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Unpacking Environmental, Social, and Governance Score Disparity: A Study of Indonesian Palm Oil Companies

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Abstract: This study investigates the inconsistencies in ESG scores assigned by different rating agencies. Focusing on two Indonesian palm oil companies, this paper examines the link between their reported sustainability performance and the resulting ESG scores. This study employs content analysis to assess how the companies disclose information around double materiality, stakeholder engagement, and certifications. Additionally, the methodologies used by two rating agencies are reviewed to identify potential misalignments. The analysis reveals discrepancies in the ratings, suggesting factors like differences in the level of engagement with each company and scoring methodologies might be at play. This highlights the need for standardized sustainability reporting and more transparent rating methodologies within the palm oil industry. While limited to two companies and two agencies, the findings can inform efforts to improve transparency both in sustainability practices and scoring methodologies. This would ultimately lead to more reliable ESG scores, benefiting all related stakeholders. To goal of this study is to promote responsible practices in the palm oil industry by emphasizing the impact of reporting practices.

Keywords: ESG score; sustainability performance; double materiality; stakeholder engagement; sustainability certification

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1. Introduction

The ever-growing focus on sustainability has fundamentally reshaped the investment landscape. Investors are increasingly prioritizing environmental, social, and governance (ESG) practices alongside traditional financial metrics (Amel-Zadeh and Serafeim 2018; Barker and Mayer 2024). However, the lack of universally accepted standards, particularly for specific industries, creates a challenge (Krambia-Kapardis et al. 2023). The absence of a uniform framework hinders consistent and transparent evaluation of sustainability performance (Adams and Abhayawansa 2022; Pizzi et al. 2023).

In this context, ESG rating agencies emerge as key players, aiming to bridge the gap by providing independent assessments of companies' ESG performance (Christensen et al. 2022). These agencies develop proprietary scoring methodologies to evaluate a range of factors, including environmental impact, social responsibility, and corporate governance practices (Billio et al. 2021; Saadaoui and Soobaroyen 2018). ESG ratings play a critical role in informing investment decisions, particularly for investors seeking to align their portfolios with sustainable practices (Serafeim and Yoon 2022).

Indonesia, a rising economic powerhouse projected to be among the top four largest economies by 2050 (OECD 2018), faces a unique challenge: balancing rapid economic growth with environmental responsibility. As the world's largest producer and exporter of palm oil (a type of vegetable oil), a resource crucial to the nation's development, Indonesia also grapples with the industry's potential environmental impact, including deforestation and biodiversity loss (Abdullah et al. 2020; Corciolani et al. 2019; Svatoňová et al. 2015) and social consideration, including labor rights and community relations. This environmentally sensitive industry is under significant scrutiny, making robust and transparent ESG assessments critical for its future (Vollero et al. 2019; Zharfpeykan and Askarany 2023).

The Indonesian palm oil industry has made strides towards sustainability by implementing initiatives like the globally recognized Roundtable on Sustainable Palm Oil (RSPO) and the domestic Indonesian Sustainable Palm Oil (ISPO) certifications (Tey and Brindal 2021). Indonesia's commitment to transparency is further underscored by the Indonesian Stock Exchange (IDX) partnering with Sustainalytics since late 2020 for ESG scoring of all listed companies and financial institutions (IDX 2024). These robust ESG assessments serve a crucial purpose. They empower Indonesian palm oil companies to attract sustainable investment, demonstrate their adherence to responsible practices, and contribute to a more sustainable future for the industry.

Despite advancements in sustainability initiatives like certifications, concerns regarding sustainability performance, reporting transparency, and inconsistencies in ESG ratings persist. Berg et al. (2022) and Dimson et al. (2020) have identified these issues, but a critical gap remains in understanding the effect that ESG rating agencies have, particularly in developing economies that rely on environmentally sensitive industries like palm oil to reach a developed state.

This study aims to address this gap by examining the reasons behind ESG score disparity in the Indonesian palm oil industry. The study analyzes the disclosure of sustainability performance—double materiality, stakeholder engagement, certifications, financing strategy, and performance—within the reports of two Indonesian palm plantation companies (Abdul Rahman and Alsayegh 2021; Wardhani and Rahadian 2021). By examining the relationship between these reported practices and the inconsistencies observed in ESG scores assigned by two separate rating agencies, this paper addresses the following research questions:

RQ1: Does the reported sustainability performance in the reports of two Indonesian palm oil companies differ? And RQ2: Could such discrepancies explain inconsistencies observed in ESG scores assigned by separate rating agencies?

This study offers new insights into ESG rating disparity within developing economies (Singhania and Saini 2023) engaged in environmentally sensitive industries (Emma and Jennifer 2021). By analyzing the reported sustainability practices of Indonesian palm oil companies and their alignment with ESG scores, the study sheds new light on a potential link between company disclosures and rating inconsistencies. This knowledge can inform efforts to improve transparency and communication between companies and ESG rating agencies. However, it is important to acknowledge the limitations inherent in a content analysis approach.

