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The Effect of Financial Performance and Environmental Sensitivity on ESG Disclosure: Empirical Study in Agro-industrial Sector

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ABSTRACT

Environmental, Social, and Governance (ESG) considerations have evolved into fundamental aspects of business operations, responding to the mounting pressures from stakeholders such as government, society, creditors, and investors. This shift transcends mere profit- seeking, encompassing a broader commitment to environmental preservation, societal welfare, and effective governance. The study's objective is to scrutinize the impact of financial performance and environmental sensitivity on ESG implementation, employing a regression model. Financial performance, gauged by Return on Asset (ROA), and environmental sensitivity, assessed through a dummy variable categorizing companies into high and low Green House Gas (GHG) emissions groups, constitute the key variables. ESG disclosure is measured using ESG indicators. The study focuses on 18 agro-industrial companies listed on the Indonesia Stock Exchange from 2019 to 2021. Results indicate an absence of significant influence from financial performance (ROA) on ESG, while a positive and noteworthy correlation is identified between environmental sensitivityand ESG implementation.

Keywords: Agro-industrial Sector, Environmental Sensitivity, ESG Disclosure, Financial Performance

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INTRODUCTION

Undoubtedly, effective communication serves as a cornerstone for fostering and sustaining relationships between companies and their extensive array of stakeholders. In contemporary times, the escalating concerns surrounding climate change have thrust businesses into a position where they are anticipated to shoulder accountability for their economic activities. The evolution of communication patterns in tandem with the ever-changing needs and demands of society underscores the dynamic nature of this essential facet of corporate interaction. A prominent channel through which entities communicate with the general public is the disclosure of Environmental, Social, and Governance (ESG) performance. ESG disclosure represents a voluntary initiative in the realm of information dissemination, as elucidated by Faisal (2018). Rooted in established reporting frameworks like Corporate Social Responsibility (CSR) reporting, sustainability reporting, and integrated reporting, ESG disclosure accentuates information encompassing the three pivotal performance dimensions: environment, social, and governance. It crystallizes into a medium and tool through which companies articulate their commitment to Environmental, Social, and Governance responsibilities to both primary and secondary stakeholders. The strategic deployment of ESG disclosure transcends mere transparency; it assumes the role of a multifaceted instrument capable of managing risks within the corporate landscape and augmenting overall company transparency, as highlighted by MSCI in 2022. Investors, recognizing the intrinsic value of sustainable business practices, utilize ESG scores as evaluative metrics to assess the sustainability performance of companies, as underscored by Zuraida et al. (2016). ESG disclosure thus becomes instrumental in portraying a comprehensive picture of a company's dedication to environmental stewardship, social responsibility, and robust governance practices.

Furthermore, the proactive disclosure of ESG activities contributes significantly to risk mitigation, particularly in areas fraught with potential controversies related to governance, environment, and social dimensions. By enhancing transparency and oversight through comprehensive ESG disclosure, companies effectively navigate the intricate landscape of corporate responsibility, fostering trust among stakeholders and minimizing potential reputational risks. In summation, the evolution of communication practices, coupled with the imperative of addressing climate change concerns, positions ESG disclosure as a pivotal element in contemporary corporate communication. Beyond its role in transparency, ESG disclosure emerges as a strategic imperative, a tool for risk management, and a means to foster sustainable business practices that align with societal expectations and global sustainability goals.

In the past decade, there has been a growing imperative from both the government and society for companies to furnish comprehensive reports detailing their Environmental, Social, and Governance (ESG) implementations. This surge in demand reflects a broader push for increased transparency and accountability in corporate practices, aligning with evolving expectations and concerns regarding sustainable business operations. ESG disclosure, encompassing interchangeable terms such as non-financial reports, company reports, and sustainability reports (CSR), operates within the dimensions of Economic, Governance, Social, Ethics, and Environmental (EGSEE), as highlighted by Hahn and Kühnen (2013), and Rahman and Alsayegh (2021). Beyond its role as a transparency tool, ESG disclosure functions as a legitimizing mechanism for companies to showcase compliance with normal business operations and underscore their commitment to prevailing social and environmental values. Employing Signalling Theory, ESG disclosure becomes a strategic means through which companies convey positive signals to stakeholders, including shareholders, government entities, society, and communities, reinforcing their dedication to responsible and sustainable business practices.

