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Supply Chain Sustainability Reporting in the Plastic Industry: Unveiling Environmental, Social, and Governance (ESG) Reporting Practices at PT MSI

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Abstract. This study investigates and analyses the practice of reporting ESG (Environmental, Social, and Governance) within the plastic industry supply chain at PT. MSI, as well as the function of sustainability reports in corporate governance. It was due to the stakeholder's intense pressure and environmental awareness regarding the plastic industry. Therefore, ESG reporting became a strategic issue which was unavoidable for the company. The study applies qualitatively with a descriptive approach. Furthermore, the population consists of plastic industry manufacturing. The data were gathered through deep-interviews with key informants who were directly involved in the planning and implementation of ESG reporting, as well as observation, and company's document analysis of the company's sustainability report. Moreover, the data were analysed using descriptive-qualitative analysis which incorporated empirical findings in legitimation, stakeholder theories, Green washing and transparency issues. As a result, it shows how practice of ESG reporting at PT. MSI evolves continually in response to external pressure, especially global and regulator customers. Meanwhile, sustainability report serves not only as an external legitimation tool, but also as an internal control mechanism that promote governance restoration, documentation discipline, and cross functionality. Despite the limitation of data harmonization and sustainable accounting integration, ESG reporting at PT. MSI shows shift from a symbolic approach to a more meaningful practice focused on long-term sustainability.

Keywords: Corporate Governance; Environmental; Plastic Industry; Sustainability Accounting; Sustainability Report.

1. INTRODUCTION

Business sustainability has become an unavoidable global agenda since the adoption of the Paris Agreement in 2015 and the Sustainable Development Goals (SDGs) in 2016, both of which established an international commitment to mitigating climate change, reducing greenhouse gas emissions, and promoting inclusive and sustainable economic development. Consequently, companies are increasingly expected to create long-term value while balancing economic objectives with environmental protection and social welfare. Among these frameworks, Environmental, Social, and Governance (ESG) has become the most widely recognized approach for assessing sustainability performance because it systematically evaluates how organizations manage and disclose long-term environmental, social, and governance risks (Eccles *et al*., 2014). Compared with traditional Corporate Social Responsibility (CSR), which is often viewed as philanthropic activities separated from core business strategies, ESG emphasizes integrating sustainability into strategic decision-making by encouraging companies to reduce carbon emissions, improve energy efficiency, manage waste responsibly, ensure employee welfare, promote occupational health and safety, strengthen stakeholder relationships, enhance transparency, and reinforce regulatory compliance and governance integrity (Kotsantonis *et al*., 2016).

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The rapid expansion of ESG practices during the past two decades reflects a significant transformation in investor behavior and stakeholder expectations regarding corporate performance. Investors increasingly recognize that long-term corporate resilience depends not only on financial performance but also on effective environmental management, social responsibility, and governance quality. According to the Global Sustainable Investment Alliance (GSIA, 2022), global sustainable investment assets reached approximately US $ 35.3 trillion in 2020, representing an increase of more than 15% compared with 2018, showing that ESG considerations have become closely associated with risk management and sustainable value creation. Consequently, ESG implementation is no longer perceived merely as a voluntary initiative or a reputational strategy but has become a strategic requirement for companies seeking to maintain competitiveness and attract investment from increasingly sustainability-oriented global capital markets. These developments have also influenced developing countries such as Indonesia, where rapid industrialization has created the challenge of balancing economic growth with environmental protection.