Our findings contribute to the development of sector-specific ESG scoring methodologies using the palm oil industry as an example. By highlighting the gaps in current ESG methodologies, this study can pave the way for new ways of conceptualizing sustainability performance around five key metrics: double materiality, stakeholder engagement, sustainability certification, financing strategy, and firm performance. We show that these five key metrics are all necessary to understand how companies can enhance the transparency of their sustainability reporting. This would promote a more standardized reporting landscape, ultimately leading to more reliable ESG ratings which could empower investors to make informed decisions that prioritize responsible practices. This is important for environmentally sensitive industries as it would enable companies to adopt and demonstrate environmentally and socially responsible practices, potentially mitigating the industry's environmental impact and fostering positive social change.

This paper is organized to investigate the potential causes of ESG score disparity in the Indonesian palm oil industry. In Section 2, we present our theoretical framework and a review of the literature; in Section 3, we outline the research design employed, including the specific methods used for sample selection, data collection, and data analysis. Section 4 presents the results and discusses the findings from the content analysis of sustainability reports and ESG scores. Section 5 concludes the paper by presenting the key findings and their broader implications for understanding ESG score disparity along with some limitations and future research areas.

2. A Theoretical Framework and the Literature Review

Building upon the critical role of ESG factors in today's investment landscape, the following section explores the theoretical foundation of ESG ratings and sustainability performance through a review of the relevant academic literature. This framework is grounded in stakeholder theory, which emphasizes the importance of companies considering the well-being of all stakeholders.

2.1. Stakeholder Theory

Stakeholder theory posits that a company's success is intrinsically linked to the well-being of its stakeholders, encompassing a broad spectrum that includes shareholders, investors, communities, lenders, and increasingly, ESG rating agencies (Freeman et al. 2004; Hörisch et al. 2020). These agencies play a crucial role in influencing investment decisions based on a company's sustainability practices. Therefore, stakeholder theory provides a useful framework for analyzing the reported sustainability performance of palm oil companies on ESG score disparity in the Indonesian palm oil industry. The literature using stakeholder theory examines concepts such as double materiality (Eccles et al. 2012; Garst et al. 2022; Jørgensen et al. 2022; Khan et al. 2016); stakeholder engagement (Attanasio et al. 2022; Bellucci et al. 2019), which includes engagement with ESG rating agencies and certifications (Harjoto et al. 2019; Tey and Brindal 2021); financing strategy (Ng 2018; Raimo et al. 2021); and firm performance (Almashhadani and Almashhadani 2023; Chin 2022; Siregar et al. 2024). These concepts directly align with the focus of stakeholder theory on the impact of a company's decisions on various stakeholders and its overall environmental and social responsibility.

By examining how these practices are disclosed in the sustainability reports that companies produce, this study seeks to understand if discrepancies between companies exist in their reported sustainability performance. Investigating the relationship between reported sustainability practices and ESG scores allows us to explore the inconsistencies in the way companies engage with stakeholders, including ESG rating agencies, and how this might contribute to the observed disparity in ESG ratings. This aligns with the perspective of stakeholder theory that robust sustainability practices that reflect strong stakeholder engagement should be reflected positively in ESG ratings.

2.2. ESG Scoring and ESG Rating Agencies

ESG factors play an increasingly critical role in investment decisions (Amel-Zadeh and Serafeim 2018). Investors are recognizing the long-term financial performance associated with a company's sustainability practices (Gonçalves et al. 2023). To address this growing need for transparency and comparability, ESG rating agencies have emerged as a prominent force in the financial landscape (Christensen et al. 2022). These agencies evaluate companies based on a range of ESG criteria, providing investors with scores that reflect a company's relative sustainability performance (Serafeim and Yoon 2022). Despite the growing importance of ESG scores, concerns exist regarding potential inconsistencies in the scoring methodologies employed by different rating agencies (Berg et al. 2022; Dimson et al. 2020). These inconsistencies can lead to significant disparities in the ESG scores assigned to the same company, creating confusion and challenges for investors seeking to make informed investment decisions based on sustainability considerations.

While research on ESG rating disparity is still ongoing, as evidenced by Berg et al. (2022), a gap exists in understanding the specific factors contributing to this issue within developing economies and environmentally sensitive industries. The Indonesian palm oil industry exemplifies this context. The palm oil industry faces significant social and environmental challenges, making robust ESG practices crucial for long-term sustainability

(Shahimi et al. 2023; Tey et al. 2020; Tey and Brindal 2021). Investigating the potential for ESG score disparity within this context can offer new insights for investors, companies, and policymakers. By analyzing the reported sustainability performance of palm oil companies and their alignment with ESG scores, this study seeks to explore potential connections between a company's disclosed practices and the inconsistencies observed in scores assigned by different rating agencies.