The extent of ESG disclosure undertaken by a company often correlates with various factors, with financial performance being a prominent consideration. The causality relationship between ESG disclosure and financial performance, while subject to ongoing debate, has been explored in prior studies indicating that financial performance influences ESG disclosure (Gamerschlag et al., 2011; Menassa & Dhager, 2020; Rahman & Alsayegh, 2021). Financial performance becomes a pivotal aspect, particularly when management contemplates policies requiring substantial funding investments. Given the comprehensive nature of ESG reporting, it necessitates the involvement of competent parties proficient in this specialized field. However, it's crucial to acknowledge that the issuance of funds by companies for the preparation of ESG disclosure reports can pose additional expenses, making financial performance a significant determinant in the decision-making process of whether to report or abstain from reporting ESG activities. In conclusion, the call for ESG disclosure reflects a paradigm shift in corporate accountability and transparency, responding to societal expectations for sustainable and responsible business practices. As companies navigate the intricate landscape of ESG reporting, the interplay between financial performance, expertise, and the strategic imperative to convey positive signals underscores the multifaceted nature of ESG disclosure in contemporary corporate landscapes.

The impetus to report Environmental, Social, and Governance (ESG) performance extends beyond mere financial considerations and is also influenced by industry characteristics, as highlighted by Garcia et al. (2019). Communities are increasingly scrutinizing companies deemed to exert a direct impact on environmental degradation. In the face of escalating climate challenges and global warming that imperil Earth's biodiversity, consumers are awakening to the realization that the products they choose must originate from companies and industries that exhibit environmental sensitivity and responsibility. Consequently, a company's environmental sensitivity becomes intricately linked to its ESG disclosures. Prior research underscores this correlation, indicating that environmental sensitivity significantly influences ESG disclosure (Naeem et al., 2022). Moreover, studies demonstrate a positive relationship, revealing that companies characterized by heightened environmental sensitivity tend to engage in more extensive ESG disclosures (Garcia et al., 2019). Environmental sensitivity, in this context, can be proxied by industry type and measured through a dummy variable. High-profile companies within sensitive industries are recognized for their broad environmental responsibilities, impacting society and garnering consumer visibility. Such companies often face elevated political risk and intense competition, making ESG disclosure a form of legitimacy for their operational activities. Industries identified as high-profile, and therefore subject to heightened scrutiny, include agriculture, forestry, fishing, mining and mining services, construction, food and beverage, tobacco, paper and allied products, chemicals and allied products, plastics and glass products, automotive and allied products, pharmaceuticals, consumer goods, and telecommunications.

Indonesia, as one of the world's foremost agricultural nations, places paramount importance on agricultural production a linchpin of its trade balance and a significant source of employment for its populace. The burgeoning agro-industry adds another dimension to the nation's economic fabric. Within this context, the primary aim of this study is to meticulously analyze the impact of financial performance and environmental sensitivity on Environmental, Social, and Governance (ESG) disclosure. Drawing upon data from Indonesia's agro-industrial sector, this research endeavors to unravel the intricate dynamics of ESG reporting within a framework influenced by both financial considerations and environmental consciousness.

By delving into the interplay between financial performance, environmental sensitivity, and ESG disclosure, this study aspires to offer profound insights into how companies operating in the agro-industrial sector navigate these complexities. The findings hold the potential to contribute significant perspectives to the broader discourse on sustainable business practices and corporate responsibility in Indonesia. In essence, this research seeks to illuminate the pathways through which companies in the agro-industrial sector contribute to the overarching goals of sustainability and responsible business conduct, thereby enriching the understanding of sustainable development within the Indonesian economic landscape.

LITERATURE REVIEW

ESG Disclosure

Environmental, Social, and Governance (ESG) represent a fundamental business management principle oriented towards environmental, social, and governance aspects. Embedded within a corporate strategic framework, ESG serves as a guiding principle for companies to identify, assess, and implement efforts that underscore their commitment to sustainability. The manifestation of ESG principles often takes the form of disclosures, which can be integrated into various corporate communication channels, including annual reports, sustainability reports, or other relevant media. Additionally, companies may choose to intertwine ESG disclosures with financial reports to cater to the diverse informational needs of stakeholders (Bernardi & Stark, 2016). ESG disclosure, in essence, functions as a measuring tool, aiming to enhance transparency by providing information on the environmental, social, and governance impacts embedded in a company's non-financial activities. This disclosure stands as a pivotal index, allowing stakeholders to assess and evaluate a company's performance concerning its business continuity and impact on the three standards (Ghazali & Zulmaita, 2022). The dynamic nature of ESG disclosure positions it as an essential component in the ongoing dialogue between companies and their stakeholders, enabling a nuanced understanding of the broader implications of corporate activities beyond financial metrics.