The Indonesian plastic industry clearly shows the complex relationship between economic contribution and environmental responsibility. According to the Ministry of Environment and Forestry (KLHK, 2023), Indonesia generates approximately 68 million tons of waste annually, of which around 17% consists of plastic waste, posing serious threats to terrestrial and marine ecosystems when inadequately managed. Jambeck *et al*. (2015) identified Indonesia as the world’s second-largest contributor of marine plastic debris after China, emphasizing that plastic waste has become a structural environmental challenge requiring active participation from industrial stakeholders. Despite these environmental concerns, the industry remains economically indispensable, with Statistics Indonesia (BPS, 2022) reporting that the chemical, rubber, and plastic manufacturing sector contributed approximately 6.5% of the total manufacturing Gross Domestic Product while creating employment opportunities and supporting industrial development. Nevertheless, these economic contributions are accompanied by considerable sustainability challenges, including intensive energy consumption, greenhouse gas emissions, hazardous waste generation, recycling rates of only around 10%, and manufacturing emissions accounting for approximately 22% of national carbon emissions. The World Bank (2021) emphasized that ineffective plastic waste management and the limited implementation of circular economy practices remain major barriers to Indonesia’s sustainable industrial transformation. The complexity of the plastic industry’s supply chain further reinforces the importance of integrating ESG principles throughout every stage of business operations. The supply chain begins with petroleum-based resin suppliers, continues through primary and secondary plastic manufacturers, extends to distributors and consumers, and ultimately reaches end-of-life waste management through recycling, incineration, or landfill disposal. Every stage generates significant environmental, social, and governance implications, ranging from greenhouse gas emissions and waste generation to employee welfare, occupational health and safety, labor rights, ethical business conduct, and supply chain transparency. According to the Ellen MacArthur Foundation (2016), only approximately 14% of global plastic packaging is collected for recycling, while about 32% leaks directly into the environment, highlighting persistent weaknesses in global plastic value chains and reinforcing the urgency of sustainable supply chain management. Sustainability accounting has emerged as an essential managerial instrument because it extends conventional accounting practices by incorporating environmental costs, carbon emissions, waste management, energy consumption, and broader social impacts into organizational decision-making processes (Schaltegger & Burritt, 2017). Sustainability accounting facilitates the evaluation of environmentally friendly investments, including recycling initiatives and energy efficiency programs, while measuring social value through employee welfare and CSR activities, with sustainability reports prepared under internationally recognized frameworks such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) enhancing transparency, strengthening corporate legitimacy, reducing reputational risks, and improving stakeholder confidence (Eccles *et al*., 2014).

Recognizing the strategic importance of ESG, the Indonesian government has introduced several initiatives to promote sustainable finance and corporate sustainability reporting through the Sustainable Finance Roadmap Phase II (2021-2025) (OJK, 2022), Indonesia’s Nationally Determined Contribution targeting emission reductions of 31.89% domestically and 43.20% with international support (KLHK, 2022), and OJK Regulation No. 51/POJK.03/2017, which requires public companies to prepare sustainability reports. Nevertheless, implementation remains limited, as an OJK survey (2021) revealed that only around 25% of Indonesian public companies prepare sustainability reports in accordance with internationally recognized standards, while many companies continue to face barriers related to limited managerial awareness, inadequate data availability, high implementation costs, fragmented integration of GRI, SASB, and the Task Force on Climate-related Financial Disclosures (TCFD), and the limited ESG capabilities of small and medium-sized suppliers within plastic supply chains. These challenges are further exacerbated by the reluctance of many firms to disclose environmental information such as carbon emissions, energy consumption, and waste management performance, thereby limiting the credibility of sustainability reporting (World Bank, 2021).

Against this background, PT MSI was selected as the focus of this study because it represents an Indonesian plastic manufacturing company with extensive domestic and international supply chains that increasingly faces sustainability expectations from regulators and multinational customers, particularly within the Fast Moving Consumer Goods (FMCG) sector. This study therefore aims to examine how ESG reporting practices are implemented within PT MSI, evaluate the role of sustainability reporting in strengthening corporate governance, and assess the extent to which sustainability accounting has been integrated into environmental, social, and governance disclosures while identifying the principal challenges encountered during implementation.