2.3. Sustainability Performance, Double Materiality, and Stakeholder Engagement

The concept of sustainability performance has gained significant traction in recent years (Hussain et al. 2018). It encompasses a company's efforts to manage its environmental, social, and economic impacts in a way that ensures long-term viability and contributes to a more sustainable future (Adams and Larrinaga 2019). Prior research has established a strong link between robust sustainability performance and a company's financial success (Atz et al. 2023; Rahman et al. 2023). Investors increasingly recognize the long-term financial risks associated with poor environmental and social practices, while also acknowledging the potential value-creation opportunities linked to strong sustainability performance. This shift has led companies to prioritize sustainability initiatives, seeking to mitigate risks and create long-term value through responsible business practices (Gonçalves et al. 2023).

Within the domain of sustainability performance, the concept of double materiality has emerged as a critical concept. Double materiality emphasizes the importance of a company considering not just the financial impacts of its activities, but also the environmental and social impacts throughout its value chain (Garst et al. 2022). This holistic approach goes beyond traditional financial reporting by integrating environmental and social considerations into decision-making processes. Research by Consolandi et al. (2022) highlighted the positive correlation between strong double materiality practices and a company's overall sustainability performance.

Another cornerstone of sustainability performance is effective stakeholder engagement. Stakeholders encompass a broad range of groups impacted by a company's operations, including employees, communities, investors, environmental groups, and Indigenous populations (Bellucci et al. 2019; Cubilla-Montilla et al. 2019). Studies by Attanasio et al. (2022) and Cubilla-Montilla et al. (2019) have shown that companies with robust stakeholder engagement practices tend to demonstrate superior sustainability performance. Engaging with stakeholders allows companies to identify and address sustainability challenges collaboratively, and to support impactful sustainability strategies.

The chosen sustainability performance metrics in this research—double materiality and stakeholder engagement—directly align with this study's objective of understanding the potential causes of ESG score disparity. By analyzing how these practices are disclosed in the reports of Indonesian palm oil companies, this study can explore potential discrepancies in reported sustainability efforts. Furthermore, investigating the alignment between reported performance and assigned ESG scores can shed light on inconsistencies in how companies consider environmental and social impacts, and how they engage with stakeholders and contribute to the observed disparity in ESG ratings.

2.4. Sustainability Certification

Sustainability certifications have emerged as a prominent tool for companies to signal their commitment to responsible practices and demonstrate their sustainability performance to stakeholders (Prell et al. 2020; Tey and Brindal 2021). These certifications typically establish a set of environmental and social criteria that companies must meet to achieve and maintain certification status. Third-party certification bodies conduct audits to verify compliance with these criteria, providing assurance of a company's sustainability efforts.

The RSPO is one of the most prominent sustainability certification schemes within the palm oil industry (Tey et al. 2020). Established in 2004 with participation from stakeholders across the value chain, the RSPO aims to promote the production of sustainable palm oil that minimizes environmental and social impacts (RSPO 2024).

Research on the impact of RSPO certification on sustainability performance has yielded mixed results. Villela et al. (2021) attributed a positive impact of certification over time to the organization. Others have highlighted limitations in the effectiveness of certification, pointing to challenges for smallholders and for overall implementation (Hutabarat et al. 2018; Watts et al. 2021). These mixed findings underscore the need for ongoing research to assess the effectiveness of sustainability certifications and to explore potential improvements.

This study views RSPO certification as a sustainability performance metric, acknowledging its potential role in influencing ESG scores assigned to palm oil companies. Investigating the relationship between reported RSPO certification and assigned ESG scores can contribute to understanding whether inconsistencies exist in how RSPO certification is considered by different rating agencies.

3. Research Method

This study employs content analysis as the primary research methodology to investigate the potential causes of ESG score disparity in the Indonesian palm oil industry. Content analysis is a well-established research method that allows for the systematic and objective examination of textual data (Brunzel 2021; Landrum and Ohsowski 2018; Torelli et al. 2020). This approach is suitable for analyzing the reported sustainability performance of companies within their sustainability reports and annual reports.

3.1. Data and Sample

The content analysis is conducted on the publicly available sustainability reports and annual reports of two Indonesian palm oil companies: PT Dharma Satya Nusantara Tbk (DSNG) and PT Triputra Agro Persada Tbk (TAPG). In addition, the ESG scores assigned to these companies by two separate rating agencies, Sustainability Policy Transparency Toolkit (SPOTT) and Sustainalytics (Filbeck et al. 2019), are analyzed. This enables a comparative examination of reported sustainability performance and its alignment with the scores assigned by different ESG rating agencies.

The analysis focuses on a range of sustainability performance metrics that have been demonstrated by previous research to be strong indicators of a company's overall sustainability performance. These metrics encompass double materiality, stakeholder engagement, sustainability certifications, financing strategy, and firm performance (Atz et al. 2023; Consolandi et al. 2022; Eccles et al. 2012; Raimo et al. 2021; Torelli et al. 2020; Whelan et al. 2022). These metrics have been discussed in the literature review except for financing strategy and firm performance. We consider these metrics to be equally important in providing a holistic view of a company's sustainability efforts. We do not assign specific weights to individual metrics, as their relative significance can vary depending on the specific company and industry context.