Moreover, ESG has evolved into a critical indicator in the decision-making processes of investors and serves as a benchmark for companies to report their business impact comprehensively. Issues such as climate change, ethical supply chain management, environmental conservation, and global prosperity have gained unprecedented importance. ESG aspects have swiftly emerged as central considerations, with an increasing number of investors, regulators, and concerned parties prioritizing businesses that align with ESG principles. These aspects are not merely confined to risk mitigation but also contribute positively to addressing broader global challenges. The global trajectory of ESG has evolved to the extent that it is now a cornerstone in investment decisions and occupies a central role in shaping corporate strategy and performance. The global landscape's shifting dynamics underscore the growing significance of ESG not only as a regulatory compliance aspect but as a holistic framework that encapsulates the interconnectedness of business activities with environmental and social responsibilities. The integration of ESG principles into corporate strategy is not just a trend; it reflects a paradigm shift in how businesses perceive their role in society and the environment. As businesses navigate this evolving landscape, the strategic deployment of ESG principles becomes not only a marker of responsible corporate citizenship but also a strategic imperative for long-term resilience and success. In this context, the hypotheses of this study aim to delve into the relationships between ESG disclosure, financial performance, and environmental sensitivity to contribute nuanced insights into the complex interplay of factors influencing corporate behavior and decision-making in the modern business environment.

Financial Performance

Financial performance is one of company's achievement from various company's agenda within certain period of time (Suwadji et al., 2021). The financial performance of a company is intricately captured within the contours of its financial reports, disseminated periodically on a quarterly and annual basis, subject to meticulous scrutiny in both audited and non-audited formats. However, the focus of this particular investigation pivots towards a more granular analysis of financial performance, utilizing information derived specifically from the annual and audited financial reports of entities within the agro-industry sector. The metric selected as a proxy for evaluating financial performance is profitability, a pivotal measure of a company's ability to generate profits. In the vast array of ratios designed to gauge profitability, Return on Assets (ROA) emerges as a standout metric. This ratio, as elucidated by Brigham and Houston (2015), assesses a company's profitability by juxtaposing its net income against the total assets it holds. In essence, ROA serves as a quantitative yardstick, offering insights into the efficiency with which a company utilizes its assets to generate earnings. This metric assumes significance as it provides a nuanced perspective on the overall financial health of a company, transcending mere revenue figures. The chosen perspective for this study, focusing on the agro-industry sector, is driven by a deliberate effort to examine how financial performance unfolds within the specific context of annual and audited financial disclosures within this industry. The rationale behind the emphasis on profitability lies in its multifaceted nature as a comprehensive indicator of a company's financial well-being. By scrutinizing ROA, one gains more than just a glimpse into the financial efficiency of a company; it offers a detailed panorama of how assets are leveraged to generate earnings, providing a holistic understanding of the economic landscape.

This analytical approach holds the promise of unraveling the intricate financial dynamics within agro-industry companies. It goes beyond conventional financial reporting, contributing to a more nuanced and informed evaluation of their economic standing. By honing in on profitability as a key determinant, the study aims to shed light on the underlying financial health of agro-industry entities, allowing for a comprehensive assessment that goes beyond surface-level financial metrics. This nuanced exploration is imperative in a sector like agro-industry, where operational efficiency, resource utilization, and overall financial robustness are pivotal for sustained success and resilience. In essence, this study delves into the financial intricacies of the agro-industry sector, utilizing the lens of profitability and ROA to decode the nuanced story embedded within annual and audited financial disclosures. The findings are expected to contribute not only to the academic discourse on financial performance but also offer practical insights for stakeholders, policymakers, and industry practitioners. As the agro-industry grapples with the challenges and opportunities inherent in its economic landscape, a thorough understanding of the financial levers driving these companies becomes indispensable for informed decision-making and strategic planning.

Environmentally Sensitive Industries

Industries experiencing substantial environmental pressure often exhibit elevated levels of environmental disclosure, as noted by Fernandez-Feijoo et al. (2014). Companies characterized by heightened environmental sensitivity possess the potential to significantly influence environmental pollution. Within many environmental problems, the company requires to pay more attention and be responsible for the environment and natural conservation (Rizki & Hartanti, 2021). This category encompasses a diverse array of sectors, such as agriculture, automotive, aviation, chemical, construction, construction materials, energy, energy utilization, paper and forest products, logistics, metal products, mining, railroads, waste management, and water utilization. Within these sectors, the impact on the environment varies, ranging from emissions and waste generation to resource utilization. Agriculture, for instance, may contribute to environmental pressure through pesticide usage and land clearing. The automotive and aviation industries, with their reliance on fossil fuels, significantly contribute to air pollution. Similarly, the chemical and mining sectors may pose risks through the release of hazardous substances. In contrast, waste management and water utilization industries play crucial roles in environmental sustainability. Understanding the environmental pressures and disclosure practices within these diverse industries is imperative for fostering responsible business practices and facilitating informed decision-making regarding environmental conservation and sustainable development. Companies operating within these sectors need to embrace proactive environmental management strategies to mitigate their ecological footprint and contribute positively to global sustainability goals.

