

# The Impact of Environmental, Social, and Governance Disclosure on Financial Performance in Indonesian Mining Companies

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## ABSTRACT

ESG has become a strategic framework for sustainability, stakeholder engagement, and corporate value creation, while financial performance is commonly measured through profitability and market-based indicators. The purpose of this research is to examine how the disclosure of environmental, social, and governance information influences corporate financial outcomes in the mining sector. A quantitative approach was applied using multiple linear regression analysis on secondary data drawn from company reports. The results reveal that environmental disclosure has a significant positive effect on financial performance, as it enhances efficiency, reduces costs, and strengthens corporate reputation. In contrast, social and governance disclosures do not show a significant impact, indicating that their implementation remains largely formalistic and has not translated into measurable financial benefits. The findings highlight the importance of prioritizing environmental initiatives within ESG practices while suggesting the need for more substantive approaches to social and governance aspects. This study contributes to the literature by providing sector-specific insights and offering practical implications for companies seeking to align sustainability disclosure with financial value creation.

**Keywords:** Corporate Sustainability, Environmental Disclosure, Financial Performance, Governance Disclosure, Mining Sector, Social Disclosure, ROA.

## ABSTRAK

ESG menjadi kerangka strategis untuk keberlanjutan, keterlibatan pemangku kepentingan, dan penciptaan nilai perusahaan, sedangkan kinerja keuangan umumnya diukur melalui profitabilitas dan indikator berbasis pasar. Tujuan dari penelitian ini adalah untuk mengkaji bagaimana keterbukaan informasi lingkungan, sosial, dan tata kelola mempengaruhi hasil keuangan perusahaan di sektor pertambangan. Pendekatan kuantitatif diterapkan menggunakan analisis regresi linier berganda pada data sekunder yang diambil dari laporan perusahaan. Hasil penelitian mengungkapkan bahwa pengungkapan lingkungan memiliki efek positif yang signifikan terhadap kinerja keuangan, karena meningkatkan efisiensi, mengurangi biaya, dan memperkuat reputasi perusahaan. Sebaliknya, pengungkapan sosial dan tata kelola tidak menunjukkan dampak yang signifikan, menunjukkan bahwa implementasinya sebagian besar tetap formalistik dan belum diterjemahkan ke dalam manfaat keuangan yang terukur. Temuan ini menyoroti pentingnya memprioritaskan inisiatif lingkungan dalam praktik ESG sambil menyarankan perlunya pendekatan yang lebih substantif untuk aspek sosial dan tata kelola. Studi ini berkontribusi pada literatur dengan memberikan wawasan khusus sektor dan menawarkan implikasi praktis bagi

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perusahaan yang ingin menyelaraskan pengungkapan keberlanjutan dengan penciptaan nilai keuangan.

**Kata kunci:** Keberlanjutan Perusahaan, Pengungkapan Lingkungan, Kinerja Keuangan, Pengungkapan Tata Kelola, Sektor Pertambangan, Pengungkapan Sosial, ROA.

## INTRODUCTION

Financial performance is one of the main indicators that reflects a company's operational success (Minggu et al., 2023). Financial statements, which give details on the company's capacity to turn a profit, pay its debts, and maintain operations, serve as evidence of this. High profitability indicates strong capacity to support internal funding needs, enhance competitiveness, and optimize the use of resources (Sari & Hariyani, 2024; Panjaitan et al., 2025). Return on Assets (ROA), a metric that assesses how well a business uses its assets to produce profits, is one of the most important indicators of financial performance. ROA also serves as an important reference for investors and management in assessing efficiency and profitability (Kamruzzaman, 2019; Muslih et al., 2020).

As competition intensifies across various industries, companies are required to remain productive and continuously improve their financial performance. Implementing the right strategy becomes essential for achieving sustainable competitiveness in a dynamic business environment (Bari et al., 2022; Nuradilah et al., 2023). Regular evaluation of financial performance serves as a strategic measure for companies to understand their position and formulate relevant policies. Such evaluations enable companies to optimize resources more effectively in facing ever-changing environmental challenges (Antonius et al., 2023).

In addition to financial performance, non-financial aspects such as Environmental, Social, and Governance (ESG) disclosure also significantly influence corporate image and value (Ellili, 2023). ESG disclosure reflects the extent of a company's commitment to environmental sustainability, social responsibility, and sound governance. The relationship between ESG and financial performance, including ROA, shows that companies achieving high profitability while maintaining sustainability responsibilities tend to be more attractive to investors (Koundouri et al., 2022; Rahmansyah et al., 2024). Strong ESG disclosure gives the market a good indication that the business is reliable, effective, and stable.