Studies by Abdul Razak et al. (2020), Hamrouni et al. (2019), and Raimo et al. (2021) suggest that companies with lower leverage and a higher percentage of sustainability financing tend to demonstrate stronger environmental and social performance. Other studies by Abdul Rahman and Alsayegh (2021), Almashhadani and Almashhadani (2023), Gonçalves et al. (2023), and Rahman et al. (2023) show a positive correlation between strong market capitalization, EBITDA margin, and a company's commitment to sustainable practices.

By analyzing the reporting and disclosure of these metrics within the companies' reports, this study identifies potential discrepancies in reported sustainability performance. Additionally, comparing this reported performance with the ESG scores assigned by different agencies sheds light on the potential reasons for score disparity.

3.2. Data Analysis

Data analysis involved a multi-step process to examine the reported sustainability practices of the two Indonesian palm oil companies (DSNG and TAPG) and their alignment with the ESG scores assigned by SPOTT and Sustainalytics. A key focus is on identifying any significant changes in sustainability performance between the two years analyzed—2022 and 2023.

Stage 1: Content analysis of sustainability reports and annual reports (2022 and 2023)

The content of the companies' sustainability reports and annual reports for both 2022 and 2023 were analyzed thematically, focusing on the chosen sustainability performance metrics. This thematic analysis involved coding relevant text passages related to each metric using a pre-defined coding scheme (Fereday and Muir-Cochrane 2006). The coding scheme was developed based on the research question and sustainability performance metrics defined above.

Once the coding was complete, quantitative analysis was conducted to summarize and compare the reported information across the companies and years for each sustainability performance metric. This involved calculating percentages and other relevant descriptive statistics to provide a quantitative picture of the companies' reported sustainability performance, highlighting any potential changes or trends between 2022 and 2023.

Stage 2: Analysis of ESG scores and comparison with the 2023 reported performance

We analyzed the 2023 ESG scores of both SPOTT and Sustainalytics for DSNG and TAPG, including environmental, social, and governance sub-scores. Next, we compared these scores to the 2022 and 2023 sustainability reports. Data visualization techniques helped us explore potential correlations between reported sustainability practices which are identified through thematic analysis of the reports (Fereday and Muir-Cochrane 2006) and assigned ESG scores. This analysis aims to identify potential relationships, explain inconsistencies, and see if improvements in reported practices correspond with higher ESG scores.

4. Analysis and Discussion

This section reports on the comparative analysis of DSNG and TAPG, two Indonesian palm oil companies, to explore potential explanations for the observed disparity in their ESG scores. Stakeholder theory posits that a corporation should consider the interests of all groups impacted by its operations. Effective stakeholder engagement allows companies to understand these diverse perspectives and integrate them into their decision-making processes.

4.1. Descriptions of Both Companies

DSNG has experience in forestry and a dedicated Sustainability Advisory Board (SAB) which suggests a broader stakeholder focus compared to TAPG's direct family management and standard board structure. External members on DSNG's SAB likely led to more comprehensive stakeholder engagement strategies. Additionally, external assurance of its sustainability reports demonstrates a commitment to transparency (Table 1).

Table 1. Descriptive statistics of DSNG and TAPG (2023 reports).

	DSNG	TAPG
Ownership structure	Oetomo family: 28.90% T.P. Rachmat family: 31.71% Subianto family: 9.93% Liana Salim Lim family: 6.32% Institutional investors: 8.86% Public: 14.29%	T.P. Rachmat family: 36.95% Subianto family: 23.24% Institutional investors: 27.55% Public: 12.26%
Business contribution:		
- Palm oil	88%	99%
- Wood product	11%	
- Renewable energy	1%	
- Rubber product		1%

Table 1. *Cont.*

	DSNG	TAPG
Sales contribution:		
- Local	88%	100%
- Export	12%	0%
Sustainability governance	Sustainability advisory board with three external members and one internal member, Chief Sustainability Officer (CSO). CSO reports to CEO.	Follow standard governance structure like Board of Directors and Commissioners. Sustainability Director is dual role with other roles (Trading and Downstream).
Assurance	Moores Rowland is appointed as company's external assurance.	No external assurance was appointed.

Source: 2023 annual report and sustainability report of both companies.

In contrast, TAPG's reliance on a Sustainability Director with dual role responsibilities and its lack of external assurance raises questions about the depth of its stakeholder engagement. These contrasting governance structures suggest that DSNG might be better positioned to align with stakeholder interests, potentially influencing its ESG scores.

The subsequent sections examine the five specific sustainability performance metrics reported by DSNG and TAPG, analyzing potential discrepancies and their potential connection to the observed ESG score disparity.