Legitimacy Theory

Legitimacy theory is defined as a company management system that prioritizes interest of the community and the surroundings (Sunarsih et al., 2019). Industries grappling with substantial environmental pressure often display heightened levels of environmental disclosure, as highlighted by Fernandez-Feijoo et al. (2014). Companies characterized by an acute environmental sensitivity possess the potential to exert a significant influence on environmental pollution. This category spans a diverse array of sectors, including but not limited to agriculture, automotive, aviation, chemical, construction, construction materials, energy, energy utilization, paper and forest products, logistics, metal products, mining, railroads, waste management, and water utilization. Within these sectors, the environmental impact varies significantly, encompassing factors such as emissions, waste generation, and resource utilization. For example, the agriculture sector may contribute to environmental pressure through pesticide usage and land clearing, while the automotive and aviation industries, reliant on fossil fuels, significantly contribute to air pollution. Similarly, the chemical and mining sectors may pose environmental risks through the release of hazardous substances. Conversely, industries involved in waste management and water utilization play crucial roles in environmental sustainability. Understanding the nuanced environmental pressures and disclosure practices within these diverse industries is imperative for fostering responsible business practices and facilitating informed decision-making regarding environmental conservation and sustainable development. Companies operating within these sectors are confronted with the imperative to embrace proactive environmental management strategies. These strategies are not only vital for mitigating their ecological footprint but also for contributing positively to global sustainability goals.

In an era where environmental concerns have transcended local boundaries and become global imperatives, companies must recognize their role as pivotal actors in the pursuit of sustainable development. Proactive environmental management is no longer merely a regulatory requirement; it is a strategic imperative. It involves adopting practices that extend beyond compliance and actively contribute to environmental conservation and sustainability. For industries entailing higher environmental pressure, robust disclosure practices become essential not only as a regulatory obligation but also as a means of establishing transparency and accountability. Transparent disclosure enables stakeholders, including investors, regulatory bodies, and the general public, to assess a company's environmental impact and its commitment to sustainable practices. This transparency, in turn, enhances the company's reputation, fosters stakeholder trust, and positions it as a responsible corporate entity. As industries grapple with the multifaceted challenges of environmental sustainability, the imperative for responsible environmental management becomes a cornerstone for long-term viability. Beyond compliance, companies need to proactively engage in assessing and mitigating their environmental impact. This involves adopting technologies and practices that minimize emissions, reduce waste generation, and optimize resource utilization. Such measures not only align with global sustainability goals but also contribute to operational efficiency and long-term resilience. In conclusion, the intricate interplay between environmental pressure, disclosure practices, and responsible environmental management within diverse industries underscores the need for a comprehensive and strategic approach.

Companies must go beyond mere compliance, embracing proactive strategies that align with environmental sustainability. In doing so, they not only contribute to global sustainability goals but also fortify their own resilience in the face of evolving environmental challenges.

Hypothesis Development

Environmental, Social, and Governance (ESG) disclosure functions as a multifaceted tool, serving to bolster a company's legitimacy, convey positive signals, and wield influence over stakeholder decisions. The premise lies in the notion that the quality of ESG disclosure directly correlates with the favorable perception of stakeholders. This is particularly evident when a company boasts abundant resources, a facet often mirrored in its financial performance. The financial prowess of a company equips it with the capacity to allocate free cash flow towards the implementation of ESG initiatives. Existing research, as posited by Gamerschlag et al. (2011), Menassa and Dhager (2020), and Rahman and Alsayegh (2021), collectively asserts that companies are inclined to adopt and divulge ESG practices when they exhibit commendable and lucrative financial performance. Hence, the first hypothesis posited in this study asserts that financial performance has a significant influence on the extent of ESG disclosure.

Delving deeper into the realm of environmental responsibility, Kolk and Van Tulder (2010) stipulate that companies operating in sectors with a direct and substantial impact on the environment bear a heightened responsibility to mitigate contributions to environmental degradation, exemplified by phenomena such as Green House Gas (GHG) emissions or carbon emissions. Building upon this perspective, Garcia et al. (2019) and Naeem et al. (2022) present empirical evidence supporting the argument that companies characterized by a heightened sensitivity to environmental concerns are not only predisposed to but also actively encouraged to intensify the implementation and disclosure of ESG practices. Consequently, the second hypothesis of this study posits that environmental sensitivity yields a significant impact on the extent of ESG disclosure.