The study also addresses important research gaps identified by Kumar *et al*. (2022), who showed a positive relationship between ESG performance and long-term financial performance; Larsson and Nyberg (2023), who identified widespread symbolic sustainability reporting and greenwashing in the plastic packaging industry; Wang and Tan (2021), who emphasized the influence of institutional pressures on ESG reporting and the lack of standardized sustainability accounting; Halim and Yusuf (2022), who, through Signaling Theory, argued that ESG disclosures frequently function as market signals rather than reflections of actual practices; and Navarro and Delgado (2023), who, based on the Triple Bottom Line Theory, concluded that ESG reporting in petrochemical supply chains remains disproportionately focused on environmental dimensions while providing limited disclosure of social and governance aspects. Building upon these findings, this study contributes to the literature by providing an in-depth qualitative analysis of ESG reporting and sustainability accounting practices within an Indonesian plastic manufacturing company, thereby offering theoretical, practical, and policy recommendations for strengthening corporate governance and promoting sustainable business development.

2. RESEARCH METHOD

This study employed a descriptive qualitative research design to obtain a understanding of Environmental, Social, and Governance (ESG) reporting practices and the role of sustainability reporting in strengthening corporate governance within an Indonesian plastic manufacturing company. A qualitative descriptive approach was selected because the primary objective of this research was not to test causal relationships but to explore, interpret, and understand managerial perspectives, organizational practices, and contextual factors underlying ESG implementation. According to Rangkuti (2014), descriptive qualitative research emphasizes inductive analysis and focuses on interpreting the meaning embedded in empirical phenomena rather than producing statistical generalizations. Likewise, qualitative research seeks to understand ideas, perceptions, beliefs, and experiences from the perspective of the participants, making it particularly suitable for investigating organizational decision-making processes that cannot be adequately reshowed by numerical indicators (Moleong, 2010). To enrich the investigation, this study adopted an exploratory strategy that enables researchers to examine phenomena that remain relatively underexplored while identifying emerging themes and relationships from empirical evidence (Stebbins, 2001).

The research was conducted at PT MSI, a medium-to-large plastic manufacturing company located in Sidoarjo, East Java, Indonesia. PT MSI was selected because the plastic manufacturing sector is characterized by substantial environmental impacts associated with intensive energy consumption, waste generation, and increasingly complex supply chains, making ESG reporting strategically important within the industry (Mulyadi, 2016). The company also operates in highly competitive domestic and international markets where maintaining profitability must be balanced with growing expectations regarding environmental responsibility, social performance, and governance transparency (Sari & Nugroho, 2021). PT MSI has begun preparing sustainability reports in recent years, providing an appropriate setting for examining the practical implementation of ESG reporting during an organizational transition toward more integrated sustainability management. Its formal organizational structure, consisting of directors, middle managers, and department heads, also enables the collection of diverse managerial perspectives regarding sustainability practices across different organizational levels (Robbins & Judge, 2022).

PT MSI additionally experiences increasing pressure from multinational customers and international supply chain partners to improve ESG transparency, making it a relevant case for examining stakeholder theory, legitimacy theory, and potential greenwashing risks within sustainability reporting practices. For ethical reasons, the company’s identity is anonymized using the abbreviation “PT MSI,” following qualitative research principles emphasizing participant privacy, organizational confidentiality, and research ethics without compromising academic validity (Creswell & Poth, 2018; Orb *et al*., 2001). Focusing on a single case also allows the researcher to generate rich contextual insights into ESG reporting practices within their organizational setting, consistent with the case study approach proposed by Yin (2018). Data were collected using methodological triangulation to improve the credibility, validity, and richness of the findings by comparing information obtained from multiple data sources

(Moleong, 2019). Triangulation was implemented by comparing participants' public statements with private interview responses, contrasting organizational perspectives across different contexts, examining similarities and differences among informants, and verifying interview findings using organizational documents. Bowen (2009) argues that triangulation minimizes researcher bias while strengthening interpretation through systematic comparison of multiple sources of evidence. The primary data collection technique consisted of semi-structured in-depth interviews, allowing the researcher to maintain a structured interview guide while retaining sufficient flexibility to explore emerging issues during conversations with participants (Creswell & Poth, 2018). Four key informants representing strategic organizational functions directly related to ESG implementation were purposively selected to ensure comprehensive coverage of environmental, social, governance, operational, and financial perspectives. Their respective roles and relationships to the research objectives are showed in Table 1.