4.2. Double Materiality Analysis

Stakeholder theory emphasizes the importance of a company considering not just its financial performance, but also the environmental and social impacts of its actions on all stakeholders throughout its value chain (Hörisch et al. 2020). By analyzing the content of the reports of DSNG (Table 2) and TAPG (Table 3) on double materiality, interesting insights emerge regarding their stakeholder considerations.

Table 2. Material topics disclosure—DSNG.

	DSNG
2022	Sustainability strategy is implicitly disclosed under sustainability vision. Sustainability strategy has considered impact materiality and aligned with company's sustainability policy. They are compiled in ESMS. Sustainability policy matrix consists of three pillars (or priority areas): • Forest pillar • Climate pillar • Communities pillar Sustainability strategy consists of three main principles and policies: • No deforestation (forest), no peat (climate), no exploitation (communities), or NDPE in short. • Preservation of forest, water, and welfare. • Circularity such as biodiversity (forest), renewable energy (climate), and prosperity (communities). Determination of material topics is based on sustainability policy (pillar) and NDPE commitment and mapped to SDGs for support.
2023	Sustainability strategy is explicitly disclosed along with sustainability vision and policy. Others are consistent with 2022 disclosure. Material topics in governance were added in this year.

Source: DSNG sustainability reports.

Table 3. Material topics disclosure—TAPG.

2022	Material topics determining the process were disclosed and involved stakeholder perspectives. The classification is based on stakeholders' importance level and company importance level which were classified into three categories: high, medium, and low materiality. Company sustainability roadmap to reach the Carbon Neutral target by 2036. The company discloses the sustainability approach of 3P (People, Planet, and Prosperity) with operational excellence in the center with priorities that differ from the defined materiality topics except for RSPO and ISPO (sustainability) certifications.
2023	Like 2022, the only difference is the target of each of the respective priorities.

Source: TAPG sustainability reports.

Both DSNG and TAPG consider environmental and social impacts in their reports, aligning with stakeholder theory and the UN SDGs. This suggests a commitment to addressing issues relevant to a broad range of stakeholders (Emma and Jennifer 2021). DSNG's structured approach to double materiality integrates identified sustainability issues into its strategy and monitors them through an Environmental and Social Management System (ESMS). This suggests a stronger focus on managing environmental and social impacts for stakeholders across the value chain.

While TAPG acknowledges environmental and social factors, its approach to double materiality is less structured than that of DSNG. However, they set an ambitious goal of carbon neutrality by 2036 and emphasize sustainability certifications, aligning with stakeholder interests in climate change and responsible production.

Examining the contrasting approaches to sustainability integration offers new insights. For instance, DSNG's structured approach to double materiality suggests a stronger emphasis on managing social and environmental impacts throughout its entire value chain. This focus extends beyond a company's immediate operations, potentially creating benefits for a wider range of stakeholders, such as suppliers, communities, and the environment itself (Eccles et al. 2012).

4.3. Stakeholder Engagement Analysis

Stakeholder theory posits that a company's success is intricately linked to its relationships with a diverse range of stakeholders and its engagement with them. A review of the content of the two companies' reports reveals contrasting approaches to stakeholder engagement (Table 4), highlighting how each company translates stakeholder theory into practice.

DSNG exemplifies a well-structured approach to stakeholder engagement, demonstrably aligning with stakeholder theory principles including identifying key stakeholders, prioritizing engagement based on its impact, and establishing formalized communication channels. DSNG has established and implemented a formal annual Stakeholder Engagement Plan (SEP). Its ESMS also factors into stakeholder engagement, potentially facilitating the data collection and measurement of engagement performance. Significantly, DSNG's SAB serves as a platform for engaging with international stakeholders (Rudyanto and Siregar 2018). The inclusion of external experts in this board's composition suggests a commitment to incorporating diverse stakeholder perspectives into its sustainability strategy, a key tenet of stakeholder theory.

In contrast, TAPG's approach to stakeholder engagement appears less transparent and comprehensive. While they disclose a list of stakeholders, engagement methods, frequencies, and claimed achievements, it is unclear how TAPG monitors and measures the effectiveness of its engagement activities, raising questions about the depth and quality of stakeholder interactions. This lack of transparency regarding its stakeholder engagement efforts weakens the connection between its actions and stakeholder theory principles (Fernandez-Feijoo et al. 2014).

The contrasting approaches suggest a difference in prioritizing stakeholder engagement. DSNG's transparency aligns with stakeholder theory, while TAPG's approach is less clear (Table 4). This difference may explain the ESG score disparity, as strong stakeholder engagement is crucial for sustainability leadership (Attanasio et al. 2022).

Table 4. Stakeholder engagement.