In synthesizing these perspectives, it becomes evident that the interplay between financial performance and environmental sensitivity shapes the landscape of ESG disclosure for companies. The first hypothesis aligns with the notion that financial robustness provides the necessary impetus for ESG engagement, while the second hypothesis underscores the imperative for environmentally sensitive sectors to take a proactive stance in ESG disclosure. By scrutinizing these dynamics, this study endeavors to contribute to the burgeoning discourse surrounding corporate sustainability, providing valuable insights into the determinants that steer ESG disclosure practices in contemporary business environments.

RESEARCH METHOD

This study uses a quantitative approach using secondary data taken from the annual report and the Indonesian Stock Exchange database with an observation period between 2019 to 2021. The data sampling was conducted using purposive sampling, involving the examination of the availability of audited financial reports and annual reports for each year. The following is a research sample that will be used in the study.

Table 1. Names and Corporate’s Codes

No.	Code	Corporate’s Name
1	ALLI	Astra Agro Lestari Tbk.
2	BISI	BISI International Tbk.
3	BWPT	Eagle High Plantations Tbk.
4	CSRA	Cisadane Sawit Raya Tbk.
5	DSNG	Dharma Satya Nusantara Tbk.
6	FAPA	FAP Agri Tbk.

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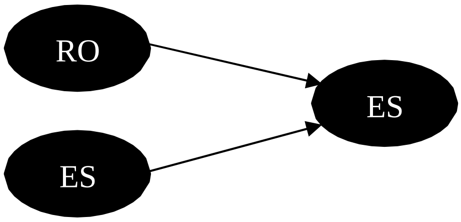
7	GZCO	Gozco Plantations Tbk.
8	LSIP	PP London Sumatra Indonesia Tbk.
9	JAWA	Jaya Agra Wattie Tbk.
10	MGRO	Mahkota Group Tbk.
11	PALM	Provident Agro Tbk.
12	PGUN	Pradiksi Gunatama Tbk.
13	PNGO	Pinago Utama Tbk.
14	PSGO	Palma Serasih Tbk.
15	SIMP	Salim Ivomas Pratama Tbk.
16	SMAR	Smart Tbk.
17	TBLA	Tunas Baru Lampung Tbk.
18	SSMS	Sawit Sumbermas Sarana Tbk.

Source: Data Processed

Data analysis uses Multiple regression analysis equation as follows:
ESG disclosure = $\alpha 0 + \Sigma\beta 1$ ESi + $\Sigma\beta 2$ROAi + ε...............(1)
Informations:
- ESG Disclosure : Extent of ESG disclosure
- ES : Environment Sensitivity
- ROA : Return on Assets

Figure 1. Research Model



Operational definitions in research are presented in the following table:

Table 2. Variable Operational Definition

No.	Variables	Variable Definition	Indicator
1	ESG Disclosure	Disclosure of company performance seen from three elements, namely (environmental, social, and governance)	The ESG disclosure score is measured by counting the number of words mentioned in the annual report for each criterion in the ESG Metrix by (Ioannou & Serafeim, 2017; Alsayegh et al. 2020)
2	Profitability	The company's ability to generate profits	ROA = Earnings after tax / total assets (Brigham and Houston, 2015)

3	Enviromental Sensitivity	Industries that have high environmental pressure and have high levels of environmental disclosure (Fernandez-Feijoo et al., 2014)	Using a dichotomous variable with the number 1 for companies that have a higher GHG amount than the industry average GHG and 0 for companies that have a GHG amount below the industry GHG average.

RESULTS

Table 3. Descriptive Statistic Result

	N	Minimum	Maximum	Mean	Std. Deviation
ESG	50	1	128	53.44	30.828
ROA	50	-0.088	0.493	0.056	0.099
ES	50	0	1	0.32	0.471

Source: Data Processed

Based on table 3, the results of the descriptive statistics show that this study has 50 observational data. The ESG dependent variable has a minimum value of 1, a maximum value of 128, an average of 53.44, and a standard deviation of 30.828. The independent variable consists of 2 variables, namely the ROA variable which has a minimum value of -0.088, a maximum value of 0.493, an average of 0.056, and a standard deviation of 0.099, while the ES variable has a minimum value of 0, a maximum value of 1, an average of 0.32, and a standard deviation 0.471.