Table 1. Research Informants and Their Relationship to the ESG Research.

No.	Position	Organizational Role	Relationship to ESG Research
1	Finance Manager (Informant A)	Responsible for financial reporting and financial data management	Explains the integration of financial and non-financial information, sustainability reporting, and measurement of environmental and social costs.
2	Production/Operations Manager (Informant B)	Oversees manufacturing operations and operational supply chains	Provides information regarding operational efficiency, energy consumption, waste management, and ESG implementation in production activities.
3	Environmental/ HSE Staff (Informant C)	Responsible for environmental management and occupational safety	Explains environmental policies, waste management, carbon emissions, regulatory compliance, energy efficiency, and environmental performance indicators.
4	Human Resource Manager (Informant D)	Responsible for human resource management and CSR programs	Describes employee welfare, occupational safety, training activities, and corporate social responsibility initiatives representing the social dimension of ESG.

In addition to interviews, non-participant observation was conducted throughout the research period from 1 October 2025 to 31 January 2026 to understand workplace dynamics, operational activities, organizational culture, and the implementation of ESG-related practices within their natural setting. Limited participant observation was employed whenever organizational permission was granted, while the researcher otherwise maintained a non-interventionist role to preserve the authenticity of observed activities (Angrosino, 2021). Observational data complemented interview findings by providing contextual information that could confirm, clarify, or challenge participants' statements. This prolonged engagement also enabled the researcher to develop a more comprehensive understanding of organizational behavior and ESG implementation processes over time. Documentary analysis was conducted to obtain secondary data supporting and verifying evidence collected through interviews and observations (Bowen, 2009).

The collected qualitative data were analyzed using thematic analysis, a systematic yet flexible analytical approach developed by Braun and Clarke (2006) for identifying, analyzing, and interpreting patterns within qualitative datasets. This method is particularly appropriate for studies investigating perceptions, organizational experiences, and managerial interpretations because it allows themes to emerge inductively from empirical evidence. Following Braun and Clarke's (2006) framework, the analysis consisted of six sequential stages. First, the researcher familiarized themselves with the data by repeatedly reading interview transcripts, observation notes, and documentary materials to gain a holistic understanding while identifying preliminary ideas. Second, initial codes were generated by systematically labeling meaningful segments of text related to ESG implementation, sustainability reporting, managerial perceptions, governance practices, operational challenges, and organizational strategies. Third, related codes were grouped into broader potential themes representing meaningful patterns associated with the research questions. Fourth, these preliminary themes were reviewed by assessing their internal consistency and ensuring that each theme remained conceptually distinct while adequately representing the dataset. Fifth, final themes were clearly defined and appropriately named to reflect their substantive meaning and analytical contribution to understanding ESG reporting within PT MSI.

3. RESULTS AND DISCUSSION

The interview findings show that ESG reporting at PT MSI did not originate from a comprehensive sustainability strategy but evolved gradually in response to increasing external pressures from regulators and business customers. Initially, ESG was perceived merely as an additional reporting requirement rather than an integrated management system. However, growing expectations from international customers and sustainability-related regulations have gradually encouraged the company to institutionalize ESG practices across multiple organizational functions. These findings show that ESG implementation at PT MSI represents an organizational learning process that continues to develop as sustainability becomes increasingly embedded within corporate decision-making. This gradual development was clearly reflected in the statement provided by Informant A, who explained that the company had only recently begun to seriously implement ESG principles.