	DSNG	TAPG
2022	Each material topic is aligned with stakeholder engagement. The company has an extensive Stakeholder Engagement Plan (SEP) in its ESMS, wherein various concerns can be raised by its stakeholders periodically through the Stakeholder Engagement Forum (SEF). The SEF also serves as another formal platform for stakeholders to raise concerns regarding the company's sustainability. The first DSNG Stakeholder Engagement Forum was organized in 2022, with plans to conduct on an annual basis. Some other key stakeholder engagement activities were held in 2022.	List of respective stakeholders • Shareholders • Regulators • Employees • Customers • Business partners • Consultants • Media • Surrounding communities Engagement method and frequency are disclosed together with the results of implementation.
2023	The second DSNG Stakeholder Engagement Forum was organized in 2023 and attended by the CEO. International engagement efforts are planned and organized by the Sustainability Advisory Board (SAB). The SAB is actively fostering stakeholder engagement.	Like 2022, with an update on the 2023 results of implementation.

Source: sustainability report of both companies.

4.4. Sustainability Certification Analysis

Palm oil sustainability is a stakeholder concern. Certifications like RSPO show commitment to responsible practices. DSNG and TAPG have similar plantation sizes (Table 5) but contrasting certification approaches, potentially linked to stakeholder engagement and sales strategies.

Table 5. Sustainability certifications (RSPO and ISPO).

Sustainability Certifications (RSPO and ISPO)	**DSNG**	**TAPG**
2022: Nucleus and plasma planted areas (in ha)	112,500	138,400
ISPO coverage (%)	70%	100%
RSPO coverage (%)	48%	22%
2023: Nucleus and plasma planted areas (in ha)	112,700	136,400
ISPO coverage (in ha and %)	83.50%	100%
RSPO coverage (in ha and %)	52.50%	22%
Changes in ISPO coverage	13.5%	0%
Changes in RSPO coverage	4.5%	0%

Source: sustainability report of both companies.

DSNG prioritizes obtaining RSPO certification, a more stringent standard recognized globally. This focus on a broader stakeholder perspective suggests that DSNG might be more responsive to concerns from international stakeholders, such as sustainability-driven consumers. By meeting the mandatory ISPO certification as well, DSNG demonstrates compliance with national regulations, potentially addressing the needs of government stakeholders who are important for domestic sales. This complex approach positions DSNG to cater to a wider range of stakeholders across both local and export markets.

TAPG prioritizes achieving 100% coverage with the mandatory ISPO certification. This approach prioritizes the needs of government stakeholders in the short term but could potentially raise concerns from international stakeholders who value broader sustainability efforts. However, its focus on ISPO ensures compliance for domestic sales, which might be more relevant for TAPG as 100% of its sales come from the local market (Table 1).

DSNG's RSPO certification and focus on both local and export markets suggest a broader stakeholder approach, potentially similar to Malaysian companies as studied by Tey et al. (2020). This, along with their contrasting stakeholder engagement strategies, may influence the ESG scores of each company.

4.5. Financing Strategy Analysis

Stakeholder theory emphasizes the importance of managing relationships with lenders. Sustainability-linked loans (SLLs) reward companies for sustainable practices (Hamrouni et al. 2019; Raimo et al. 2021). Examining DSNG and TAPG's financing highlights contrasting approaches and potential recognition by lenders (Table 6).

Table 6. Company's financing strategy.

Financing Strategy	DSNG	TAPG
2022		
Debt-to-equity ratio (%)	88.2%	39.5%
% sustainability financing	25%	0%
2023		
Debt-to-equity ratio (%)	81.9% (−6.3%)	22.3% (−17.2%)
% sustainability financing	30.2% (+4.8%)	0%

Source: annual report and sustainability report of both companies.

While TAPG boasts a better leverage ratio, they lack engagement with sustainability-linked financing (SLLs). This missed opportunity weakens its ESG score by neglecting lenders, a key stakeholder group. In contrast, DSNG's increasing use of SLLs demonstrates a strong focus on sustainability financing. This aligns with stakeholder theory by engaging lenders and potentially improves its ESG score (Raimo et al. 2021).

4.6. Firm Performance Analysis

While financial performance is important, investors increasingly value ESG factors for long-term investment decisions. Analyzing DSNG and TAPG's performance offers insights (Table 7). Despite slightly lower profits than TAPG, DSNG shows resilience and market cap growth. Investors seem to value its sustainability commitment. This focus on long-term value for stakeholders aligns with stakeholder theory and might benefit DSNG's ESG score.

Table 7. Firm performance.

Firm Performance	DSNG	TAPG
2022		
Profit Margin Before Tax	16.7%	33.1%
Market Capitalization	5.257 Bio IDR~350 Mio USD *	10.819 Bio IDR~721 Mio USD *
2023		
Profit Margin Before Tax	12%	20%
Market Capitalization	5.882 Bio IDR~392 Mio USD *	13.506 Bio IDR~900 Mio USD *
Changes between 2023 and 2022		
Profit Margin Before Tax	−4.7%	−13.10%
Market capitalization	42 Mio USD (+12%)	179 Mio USD (+25%)

* Fx-rate: 1 USD = IDR 15,000. Source: annual report of both companies.