Hypothesis Testing Results

Table 5. F Test Results

	F Value	Sig.	Pred. Sign
Model	2.631	0.083	*
R^2	0.101		
Adj. R^2	0.062		

Source: Processed Data
*** Significant at 10%
** Significant at 5%
* Significant at 1%

Based on table 4, the summary model shows that the research model has an adjusted R square value of 0.062 which indicates that the independent variables studied, namely ROA and ES are able to influence ESG by 6.2%, while the remaining 93.8% are influenced by other variables. The results of the F test show that the variables ROA and ES simultaneously have a significant effect on ESG disclosure at the level of 8.3% (below 10%).

Table 6. T Test Results

	Coef. (p value)	Sig.	Pred. Sign
Constant	5.740	0.000	***
	(8.029)		
ROA	43.121	0.768	
	(0.297)		
ES	9.066	0.027	**
	(2.288)		

*** Significant at 10%
** Significant at 5%
* Significant at 1%

Source: Processed Data

Based on table 5, the results of the T-test show that the variable financial performance as measured using Return on Assets (ROA) has no significant effect on ESG disclosure with a significance value of 0.768. So, thus hypothesis 1 is rejected.

DISCUSSION

Return on Asset (ROA) Effect on Environmental, Social Disclosure (ESG)
In scrutinizing the intersection of financial performance and Environmental, Social, and Governance (ESG) disclosure, this study challenges the prevailing findings put forth by Gamerschlag et al. (2010), Menassa and Dhager (2020), as well as Rahman and Alsayegh (2021). Contrary to the established narrative that asserts companies are inclined to reveal sustainability information only during periods of robust financial performance, this research suggests a nuanced perspective. Rather than a reactive stance, companies should proactively engage in socially responsible behavior, disclosing ESG information even in instances of favorable financial performance. This departure from conventional wisdom is predicated on the belief that optimal financial standing equips companies with the necessary resources to undertake ESG initiatives and disseminate this information comprehensively to their stakeholders.

Legitimacy theory, as expounded by Dowling and Pfeffer (1975), posits that companies align their actions with societal, governmental, and individual expectations. Typically, companies endowed with stellar financial performance and abundant resources are expected to embrace ESG practices, portraying a symbiotic relationship between financial prowess and ESG adoption. However, this study, focused on agro-industrial companies, deviates from this anticipated correlation. Contrary to expectations, this research observe that strong financial performance does not necessarily motivate ESG disclosure. This incongruity challenges the conventional wisdom rooted in legitimacy theory, signaling a need for a more nuanced understanding of the dynamics between financial success and ESG engagement in agro-industrial contexts.

An additional dimension complicating the relationship between financial performance and ESG disclosure is the unprecedented global event of the Covid-19 pandemic in 2020. The pandemic's ramifications extended far beyond the realms of public health, permeating the macroeconomic landscape. In the agro-industrial sector, the financial performance of companies witnessed a discernible decline, exemplified by a mere average Return on Assets (ROA) value of 0.056. The subdued financial conditions during the pandemic highlight a critical juncture where companies, grappling with economic uncertainties, may prioritize different considerations over ESG disclosure, previously considered a function of financial health.

Intriguingly, the pandemic-induced economic downturn has not manifested as a deterrent to ESG adoption. Rather than being a consequence of financial prowess, the motivation to implement ESG practices among agro-industrial companies appears to stem from a sense of corporate responsibility. The imperative to contribute to the Triple Bottom Line, as articulated by Elkington (1998), emphasizing economic, social, and environmental aspects, takes precedence over financial considerations during the tumultuous period of the pandemic. Companies, driven by a commitment to sustainability, adhere to ESG metrics irrespective of their financial performance, underscoring a shift in focus from financial metrics to broader corporate responsibility.

Notably, this research findings suggest that the application of ESG practices in agro-industrial companies is guided more by adherence to ESG metrics than by the financial capacity or performance of the company. In essence, these companies are motivated by a principled commitment to sustainable practices rather than pragmatic considerations of financial viability. This departure from traditional expectations challenges existing paradigms, emphasizing the evolving nature of corporate responsibility and the increasing significance placed on non-financial metrics.

This study posits a paradigm shift in the nexus between financial performance and ESG disclosure within the agro-industrial sector, urging a reevaluation of prevailing theoretical frameworks. The conventional narrative, often aligned with legitimacy theory, posits that companies with robust financial performance are predisposed to embrace ESG practices, enhancing their legitimacy in the eyes of stakeholders. However, the empirical findings challenge this presumption, revealing that financial performance, as measured by Return on Assets (ROA), does not wield a significant influence on ESG disclosure in agro-industrial companies. This incongruity necessitates a reconsideration of the underlying dynamics shaping corporate behavior in relation to sustainability practices.