However, ESG implementation does not always run optimally, as seen in the corruption case involving PT Timah Tbk. The company received favorable ratings from the Ministry of Environment and Forestry (*Kementerian Lingkungan Hidup dan Kehutanan*/KLHK), yet according to the Public Prosecutor's indictment, its mining activities were deemed environmentally destructive and caused state losses amounting to IDR 271 trillion. The discrepancy between ESG ratings and actual environmental impact has sparked criticism and public demands for greater transparency in mining management. The Alliance of Bangka Belitung Community Advocates highlighted the importance of open data regarding land area, reclamation, and environmental permits to ensure that ESG practices truly reflect sustainability (Maranda, 2025).

The environmental aspect of ESG emphasizes corporate efforts to reduce negative environmental impacts, such as waste management, energy efficiency, and the adoption of renewable energy (Fujianti et al., 2024). Meanwhile, the social aspect focuses on how companies treat employees and communities, including workplace fairness, inclusion, occupational safety, and commitment to community welfare (Egginton et al., 2019; Onyekwelu et al., 2024). In addition, the governance aspect plays a crucial role in ensuring business sustainability and operational transparency. Good governance includes effective leadership, accountable corporate policies, and compliance with regulations to prevent corrupt practices (Fujianti et al., 2024). By comprehensively applying ESG principles, companies can enhance operational efficiency, maintain investor trust, and strengthen

social responsibility. The combination of solid financial performance and strong ESG management will help companies achieve long-term sustainable growth (Andrey, 2024).

Empirical evidence on the relationship between ESG disclosure and financial performance remains mixed. While Syahwallistiana and Yusuf (2025) found no significant effect, Anggraini and Sari (2024) reported a positive one. This inconsistency highlights the need for further investigation, particularly in Indonesia's mining sector, which faces high environmental risks and governance challenges. The PT Timah Tbk case, where strong ESG ratings contrasted with severe environmental damage, underscores the urgency of reassessing ESG effectiveness. This study addresses that gap by examining how ESG disclosures affect the financial performance of Indonesian mining firms, offering context-specific insights to enhance sustainability accountability and reporting quality. This study aims to examine how the disclosure of environmental, social, and governance information influences corporate financial outcomes in the mining sector.

## **LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT**

### **Theoretical Foundation of ESG**

Environmental, Social, and Governance (ESG) is a collection of standards used to evaluate a business's dedication to social responsibility, ecological sustainability, and good governance. Within the corporate sphere, ESG serves as a mechanism to strengthen legitimacy, enhance reputation, and build trust with stakeholders (Dinarjito, 2025). In the meantime, market valuation metrics like Tobin's Q and profitability indicators like Return on Equity (ROE) and Return on Assets (ROA) are typically used to gauge financial success. Prior research indicates that incorporating ESG practices can lead to greater efficiency, lower operational risks, and higher firm value (Dawei & Laitf, 2024). Stakeholder theory provides the underlying framework, arguing that companies capable of addressing diverse stakeholder interests are more likely to achieve stronger financial outcomes. In this context, ESG is viewed not only as an ethical obligation but also as a strategic means of sustaining competitive advantage and delivering long-term value for both investors and society (Durlista & Wahyudi, 2023; Setyowati et al., 2025; Tutar et al., 2025).

The ESG (Environmental, Social, and Governance) problem-solving approach involves a comprehensive strategy to address challenges across environmental, social, and governance dimensions (Hamdouni, 2025). The process begins with mapping and assessing the organization's impacts, from carbon emissions and energy consumption to employee relations, community engagement, and corporate governance practices. Based on these assessments, companies should set clear, measurable objectives aligned with long-term goals and integrate ESG considerations into all business decisions, including supplier selection, investment choices, and internal policies. Innovation and technology play a key role in advancing sustainability, such as reducing carbon footprints, improving energy efficiency, and developing eco-friendly products. Collaboration with stakeholders, including government, NGOs, local communities, and industry peers, strengthens ESG initiatives, while transparent reporting using international standards like GRI or SASB demonstrates accountability. This is a continuous process, requiring regular audits and strategy adjustments to respond to evolving challenges and opportunities. Overall, ESG problem-solving is a long-term journey that emphasizes collaboration, commitment, and the creation of sustainable value benefiting the environment, society, and corporate governance.