"To be honest, we were not fully prepared from the beginning. We only started taking ESG seriously about two or three years ago. Previously, ESG was simply a term that appeared because customers requested it, but there was no dedicated organizational structure to manage it." (Informant A - Finance Manager)

The interview shows that ESG was initially treated primarily as an external compliance requirement rather than a strategic management instrument. Sustainability-related information was collected only when requested by customers or regulators, while internal coordination remained relatively limited. Such conditions show that ESG implementation was predominantly reactive instead of proactive. Nevertheless, the preparation of the company's first Sustainability Report became an important turning point in strengthening organizational awareness regarding sustainability management. Informant A explained that the reporting process required collaboration among multiple departments, particularly the Finance and Health, Safety, and Environment (HSE) divisions, resulting in greater integration between financial and non-financial information. Consequently, sustainability reporting gradually shifted from symbolic disclosure toward a more substantive organizational practice consistent with the ESG framework proposed by Eccles *et al*. (2014).

The Finance Manager further explained that ESG reporting currently requires the integration of quantitative sustainability indicators into the company's reporting system.

"Every year, we prepare the Sustainability Report together, especially with the HSE team. The finance department is responsible for providing numerical information, including environmental expenditures, investments in energy efficiency, occupational safety costs, and several other sustainability metrics. For example, environmental expenditures decreased from IDR 0.47 billion in 2022 to IDR 0.14 billion in 2024, while energy intensity declined from 10.41 GJ per ton to 9.70 GJ per ton during the same period." (Informant A - Finance Manager)

The interview findings were supported by documentary evidence contained in the company's Sustainability Report, which shows that PT MSI has begun producing measurable environmental performance indicators rather than relying solely on qualitative disclosures.

Table 2. Environmental Cost Expenditure.

Year	Environmental Cost (Billion IDR)
2022	0.47
2023	0.17
2024	0.14

Source: PT MSI Sustainability Report (2024)

The consistent decline in environmental expenditures may show improvements in environmental management efficiency, including better waste treatment systems and more effective resource utilization. However, interview results revealed that environmental data collection remains highly dependent on manual coordination between departments, creating challenges related to data consistency and reporting accuracy. Differences in recording methods among organizational units and the absence of a fully integrated digital reporting system remain significant obstacles. Therefore, while PT MSI has showd measurable progress in ESG disclosure, the reporting system itself is still undergoing organizational transition toward greater standardization. These findings suggest that sustainability accounting practices at PT MSI have begun to develop but have not yet reached a fully mature stage as described by Schaltegger and Burritt (2017).

The operational dimension of ESG implementation was further explained by Informant B, who emphasized that sustainability reporting depends heavily on production performance and quality control activities.

"Around sixty percent of the Sustainability Report actually comes from the production department. If production activities are not properly documented, including quality control, then the ESG report will certainly become inaccurate. Improvements in production processes and quality control have also contributed to reducing Scope 1 and Scope 2 greenhouse gas emissions from 18,179.87 tons of CO_2e in 2022 to 15,788.25 tons in 2024." (Informant B - Production Manager)

The interview shows that ESG implementation extends beyond administrative reporting and directly influences day-to-day production activities. Production records concerning energy consumption, raw material efficiency, waste generation, and product quality constitute the primary source of environmental performance indicators reported by the company. Consequently, quality control functions not only ensure product consistency but also improve the reliability of ESG-related information. Better production efficiency contributes to lower material losses, reduced waste generation, and decreased greenhouse gas emissions, illustrating the close relationship between operational excellence and environmental sustainability.

Table 3. Greenhouse Gas Emissions (Scope 1 & Scope 2).

Year	**Total Emissions (tCO_2e)**	**Emission Intensity (tCO_2e/Ton)**
2022	18,179.87	1.44
2023	17,500.60	1.38
2024	15,788.25	1.16

Source: PT MSI Sustainability Report (2024)

Although emission performance improved consistently during the observation period, Informant B acknowledged that several operational constraints continue to limit ESG implementation. Aging production equipment, limited technological capabilities, and pressure to achieve production targets frequently reduce the priority given to sustainability documentation. Under certain circumstances, production efficiency receives greater attention than environmental data recording, resulting in inconsistencies in ESG documentation. These findings show that operational integration between production management and sustainability reporting remains incomplete. Consequently, PT MSI continues to face challenges in balancing production efficiency with comprehensive ESG documentation. Such conditions are consistent with Wang and Tan (2021), who argued that manufacturing companies frequently experience difficulties integrating sustainability accounting into operational activities because of institutional and operational pressures.