Moreover, the emergence of the Covid-19 pandemic introduces a temporal dimension that further complicates the relationship between financial performance and ESG engagement. The pandemic, while exerting adverse effects on the financial health of agro-industrial companies, surprisingly did not impede their commitment to ESG practices. This resilience in ESG adoption amid economic uncertainties underscores a notable shift in corporate priorities, emphasizing the intrinsic value of sustainable business conduct beyond the immediate concerns of financial stability.

A key takeaway from this study is the discernible influence of environmental sensitivity on ESG disclosure among agro-industrial companies. Contrary to conventional expectations, which often emphasize financial performance as the primary driver of ESG engagement, the findings underscore the pivotal role of environmental conscientiousness. Companies exhibiting a heightened sensitivity to environmental concerns demonstrate a proclivity towards embracing and disclosing ESG practices. This shift in emphasis towards environmental considerations signifies a broader societal acknowledgment of the imperative for sustainable business practices, transcending the traditional metrics of financial success.

Ultimately, the empirical evidence presented challenges established notions regarding the interplay between financial performance and ESG disclosure in the agro-industrial sector. While financial prowess remains a significant factor in corporate decision-making, its influence on ESG engagement appears less pronounced than previously assumed. Instead, a principled commitment to environmental sensitivity emerges as a more decisive factor, even amidst the unprecedented challenges posed by the Covid-19 pandemic. As companies navigate the evolving landscape of corporate responsibility, this study prompts a reevaluation of theoretical frameworks, advocating for a more nuanced understanding of the intricate dynamics shaping sustainable business practices.

Enviromental Sensitivity Effect on Environmental, Social Disclosure (ESG)

The examination of the second hypothesis in this study sheds light on the intricate relationship between environmental sensitivity and Environmental, Social, and Governance (ESG) disclosure. As elucidated by the findings in Table 5, it becomes evident that the Environment Sensitivity (ES) variable exerts a significant and positive influence on the extent of ESG disclosure. Consequently, the second hypothesis is substantiated, aligning with the assertions made by Kolk and Van Tulder (2010). According to their perspective, companies operating in sectors with a pronounced and direct environmental impact are morally compelled to assume greater responsibility and make tangible contributions towards mitigating natural damage, such as Green House Gas (GHG) emissions or carbon emissions.

This study further aligns with the conclusions drawn from antecedent research that establishes a positive correlation between industrial sensitivity to the environment and heightened ESG disclosures (Garcia et al., 2019). Enterprises deemed as high-profile are those demonstrating an elevated level of environmental sensitivity, often translating into broader environmental responsibilities. Such companies wield a significant societal impact, possess heightened consumer visibility, grapple with elevated political risks, or navigate intense competition. The findings resonate with the assertions put forth by Naeem et al. (2022), underscoring the pivotal role of environmental sensitivity as a determining factor in corporate ESG disclosures.

The backdrop of this study is contextualized within the challenges faced by Indonesian agro-industry companies, particularly the unsettling issues of deforestation that marred the sector in 2020. Specifically, Indonesian palm oil companies found themselves entangled in controversies surrounding deforestation, leading to a consequential halt in the importation of Indonesian Crude Palm Oil (CPO) products by Europe. The ramifications of this black mark on the industry are substantial, with potential economic, social, and environmental consequences.

Considering the scenario, ESG disclosures emerge as a strategic and proactive medium for Indonesian agro-industry companies, particularly those in the palm oil sector, to address and mitigate the sensitive issue of deforestation. By leveraging ESG disclosure practices, companies can position themselves as responsible stewards of the environment, aiming to assuage concerns related to deforestation. This becomes imperative in the face of a global community that increasingly values sustainable and ethical business practices.

ESG disclosures, in this context, serve as more than just regulatory compliance; they evolve into a tool for vindication and reputation management. In the wake of the deforestation controversies, Indonesian agro-industry companies can utilize ESG disclosures to communicate their commitment to environmental stewardship. By transparently detailing their initiatives, policies, and performance in areas of environmental impact, these companies can rebuild trust with stakeholders, both domestic and international.

The study's findings underscore the nuanced interplay between environmental sensitivity and corporate responsibility. While environmental sensitivity serves as a catalyst for heightened ESG disclosures, it also underscores the imperative for companies to assume a proactive stance in addressing environmental challenges. In the contemporary business landscape, where sustainability concerns are integral to corporate governance, companies cannot afford to merely react to environmental issues. Instead, they must proactively engage in responsible practices and transparently communicate these through comprehensive ESG disclosures.

