through the mean value, standard deviation, and minimum and maximum ranges for each variable. This step is crucial for understanding the data distribution before further hypothesis testing.

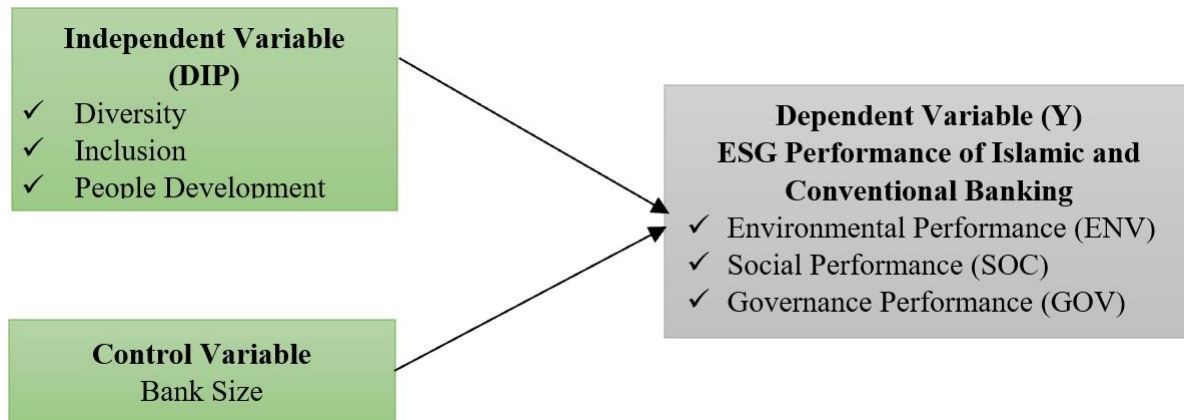


Figure 1. Conceptual Framework

RESULT AND DISCUSSION

a. Descriptive Statistical Test Results

In this study, descriptive statistics are useful for obtaining information about research variables. The results of descriptive statistics on this research variable are:

Table 2. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Diversity	75	.50	1.00	.8083	.1054
Inclusion	75	.25	.75	.5400	.15400
People Development	75	.57	1.00	.8533	.09957
ESG Score	75	.26	.40	.3304	.03330
Bank Size	75	.03	6.87	3.5415	1.83932

Source: Primary Data Processed, 2025

The descriptive statistics results for conventional banking show that People Development has the highest mean value (0.8533) with the strongest level of homogeneity (SD 0.09957), reflecting a very uniform commitment to HR development. Diversity is also at a high and consistent level (mean 0.8083), while Inclusion shows a moderate value (0.5400) with a greater level of variation in practices between banks (SD 0.15400). On the other hand, ESG Performance recorded the lowest mean (0.3304) with a very narrow data dispersion (SD 0.03330), indicating that although the collective sustainability score is still low, the level of implementation is very uniform across the sample. In contrast to other variables, Bank Size has the most extreme data dispersion (SD 1.83932), indicating significant diversity in asset scale among the conventional banks studied. Hypothesis Testing.

a. Normality Test Results

The function of the Normality Test is to test a regression model, whether the confounding variables (residuals) have normality or not, the residual value must follow a normal distribution. Normality testing in this study used the Kolmogrov-Smirnov Test. This test requires that the significant value of the Kolmogrov- Smirnov test must be greater than 0.05. The results of the normality test in this study are as follows:

**Table 3. Normality Test Result
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		75
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.01388633
Most Extreme Differences	Absolute	.085
	Positive	.085
	Negative	-.043
Test Statistics		.085
Asymp. Sig. (2-tailed)		.200 ^d

Source: Primary data processed, 2024

The use of the Kolmogorov-Smirnov Test method in this research data obtained an Asymp, Sig. (2-tailed) value of 0.200 which is greater than (0.05) so it can be concluded that the data is normally distributed, because the significance value obtained is greater than 0.05.

b. Conventional Banking Test Results

**Table 4. Moderation Coefficient Table
Coefficients^a**

Model	—	Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	.107	.016		6.462	.000
	Inclusion	-.141	.017	-.653	-8.473	.000
	People Development	.155	.034	.643	4.586	.000
	Diversity	.215	.039	.679	5.496	.000
	Size Bank	-.002	.001	-.084	-1.545	.127

a. Dependent Variable: ESG Performance

Source: Primary data processed, 2025

The t-test results for conventional banking indicate that the Diversity and People Development variables have a positive and significant effect on ESG performance with a significance value of 0.001 each (Sig. <0.05). Conversely, the Inclusion variable shows a significant negative effect on ESG performance with a significance value of 0.001 and a b coefficient of -0.141. Meanwhile, the control variable, bank size, was not found to have a significant effect on ESG performance because it had a significance value of 0.127, which is greater than 0.05.

$$ESG_{it} = 0.107 + 0.215 \text{ Diversity} - 0.141 \text{ Inclusion} + 0.155 \text{ People Development} - 0.002 \text{ Bank Size} + 3 \text{ epsilon}$$

Coefficient of Determination

The results of the determination test (Adjusted R Square) are as follows:

Table 5. Determination Coefficient Test Results

Model Summary ^b			
Model	R	R Square	Adjusted R Square
1	.909 ^a	.826	.816

a. Predictors: (Constant), Bank Size, Diversity, Inclusion, People Development

b. Dependent Variable: ESG Performance

Source: Primary data processed, 2025

The Adjusted R Square value of 0.816 confirms that after adjusting for the number of variables and sample size, 81.6% of the variation in ESG performance can still be explained by this model. In conclusion, the estimated regression model has very strong predictive ability in explaining the dependent variable.