TAPG prioritizes short-term profits, neglecting sustainability efforts. This could pose future risks from changing regulations, consumer preferences, and investor sentiment. This lack of a sustainability strategy might weaken its ESG score over time.

The contrasting approaches to firm performance highlight the importance of balancing the needs of multiple stakeholders. DSNG prioritizes sustainability alongside profit, potentially boosting its ESG score (Almashhadani and Almashhadani 2023). Conversely, TAPG's short-term focus on profits might risk a lower ESG score in the future (Table 7).

4.7. SPOTT ESG Scores Analysis

ESG rating agencies, such as SPOTT, serve as specialized stakeholders who evaluate a company's performance on these critical metrics. A strong ESG rating can enhance a company's reputation, attract investment, and ultimately contribute to long-term value creation for all stakeholders. A content analysis of both DSNG and TAPG's sustainability efforts across five key performance metrics reveals a clear advantage for DSNG, demonstrably aligning with its higher SPOTT ESG rating (Tables 8 and 9).

Table 8. Company's SPOTT ESG score total, E, S, and G.

SPOTT ESG Score		DSNG		TAPG	
Update per November		2023	2022	2023	2022
ESG score total	172	90.40%	86.40%	82.30%	76.90%
2023 vs. 2022	items	4.00%		5.40%	
E score	126	87.35%	83.35%	77.69%	71.28%
2023 vs. 2022	items	4.00%		6.41%	
S score	102	92.22%	89.65%	81.77%	78.93%
2023 vs. 2022	items	2.57%		2.84%	
G score	41	83.47%	82.17%	69.98%	69.34%
2023 vs. 2022	items	1.30%		0.64%	

Source: SPOTT website.

Table 9. Company's SPOTT detailed ESG score.

SPOTT ESG Score		DSNG		TAPG	
Update per November		2023	2022	2023	2022
Sustainability policy and leadership	11	97.70%	97.70%	86.40%	93.20%
2023 vs. 2022	items	0.00%		−6.80%	
Landbank, maps, and traceability	18	95.60%	90.30%	80.60%	85.30%
2023 vs. 2022	items	5.30%		−4.70%	
Certification standards	14	62%	62.10%	41.70%	32.10%
2023 vs. 2022	items	−0.10%		9.60%	
Deforestation and biodiversity	19	83.60%	66.80%	75.90%	54.90%
2023 vs. 2022	items	16.80%		21.00%	
High Conservation Value (HCV), High Carbon Stock (HCS), and impact assessments	15	93.30%	93.30%	98.30%	73.20%
2023 vs. 2022	items	0.00%		25.10%	
Peat, fire, and GHG emissions	19	89.70%	87.50%	76.90%	71.90%
2023 vs. 2022	items	2.20%		5.00%	
Water, chemical, and pest management	24	89.10%	87.50%	84.40%	83.40%
2023 vs. 2022	items	1.60%		1.00%	
Community, land, and labor rights	35	100%	95.70%	93.60%	92.10%
2023 vs. 2022	items	4.30%		1.50%	
Smallholders and suppliers	10	91.70%	90%	80.60%	80%
2023 vs. 2022	items	1.70%		0.60%	
Governance and grievances	7	92.90%	85.70%	100%	85.70%
2023 vs. 2022	items	7.20%		14.30%	

Source: SPOTT website.

DSNG excels in integrating sustainability throughout its operations. Its approach considers both environmental and social impacts but also integrates its sustainability strategy, aligns with stakeholder concerns (Eccles et al. 2012; Gerwanski et al. 2019), and is monitored through its ESMS (Zharfpeykan and Akroyd 2022). Its focus on RSPO certification (Tey et al. 2020), SLLs (Ng 2018), and external assurance showcases a commitment beyond mere reporting (Boiral et al. 2023). While prioritizing sustainability, they maintain financial resilience.

TAPG shows progress on environmental and social aspects but lags behind DSNG in areas like stakeholder engagement and traceability. Its decline in ESG scores for 'sustainability policy and leadership' and 'landbank management' highlights these gaps. Overall, the SPOTT ESG rating performance aligns remarkably well with the content analysis of these sustainability performance metrics.

4.8. Sustainalytics ESG Risk Rating Analysis

While SPOTT offers a detailed breakdown of ESG performance, Sustainalytics employs a distinct approach focused on ESG risk assessment (Filbeck et al. 2019). This methodology aligns with the concept of superior sustainability performance, but the specific criteria and weightings remain less transparent compared to SPOTT. Our content analysis of the five sustainability performance metrics for DSNG and TAPG offers new insights to explore the contrasting Sustainalytics ratings between 2022 and 2023 (Table 10).

Table 10. Company's Sustainalytics ESG risk rating.

Sustainalytics ESG Risk Rating	DSNG	TAPG
2023 Sustainalytics ESG risk rating	35.4 (High) Updated on 13 April 2023	36.4 (High) Updated on 13 April 2023
2024 Sustainalytics ESG risk rating	34.6 (High) Updated on 27 April 2024	29.3 (Medium) Updated on 27 April 2024
Changes in 2024 vs. 2023	+0.8 (+2.3%)	+7.1 (+19.5%)

Source: Sustainalytics website.