### **Variable Relationship and Hypothesis Development**

Several studies have examined the impact of Environmental, Social, and Governance (ESG) disclosures on financial performance. Environmental disclosure has been found to positively influence financial performance by improving resource efficiency, reducing operational costs, and enhancing corporate reputation, which collectively contribute to higher profitability (Haninun et al., 2018; Luo et al., 2024). In terms of social disclosure, research indicates that it strengthens relationships with employees, communities, and

customers, fostering loyalty and indirectly supporting financial performance (Qiu et al., 2016; Chen et al., 2023). Governance disclosure also plays a critical role, as the implementation of good corporate governance practices increases transparency, accountability, and risk management, thereby reinforcing financial performance (Anik et al., 2021; Aibar-Guzmán et al., 2024). When taken as a whole, these examples demonstrate how complete ESG practices may be used as strategic instruments to improve business profitability and sustainability.

From a theoretical perspective, Agency Theory posits that managers may act in self-interest, creating conflicts with shareholders due to information asymmetry and moral hazard (dos Reis Cardillo & Basso, 2025). ESG disclosure functions as a monitoring mechanism that reduces these agency costs by providing transparent, non-financial information on managerial actions related to environmental stewardship, social responsibility, and governance integrity. Enhanced disclosure thus aligns managerial decisions with the long-term interests of shareholders, leading to improved financial outcomes. Meanwhile, Stakeholder Theory suggests that a firm's success depends on maintaining positive relationships with its stakeholders, including employees, customers, investors, regulators, and communities. Through comprehensive ESG disclosure, companies demonstrate their commitment to ethical practices and sustainability, which enhances stakeholder trust, corporate legitimacy, and ultimately financial performance.

H1: Environmental disclosure has a positive and significant effect on financial performance.

H2: Social disclosure has a positive and significant effect on financial performance.

H3: Governance disclosure has a positive and significant effect on financial performance.

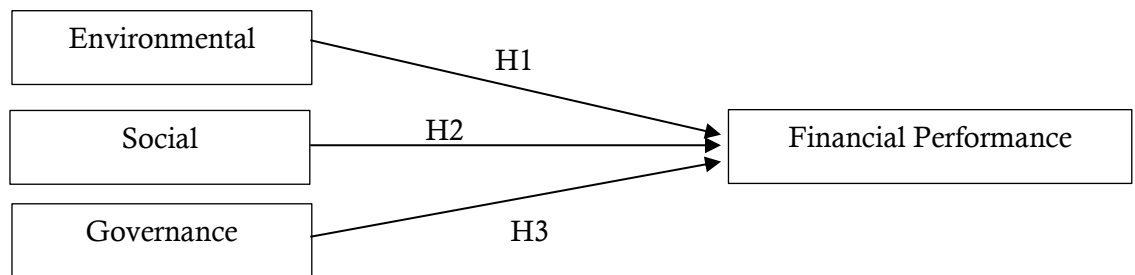


Figure 1. Research Framework

Referring to Figure 1, the research framework is grounded in stakeholder theory, which interprets ESG disclosure as a way for firms to demonstrate transparency and accountability to their stakeholders. Financial performance is the dependent variable in this model, whereas ESG disclosure is the independent variable. According to the concept, increased transparency of governance, social, and environmental factors can boost stakeholder trust, reduce possible risks, and improve business financial results.

## RESEARCH METHODS

The research was carried out in several systematic stages. The first phase was preparation, which included obtaining research licenses, compiling supporting documentation, and selecting mining businesses listed on the Indonesia Stock Exchange (IDX) that exhibit quantifiable financial performance and employ ESG principles as study objects. Data collection came next, with these companies' sustainability and annual reports serving as the main sources. Following this, the data were processed quantitatively and analyzed to generate findings. The final stage consisted of compiling the research results into a structured report, with the ultimate objective of producing a nationally

accredited journal article that contributes to academic knowledge and supports the practice of sustainable business.

This study adopted a quantitative approach, consistent with the positivist paradigm, which examines specific populations or samples using measurable data analyzed through statistical methods (Sugiyono, 2013). The purpose of the research design was to evaluate how mining businesses listed on the IDX fared financially as a result of Environmental, Social, and Governance (ESG) disclosure. A total of 63 companies formed the population, and the research sample was selected through purposive sampling based on three criteria: being a mining company listed on the IDX, consistently publishing both financial and sustainability reports, and presenting financial statements in Rupiah.