Discussion

The Influence of Diversity on ESG Performance in Conventional Banking.

The statistical analysis shows that diversity has a positive and significant impact on Environmental, Social, and Governance (ESG) performance in the conventional banking sector. This finding confirms that increasing diversity within an organizational structure is linearly correlated with improved ESG performance. Empirically, the average diversity score of 0.8083 with a very small standard deviation (0.10545) indicates that employee diversity is no longer merely an optional initiative but has become a mature industry standard and is consistently integrated in the banking sector.

From a Stakeholder Theory perspective, this positive relationship confirms that diversity is a strategic mechanism for banks to meet the interests of a broader range of constituents. By integrating diverse backgrounds, banks gain a richer spectrum of perspectives in mapping social and environmental risks. This strengthens the argument that inclusive organizations tend to be more adaptive in creating long-term value and maintaining business sustainability.

This finding also provides empirical support for the research of Tumewang et al. (2024), which states that board diversity, both in terms of gender and ethnicity, has a positive impact on oversight. This diversity plays a crucial role in mitigating governance risks and increasing reporting transparency. Conventional banks in Indonesia have demonstrated this commitment by disclosing high diversity metrics in their sustainability reports, which in turn strengthens the company's reputation in the public eye.

The Influence of Inclusion on ESG performance in conventional banking

In contrast to the diversity variable, the results of this study indicate that inclusion has a significant negative impact on ESG performance in conventional banking in Indonesia. This finding indicates that improvements in inclusion practices are actually correlated with a decline in ESG performance scores. Descriptively, the inclusion variable demonstrated the weakest performance, with a mean of 0.5400 and the highest standard deviation (0.15400). The wide range of values (0.25 to 0.75) reflects significant inequality and inconsistency in inclusion practices across banks, with many institutions allegedly still facing challenges in providing equitable participation for their employees.

Theoretically, this finding suggests strategic inefficiencies in the application of Stakeholder Theory. Although organizations attempt to accommodate the interests of stakeholders (employees and regulators) through inclusive policies, their implementation has not yet been translated into tangible sustainability value. This finding is inconsistent with

research by Mukhibad et al. (2024), who found that in the context of conventional banking in Indonesia, inclusion actually exerts negative pressure on the total ESG score.

These negative impacts are thought to be rooted in governance and cost efficiency. The implementation of inclusion policies—such as hybrid work systems or alternative welfare benefits—is often perceived as an operational burden that increases costs without providing commensurate returns on ESG metrics in the short term. Consequently, shareholders and ESG investors may view these initiatives as financially inefficient. This ineffectiveness in balancing social interests and profitability causes inclusion policies to erode ESG scores, which serves as a warning to the banking sector to re-evaluate the effectiveness of their inclusion policy execution so that they are not merely administrative formalities but are capable of creating sustainable strategic value.

The influence of People Development on ESG performance in conventional banking

The results of the study indicate that the People Development variable has a positive and significant influence on ESG performance in conventional banking in Indonesia. This finding confirms that increased investment in human capital directly contributes to strengthening corporate sustainability performance. Empirically, People Development emerged as the strongest internal pillar, with the highest mean score of 0.8533. This figure reflects the banking industry's strong commitment to prioritizing continuous training programs and employee competency updates in response to stringent industry regulations.

The strength of this variable is also demonstrated by the very high level of homogeneity across the sample, with the smallest standard deviation of 0.09957. This indicates that HR development practices have become a uniform industry standard, across both large and small banks. Although the current average ESG score remains at a moderate level (0.3304), the high consistency in HR capacity development provides strategic capital for banks to accelerate the integration of sustainability issues, such as green banking and business ethics, into employee technical competencies.

This finding provides strong support for Stakeholder Theory and aligns with previous literature, including research by Shrestha et al. (2025), which states that human resource development is a crucial factor in improving a company's non-financial quality. From this theoretical perspective, investment in employees not only meets internal needs but also creates value for secondary stakeholders. Skilled employees improve the quality of service to customers, while transparent human resource development policies send a positive signal to investors regarding good governance.

Overall, the success of conventional banking in capitalizing on human resource investments into higher ESG performance demonstrates that meeting stakeholder interests does not conflict with profitability goals. Instead, it serves as a key foundation for creating sustainable value, strengthening the organization's reputation, and ensuring operational continuity in the capital markets.

CONCLUSION

1. This study concludes that diversity has a positive and significant impact on ESG performance in conventional banking in Indonesia. With a high mean value (0.8083) and low standard deviation, diversity has transformed from an optional initiative to a mature industry standard. Theoretically, this reinforces Stakeholder Theory, where a broad spectrum of perspectives from diverse employee backgrounds has been shown to be effective in mitigating governance risks and increasing the transparency of sustainability reporting.

2. Inclusion was found to have a significant negative impact on ESG performance. This finding highlights strategic inefficiencies, with inclusion practices in Indonesian banking still showing significant inequalities (ranging from 0.25 to 0.75). This negative impact indicates that current inclusion policies are still viewed as an operational burden that increases costs without providing direct returns on ESG metrics. This serves as a warning to banks that inclusion policies, which are merely administrative formalities, can actually erode ESG scores if not managed effectively to create strategic value.
3. People Development was identified as the strongest pillar with a significant positive influence on ESG performance. As the variable with the highest average score (0.8533), HR development is a key driver for banks in capitalizing on human capital investments into sustainable value. Banks' consistency in educating employees provides significant capital for the integration of green banking and business ethics. Success in this variable demonstrates that meeting the interests of internal stakeholders (employees) is directly proportional to improved reputation among investors and long-term operational efficiency.

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