The HSE division also emerged as the central coordinator responsible for ESG reporting activities. Informant C explained that almost all environmental and occupational safety information is consolidated by the HSE department before being incorporated into the Sustainability Report.

"Honestly, HSE is the coordination center for ESG. Waste management, emissions, energy consumption, and occupational accidents are all managed through our department before they are included in the ESG report." (Informant C - HSE & Sustainability)

The interview findings show that HSE currently functions as the primary organizational unit responsible for coordinating sustainability information across departments. This centralized approach facilitates initial coordination and improves consistency during report preparation. However, concentrating ESG responsibilities within a single department may unintentionally create the perception that sustainability is solely the responsibility of HSE rather than a shared organizational commitment. Consequently, broader organizational engagement remains necessary to strengthen ESG integration throughout the company. These findings support stakeholder theory, which emphasizes that sustainability responsibilities should be distributed across organizational functions rather than concentrated within a single operational unit.

The company's overall ESG performance shows gradual but measurable progress across several sustainability indicators. Environmental expenditures declined from IDR 0.47 billion in 2022 to IDR 0.14 billion in 2024, energy intensity decreased from 10.41 GJ per ton to 9.70 GJ per ton, and total greenhouse gas emissions fell by more than 2,300 tons of CO_2e during the same period. These improvements show that PT MSI has begun integrating environmental performance measurement into its management processes. Nevertheless, social performance remains relatively inconsistent, particularly regarding occupational safety indicators. The Sustainability Report reveals that workplace accidents increased from three cases in 2023 to six cases in 2024, while the Lost Time Injury Frequency Rate (LTIFR) also increased, showing that improvements in environmental performance have not yet been matched by equivalent progress in social performance.

Table 4. PT MSI ESG Performance Indicators.

ESG Pillar	Indicator	2022	2023	2024
Environmental	Environmental Cost (Billion IDR)	0.47	0.17	0.14
Environmental	Energy Intensity (GJ/Ton)	10.41	9.94	9.70
Environmental	GHG Emissions (tCO_2e)	18,179.87	17,500.60	15,788.25
Social	Workplace Accidents (Cases)	5	3	6
Social	LTIFR	1.48	0.91	1.66

Source: PT MSI Sustainability Report (2024)

The governance dimension was discussed by Informant D, who emphasized that Sustainability Reports have gradually strengthened internal discipline within the company.

"Preparing the ESG report forces every department to maintain better documentation. It also helps us prepare for customer audits because every sustainability claim must now be supported by evidence." (Informant D - HR Manager)

This finding shows that sustainability reporting has evolved beyond external disclosure into an internal governance mechanism. The reporting process encourages departments to improve documentation quality, strengthen regulatory compliance, and establish more systematic accountability procedures. The availability of measurable environmental and social indicators also enhances the credibility of corporate sustainability claims by providing objective evidence rather than relying solely on narrative descriptions. Nevertheless, the persistence of occupational safety challenges shows that governance improvements have not yet fully translated into consistently improved operational performance. The findings show that the Sustainability Report has evolved beyond a communication document and has gradually become an important governance instrument within the organization. Rather than serving merely as a regulatory requirement, the report increasingly influences internal managerial processes, organizational discipline, and decision-making practices. This transformation reflects the growing recognition that sustainability reporting should provide credible and verifiable information rather than symbolic sustainability claims. Consequently, the Sustainability Report has become an important mechanism for improving governance quality by encouraging transparency, accountability, and stronger internal control systems.

The changing perception of sustainability reporting was clearly described by the Finance Manager, who explained that the reporting process has fundamentally altered how non-financial information is managed within the company.