This study's variables included both non-financial and financial aspects. The profitability ratio, more especially, Return on Assets (ROA), which gauges the company's capacity to produce net income from its total assets, was used to assess financial performance. ESG disclosure was evaluated based on the Global Reporting Initiative (GRI) framework, with environmental aspects referring to GRI 300 (31 indicators), social aspects to GRI 400 (36 indicators), and governance to GRI 102 (13 indicators) (Ghozali, 2018). The number of indicators revealed in corporate reports was compared to the total number of indicators needed for each ESG dimension in order to determine the scoring mechanism.

The financial statements and sustainability reports from mining companies that were made available on the official IDX website provided the secondary data for this study. The relationship between ESG disclosure and financial performance was investigated using multiple linear regression analysis. This technique allowed for the measurement of the partial and simultaneous effects of independent factors (environmental, social, and governance) on the dependent variable (financial performance).

Descriptive statistics were performed before regression analysis in order to provide an initial profile of the research variables by summarizing the dataset using mean, standard deviation, maximum, and minimum values. The validity of the model was then confirmed using traditional assumption tests, which included autocorrelation, heteroscedasticity, multicollinearity, and normality testing. To ensure the regression model produced objective and trustworthy findings, these procedures were essential. The F-test, which measures the overall significance of the model, the coefficient of determination (R<sup>2</sup>), which measures explanatory power, and the t-test, which measures the impact of each independent variable separately, were all used in the hypothesis testing process. This study was carried out using SPSS software.

## RESULTS

The mining sector is one of the strategic sectors in Indonesia's economy as it serves as a source of foreign exchange, state revenue, and the main supplier of raw materials for various industries (ESDM, 2024). Mining companies in Indonesia generally engage in exploration, exploitation, processing, and marketing of mineral resources such as coal, tin, nickel, gold, and other minerals. As a capital-intensive and high-risk sector, the performance of mining companies is highly dependent on global commodity prices, operational efficiency, and compliance with environmental and social regulations (PwC, 2023). A set of data can be described or summarized using descriptive statistics by using metrics like mean, standard deviation, minimum value, and maximum value. The outcomes of the descriptive statistical test are shown as follows:

**Table 1.** Descriptive Statistical Test Results

Variable	N	Minimum	Maximum	Mean	Std. Dev
Environmental	53	0.129	1.000	0.658	0.252
Social	53	0.111	1.000	0.662	0.231
Governance	53	0.769	1.000	0.972	0.050
Financial Performance	53	-0.041	0.402	0.111	0.100

Table 1 shows that this study analyzed 53 observations from 32 mining companies over a two-year period. Environmental disclosure, assessed using 31 GRI Standard indicators, ranged from a minimum of 0.129 (IMC Pelita Logistik Tbk, 2023) to a maximum of 1, achieved by Golden Energi Mines Tbk and TBS Energi Utama Tbk in 2023–2024, as well as Indo Tambangraya Megah Tbk in 2024. The average score of 0.658 with a standard deviation of 0.252 indicates notable differences in how companies report environmental information.

For social disclosure, measured through 36 indicators, the lowest score was 0.111, observed in Mitrabahtera Segara Sejati Tbk and Mandiri Herindo Adiperkasa Tbk during 2023–2024, while the highest score of 1 was reported by Indo Tambangraya Megah Tbk (2023) and Bukit Asam Tbk (2023–2024). The mean value of 0.662 with a standard deviation of 0.231 reflects moderate variability in social disclosure across the sample. Governance disclosure, based on 13 indicators, ranged from a minimum of 0.769 (Bayan Resources Tbk, 2023) to a maximum of 1 for several companies in 2023–2024, with an average of 0.972 and a small standard deviation of 0.050, indicating consistently high levels of governance reporting.

Financial performance, measured by Return on Assets (ROA), varied from a minimum of -0.041 (BUMA Internasional Grup Tbk, 2024), indicating a loss exceeding total assets, to a maximum of 0.402 (Golden Energy Mines Tbk, 2023), showing efficient profit generation with IDR 0.402 earned per IDR 1 in assets. The mean ROA of 0.111 and the standard deviation of 0.100 suggest that overall, the sampled mining companies maintain relatively stable and healthy financial performance, despite individual differences among firms.