The juxtaposition of environmental sensitivity and ESG disclosure in the agro-industrial sector offers crucial insights into the evolving dynamics of corporate responsibility. As global awareness of environmental issues intensifies, companies operating in environmentally impactful sectors, such as agro-industry, face heightened scrutiny and responsibility. The study's findings contribute to the growing body of literature emphasizing the centrality of environmental considerations in shaping corporate behavior.

The positive correlation observed between environmental sensitivity and ESG disclosure implies that companies in the agro-industrial sector are not merely reacting to regulatory pressures but are voluntarily embracing sustainable practices. This departure from conventional expectations suggests a growing acknowledgment within the industry that sustainability is not just a compliance requirement but a strategic imperative for long-term viability. Companies with a heightened environmental sensitivity recognize the need to transcend regulatory thresholds, positioning themselves as responsible contributors to environmental preservation.

The deforestation challenges faced by Indonesian agro-industry companies, particularly those in the palm oil sector, amplify the significance of ESG disclosures. Beyond being a tool for compliance, ESG disclosures become a mechanism for these companies to communicate their commitment to addressing and rectifying environmental concerns. Transparent communication through ESG disclosures enables companies to navigate the intricate web of stakeholder expectations, rebuild damaged reputations, and foster trust among consumers, investors, and regulatory bodies.

The strategic importance of ESG disclosures is underscored by their role in reputation management. In the aftermath of deforestation controversies, Indonesian agro-industry companies must not only rectify their environmental practices but also communicate these efforts effectively. ESG disclosures become a vehicle for companies to articulate their environmental policies, showcase initiatives aimed at mitigating environmental impact, and demonstrate a commitment to sustainable practices. By doing so, these companies can reposition themselves as conscientious actors in the global business landscape.

The study contributes to the broader discourse on corporate responsibility by highlighting the evolving nature of environmental considerations in shaping ESG practices. As environmental issues increasingly permeate the corporate agenda, the study serves as a timely exploration of how companies, especially in environmentally impactful sectors, navigate these challenges. The findings emphasize the need for a paradigm shift in corporate perspectives, wherein environmental sensitivity becomes an intrinsic part of corporate ethos rather than a mere regulatory checkbox.

Ultimately, the study advances our understanding of the complex relationship between environmental sensitivity and ESG disclosure in the agro-industrial sector. The positive correlation observed signifies a departure from conventional expectations, indicating a proactive embrace of sustainability practices. Indonesian agro-industry companies, particularly those grappling with deforestation challenges, find in ESG disclosures a strategic tool for addressing environmental concerns, rebuilding reputations, and fostering stakeholder trust. The study's insights contribute to the broader discourse on corporate responsibility, emphasizing the imperative for companies to proactively engage in sustainable practices beyond regulatory mandates.

CONCLUSION

This research aimed to systematically investigate the impact of financial performance and environmental sensitivity on Environmental, Social, and Governance (ESG) disclosure in the Indonesian agro-industrial sector. The study yielded significant insights, revealing a distinct pattern: financial performance exhibited no statistically significant influence on ESG disclosure, while environmental sensitivity emerged as a robust determinant positively shaping the extent of ESG disclosure. This divergence emphasizes a pivotal shift in corporate priorities within the sampled agro-industrial companies, indicating a prioritization of environmental sensitivity over financial performance and resource capabilities in determining ESG disclosure practices. Such a departure from conventional expectations signifies a noteworthy trend, accentuating the intricate dynamics influencing the relationship between financial metrics, environmental consciousness, and ESG reporting in this specific sector.

These findings hold substantial implications, shedding light on the evolving landscape of corporate responsibility. The study underscores the pressing need for a more nuanced understanding of the multifaceted factors steering ESG disclosure practices in the agro-industrial domain. As companies navigate these complex dynamics, future research endeavors should delve deeper into the interplay between financial indicators, environmental considerations, and ESG reporting, providing a foundation for informed decision-making and sustainable corporate practices in this sector.

LIMITATION

The current study employed Return on Assets (ROA) as a metric to gauge financial performance, serving as a representative measure of available resources. Subsequent research endeavors are encouraged to explore the broader dimensions of financial indicators, specifically investigating the extent of profitability as a potential determinant for Environmental, Social, and Governance (ESG) disclosure.

The observational timeframe of this study was confined to the pandemic period, likely capturing outcomes specific to the pandemic's impact. Future investigations are advised to enhance the study's robustness by conducting a similar examination both during and after the pandemic, thereby providing a more comprehensive understanding of the factors influencing ESG disclosure practices across varied economic conditions.

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