"Previously, the Sustainability Report was mostly treated as a formality. Now we increasingly use it as a control mechanism because every statement included in the report must be supported by evidence. We cannot simply make claims without being able to justify them." (Informant A - Finance Manager)

This statement shows a significant shift in managerial understanding regarding the function of sustainability reporting. Previously, sustainability disclosure primarily fulfilled external expectations from regulators and customers. However, the reporting process now requires departments to systematically collect, verify, and document sustainability-related information before publication. This requirement has strengthened internal accountability because every disclosed indicator must be supported by operational evidence and documented records. Consequently, the Sustainability Report no longer functions solely as an external communication tool but also as an internal governance mechanism that promotes responsible managerial behavior. These findings support the argument of Legitimacy Theory that sustainability disclosure enables organizations to maintain public legitimacy, while the evidence from PT MSI further suggests that legitimacy is increasingly supported by substantive organizational improvements rather than symbolic disclosure alone.

The interviews further revealed that sustainability reporting has significantly improved governance-related disclosure practices within PT MSI. According to the Human Resources and Compliance Manager, the reporting process has encouraged greater openness regarding regulatory compliance, internal policies, decision-making structures, and supervisory mechanisms. "The Sustainability Report encourages us to disclose more information about compliance, monitoring systems, and internal policies. Once these commitments are published, we are expected to implement them consistently because stakeholders can evaluate our performance." (Informant D - HR & Compliance Manager)

The interview shows that sustainability reporting functions as a disciplinary mechanism that increases organizational transparency. Information that was previously maintained primarily for internal purposes is now documented using standardized reporting procedures and made accessible to external stakeholders. As a result, managers become more accountable for ensuring that organizational practices remain consistent with publicly disclosed sustainability commitments. This increased transparency also strengthens organizational credibility by reducing information asymmetry between management and stakeholders. From the perspective of Stakeholder Theory, these findings show that sustainability reporting enables companies to respond more effectively to the expectations of regulators, multinational customers, business partners, employees, and potential investors. Therefore, the Sustainability Report serves as an important governance bridge connecting internal organizational practices with external stakeholder expectations.

Beyond improving disclosure quality, the Sustainability Report also contributes significantly to strengthening internal monitoring mechanisms. Informant C explained that preparing the report requires extensive cross-functional coordination involving multiple departments before sustainability information is finalized.

“Before the report is published, all environmental and compliance data are verified several times. It is not only the HSE department that reviews the information, but also finance and senior management. That is where the control function becomes very visible.” (Informant C - HSE & Sustainability)

The interview findings show that sustainability reporting creates an internal review process involving several organizational functions. Environmental indicators, governance information, and social performance data undergo multiple stages of verification before being incorporated into the final report. This cross-functional verification process reduces the possibility of inaccurate reporting while improving the reliability of disclosed sustainability information. Furthermore, collaboration among finance, HSE, and management departments enhances organizational coordination and strengthens internal control systems. The findings therefore show that sustainability reporting contributes not only to external accountability but also to better governance through systematic verification procedures. From the perspective of sustainability accounting, the reporting process integrates financial and non-financial information into a unified accountability framework, thereby improving managerial decision-making and organizational control. The interviews also revealed that management is highly aware of the potential governance risks associated with greenwashing. Informant B acknowledged that increasing stakeholder expectations may unintentionally encourage companies to overstate sustainability achievements if appropriate internal controls are not maintained.“Honestly, we are also concerned about that risk. If the report looks very impressive while our actual practices are not yet fully developed, it could eventually damage our credibility. That is why we have become much more careful about what we disclose.” (Informant B - Production Manager).

