AGUSTINUS HARIADI DJOKO PURWANTO. Strategy to Enhance Competitive Advantage Based on Implementation of Environmental Safety Health (ESH) Management. Advised by BUDI SUHARJO, UJANG SUMARWAN, and HENY K DARYANTO.

Frequency and severity of environmental pollution and occupational health safety accidents increase from time to time. In year 2010, number of accident reached 86,693 consisting of 1965 fatalities, 31 total disables, 3662 functional disable, 2313 partial disable and 78,722 full recovery. At the same time, stakeholders (customer, government, general public, NGO, employees) demand tightly companies to minimize risks from their operations. Organization respond differently to the pressures, which can be categorized into reactive and proactive strategies. Reactive strategies are when companies just comply minimum requirement of government regulations, whilst proactive companies apply ESH management through Elimination, Substitution, Reuse, Recycle, and Recovery as well as Engineering control. In terms of applied ESH management by the company, risks seem to have been controlled, however pollution and accident still occur. Therefore, companies need to implement ESH management consistently by means of Management commitment, Process management and Human resource management to achieve high ESH performance. This will improve Customer satisfaction, Legitimacy from government and public, Reputation and External cooperation after which it will increase Competitive advantage and Financial performance.

The research has four objectives. These are: 1) analyze strategy applied by companies in implementing ESH, 2) analyze effects of ESH management elements to ESH performance, 3) analyze effects of ESH performance to Competitive advantage and Financial performance, 4) develop a model strategy to enhance Competitive advantage based on implementation of ESH which are constructed from Commitment management, Process management, Human resource management and ESH performance. Importance of this research is that all parties can refer to this ESH implementation model which combining factors of operating management and financial as well as non financial indicators which can a representation of the performance and guidance in implementing ESH strategy. In addition, there are not any research carried out to examine relationship comprehensively as developed by this research model. In designing and running the research, theories referred are stakeholders theory, shareholders value theory and management theory.

Research uses analysis methods consisting of descriptive, Structural Equation Model (SEM), Mann-Whitney test, T-test and Chi-square test. Number of respondent involved for descriptive analysis and SEM is 119 companies covering 20 industrial sectors located in Java, Sumatera, Kalimantan, Sulawesi and Papua. Sample for the Mann-Whitney test is 45 companies which are already as respondents and audited by auditor of certification body in order to compare between respondent and auditor perception. Whilst, sample number for cross-
tabulation is 40 companies which are registered in Bursa Efek Jakarta, PROPER (Program Peringkat Kinerja Industri) of Ministry of Environment, and companies audited by certification bodies auditors. This analysis is done to examine relationship between environmental performance and financial performance.

The test result to the model of the Environmental Safety Health is as follows. The descriptive analysis reveals that companies in Indonesia apply both reactive and proactive management strategy at the same time. Investigation to integration between environmental and occupational safety health management shows that companies have integrated to the level of procedure, personnel and operational practices. In the implementation of ESH management, interaction between its elements is as follows: a) ESH performance is affected positively and simultaneously by Process management and Human resource management; b) Process management and Human resource management individually is affected positively by Management commitment; c) Process management is affected positively by Human resource management, however, Human resource management is affected negatively by Process management.

Research result on business aspect of the companies show that Competitive advantage (Customer satisfaction, Customer complaint, Reputation, Award, Legitimacy, and External cooperation) is affected positively by ESH performance (pollution, accident, compliance and overall performance). Financial performance (Increase in sales, Increase in nett profit, ROA) is influenced positively by ESH performance, both as direct ESH influence or indirect ESH influences through Competitive advantage of which it eventually improves Financial performance. Investigation to secondary data on environmental performance provided from auditor and PROPER report show that these do not affect financial performance. In relation to the design and test of the ESH model, this research shows that the ESH implementation model can be applied to enhance Competitive advantage and Financial Performance in which its constructing elements consist of Management commitment, Process management Human resource management and ESH performance.

Managerial implication from the research is that Firstly, organizations should have included ESH matters into their main strategy and apply more proactive strategy rather than reactive ones since its implementation has given intangible and tangible benefits at the same time. Secondly, in applying the proactive strategy, it selectsthe first and second hierarchy namely Reduction at source, Elimination to Substitution, Reuse, Recycle, Recovery and Engineering control. Thirdly, balance effects of human factor and process factor for which the company is capable to rely on the two resources, which are human and system. Implication for government is to give supervision focus to companies applying reactive strategy and to coach proactive companies, which have applied best practices.

Key words: Strategy, Competitive advantage, Performance of environmental safety health, and SEM.