DSNG's stakeholder engagement, RSPO focus, and external assurance likely contribute to a lower risk profile for Sustainalytics. These practices align with stakeholder theory and potentially mitigate risks while creating long-term value. Its sustainability-linked loans showcase responsible practices, reducing financial risk (Abdul Razak et al. 2020). This strategy also caters to the growing demand from lenders, a key stakeholder group, for companies to prioritize sustainability.

TAPG's weaker stakeholder engagement and governance might raise concerns from Sustainalytics and stakeholders. A focus on short-term profits may not outweigh long-term sustainability, a key factor for Sustainalytics and stakeholder value creation, following stakeholder theory.

Although Sustainalytics' rating specifics are unclear, DSNG's demonstrably stronger performance across the five key sustainability metrics likely explains its improved 2023 score compared to TAPG. These metrics align with risk management and stakeholder theory principles, suggesting that DSNG's practices mitigate risks and create long-term value. Further research into Sustainalytics' weighting criteria would offer a more definitive explanation for the rating shift.

5. Conclusions, Limitations, and Future Research Directions

This paper has examined the sustainability performance of two palm oil companies, DSNG and TAPG, and contributes to knowledge by grounding its approach for measuring sustainability performance (Adams and Larrinaga 2019) in stakeholder theory (Freeman et al. 2004). We found that five key metrics—double materiality, stakeholder engagement, sustainability certification, financing strategy, and firm performance—demonstrate a positive link with sustainability performance reflected on SPOTT ESG scoring, especially for companies in environmentally sensitive industries (Zharfpeykan and Askarany 2023).

This study advances the understanding of sustainability performance measurement by proposing a new integrated approach that integrates five key metrics. Previous research has explored the significance of individual metrics such as stakeholder engagement (Attanasio et al. 2022; Cubilla-Montilla et al. 2019; Torelli et al. 2020) or the positive impact of sustainability certifications (Villela et al. 2021) and financing (Raimo et al. 2021). In this paper, we take a holistic approach and build upon the established relationship between double materiality and sustainability performance (Consolandi et al. 2022) and the link between firm performance and sustainability (Atz et al. 2023; Rahman et al. 2023) by incorporating these elements alongside stakeholder engagement, certification, and financing strategy. This comprehensive integrated approach offers a new pathway for conceptualizing sustainability performance, allowing for a more nuanced understanding of a company's overall sustainability efforts.

The findings of this study also suggest that companies prioritizing the needs of various stakeholders, including the environment, communities, consumers, and lenders, perform better on sustainability performance and ratings. This aligns with stakeholder theory, emphasizing the importance of considering the needs of these diverse stakeholder groups (Freeman et al. 2004; Hörisch et al. 2020).

This study sheds new light on the evolving practices of ESG rating agencies. It confirms the previously observed phenomenon of 'aggregate diffusion' from Berg et al. (2022), where the methodologies of established agencies influence those in emerging markets and environmentally sensitive industries. Our finding contributes to the development of sector-specific ESG scoring methodologies with the palm oil industry as an example. A one-size-fits-all approach may not adequately capture the unique sustainability challenges and opportunities faced by different industries, particularly those in environmentally sensitive sectors. The disparity between SPOTT and Sustainalytics ratings highlighted in this study underscores a critical knowledge gap: the necessity for sector-specific expertise among ESG rating agencies.

Additionally, a lack of Sustainalytics transparency on specific criteria and weightings makes direct comparisons between their scoring and the SPOTT ESG scores challenging for the shift between DSNG and TAPG in 2023. It is possible that Sustainalytics considers additional factors beyond our metrics, such as direct company engagement or industry-specific frameworks not yet fully incorporated.

While this study offers new insights using stakeholder theory into two Indonesian palm oil companies and their ESG scores over two years, content analysis of company reports cannot directly assess how these companies interact with ESG rating agencies. Understanding these communication channels and the level of detail companies provide regarding their practices would require other research methods, such as in-depth interviews with representatives from both sides. Another limitation is the limited access to proprietary scoring methodologies used by ESG rating agencies. This hinders our ability to determine how the methodologies consider industry-specific frameworks.

Despite these limitations, this research lays a foundation for future exploration of ESG score disparity. Gaining access to scoring methodologies would clarify how industry-specific frameworks are incorporated. Longitudinal studies tracking companies' ESG scores over time could reveal how changes in sustainability practices influence evolving ratings. Additionally, in-depth interviews with companies and rating agencies could shed light on communication channels and information exchange. By pursuing these research directions, we can achieve a more comprehensive understanding of ESG score disparity, benefiting companies, investors, and policymakers working to improve sustainability practices and regulations particularly Financial Services Authority of Indonesia regulation POJK 51/2017.

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