This statement shows an important element of governance maturity within PT MSI. Rather than viewing sustainability reporting exclusively as a marketing instrument, management recognizes the reputational risks associated with unsupported sustainability claims. Such awareness encourages greater caution during data verification and reduces incentives for symbolic reporting practices. The findings therefore suggest that management attempts to align sustainability disclosure with actual operational performance before communicating information to stakeholders. This organizational awareness is consistent with previous studies by Larsson and Nyberg (2023), who identified symbolic sustainability reporting and greenwashing within the plastic packaging industry, and Halim and Yusuf (2022), who argued that ESG reports are frequently used as market signals that do not always accurately reflect operational reality. Unlike these findings, PT MSI shows increasing efforts to minimize symbolic disclosure through stricter internal verification and stronger managerial accountability.

The strengthening of governance through sustainability reporting can also be observed in the increasing institutionalization of documentation and reporting procedures throughout the organization. Every department now contributes specific sustainability information that is subsequently consolidated into the corporate Sustainability Report. This process encourages departments to improve recordkeeping, maintain supporting documentation, and establish more systematic reporting routines. As a result, sustainability information is increasingly generated through standardized organizational procedures rather than individual managerial discretion. Such institutionalization contributes to greater consistency in sustainability disclosure across reporting periods while simultaneously improving organizational readiness for regulatory inspections and customer audits. These developments show that governance improvements are emerging not only through policy formulation but also through changes in everyday organizational practices.

The governance implications identified in this study are summarized in Table 5, which shows the principal governance improvements generated through the implementation of sustainability reporting at PT MSI.

Table 5. Governance Improvements Resulting from Sustainability Reporting at PT MSI.

Governance Dimension	Evidence from Findings	Governance Implication
Transparency	More comprehensive disclosure of ESG indicators and internal policies	Improved information accessibility and stakeholder trust
Accountability	Sustainability claims require documented supporting evidence	Stronger managerial responsibility for disclosed information

Internal Control	Cross-departmental verification before report publication	Reduced reporting errors and improved data reliability
Compliance	Greater attention to regulatory and customer requirements	Improved consistency with ESG regulations and standards
Risk Management	Increased awareness of greenwashing risks	More cautious and evidence-based sustainability disclosure
Coordination	Collaboration among Finance, HSE, HR, and Operations	Better integration of governance processes across departments

Source: Developed from interview findings (2026)

The report enhances transparency by improving the quality of sustainability disclosure, strengthens accountability by requiring evidence-based reporting, and reinforces internal control through systematic verification procedures. These governance improvements are accompanied by increasing managerial awareness of the importance of maintaining consistency between disclosed sustainability information and actual organizational practices. Although resource limitations, fragmented data systems, and implementation challenges remain, the reporting process has already contributed to meaningful organizational change. From Legitimacy Theory and Stakeholder Theory, the Sustainability Report enables PT MSI to strengthen both its social legitimacy and stakeholder relationships by demonstrating greater transparency and accountability. Therefore, the findings show that sustainability reporting at PT MSI has evolved beyond its traditional communicative function and is increasingly serving as a substantive governance mechanism that supports more transparent, accountable, and sustainable corporate management.

4. CONCLUSION

Environmental, Social, and Governance (ESG) reporting practices at PT MSI represent an evolving organizational process shaped by increasing stakeholder expectations, regulatory requirements, and the company's internal commitment to improving sustainability performance. Initially implemented as a response to external demands from regulators and multinational customers, ESG reporting has gradually developed into a more structured managerial practice that integrates environmental, social, and governance considerations into corporate operations and decision-making. The findings show that the sustainability report has progressed beyond its role as a communication tool to become an important governance instrument that strengthens transparency, accountability, cross-functional coordination, and internal monitoring through more systematic documentation and verification of both financial and non-financial information. From Legitimacy Theory and Stakeholder Theory, PT MSI utilizes sustainability reporting not only to maintain organizational legitimacy and respond to stakeholder expectations but also to support continuous organizational learning and governance improvement while recognizing and minimizing the risk of symbolic disclosure or greenwashing. Although the company still faces challenges related to data integration, technological limitations, standardization of ESG indicators, and the full implementation of sustainability accounting, the findings indicate that PT MSI is progressively transitioning from symbolic compliance toward a more substantive ESG reporting system.

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