Table 2. Classical Assumption Test Results

Variable	Collinearity Statistics		Spearman Rho	Kormogorov- Smirnov	Durbin- Watson
	Tolerance	VIF			
Env	0.250	4.004	0.821		
Soc	0.234	4.275	0.933		
Gov	0.853	1.173	0.843		
Asymp. Sig. (2-tailed)				0.200	
dW					2.276
dW test					$dU < dW < 4-dU = 1.6785 < 2.2276 < 2.3215$

Table 2 presents the results of the classical assumption tests, including normality, heteroskedasticity, multicollinearity, and autocorrelation. Using the Kolmogorov-Smirnov method, the normality test was performed to ascertain whether the regression residuals are regularly distributed. When the Asymp. Sig. (2-tailed) If the value is higher than 0.05, the residuals are regarded as normal. The Asymp. Sig. (2-tailed) The value in this study is 0.200, over the cutoff, indicating that the residuals have a normal distribution.

The purpose of the heteroskedasticity test was to determine if the residuals' variance was constant across the data. To test this, the Spearman Rho method was employed. A significance value above 0.05 suggests the absence of heteroskedasticity. The significance levels are 0.821 for environmental disclosure, 0.933 for social disclosure, and 0.843 for governance disclosure. Since all values are higher than 0.05, it can be concluded that heteroskedasticity does not occur in this dataset.

To find any significant correlations between the independent variables in the regression model, multicollinearity testing was done. Tolerance levels and the Variance Inflation Factor (VIF) were the indicators that were employed. Multicollinearity is considered absent if the VIF value is below 10 and the tolerance value exceeds 0.1. According to Table 2, the VIF values are 4.004 for environmental disclosure, 4.275 for social disclosure, and 1.173 for governance disclosure, while the tolerance scores are 0.250, 0.234, and 0.853, respectively. Because all VIF results are under 10 and all tolerance values are above 0.1, the findings confirm that multicollinearity is not present among the independent variables.

The autocorrelation test was conducted to determine whether residuals in the regression model are mutually correlated. This was examined using the Durbin-Watson statistic, where no autocorrelation is indicated if the test result falls within the range of  $dU < dW < 4-dU$ . As shown in Table 2, the Durbin-Watson statistic is 2.276. With a sample size of 53 and three predictors, the critical value ( $dU$ ) is 1.6785, resulting in  $4-dU = 2.3215$ . Since 2.276 lies within the acceptable interval ( $1.6785 < 2.276 < 2.3215$ ), it can be concluded that autocorrelation is not an issue in this study.

Table 3. Hypothesis Test Results

Hypothesis	Variable	$\beta$	T-Statistic	Sig	Hypothesis Result
	Constant	0.356	1.318	0.000	
H1+	Env	0.260	2.487	0.038	Accepted
H2+	Soc	-0.210	-1.779	0.003	Rejected
H3+	Go	-0.284	-0.999	0.196	Rejected
N		53			
Adjusted R Square		0.111 (11.1%)			
F		3.163 (Sig. 0.033)			
Research Model		$KK = \alpha + \beta_1Env + \beta_2Soc + \beta_3Gov + \epsilon$			

Based on Table 3, the results of the multiple linear regression test can be interpreted with the following equation:

$$KK = 0.356 + 0.260Env - 0.210Soc - 0.284Gov$$

The regression results in Table 3 reveal different impacts of Environmental, Social, and Governance (ESG) disclosures on financial performance. The constant value of 0.356 suggests that financial performance remains at this level when all independent variables are zero. Environmental disclosure has a positive coefficient of 0.260 with a significance of 0.016, indicating a significant positive effect and supporting H1. Conversely, social disclosure has a negative coefficient of -0.210 and a significance of 0.081, showing an insignificant effect and leading to the rejection of H2. Governance disclosure also presents a negative coefficient of -0.284 with a significance of 0.323, indicating no significant impact and rejecting H3. The Adjusted  $R^2$  value of 0.111 demonstrates that ESG disclosures collectively explain 11.1% of the variation in financial performance, while the remaining 88.9% is influenced by other factors outside the model. The F-test shows a significance value of 0.033, which is below the 0.05 threshold, confirming that, together, environmental, social, and governance disclosures significantly influence financial performance.

## DISCUSSION

The first hypothesis proposed that environmental disclosure positively affects financial performance, and the findings confirm this assumption. Disclosure of environmental practices in sustainability reports significantly improves financial outcomes, consistent with stakeholder theory, which emphasizes corporate accountability not only to shareholders but also to wider stakeholders such as customers, employees, governments, and communities (Freeman, 1984). By reporting environmental management efforts transparently, companies build stakeholder trust and loyalty, which contribute to long-term profitability. Practically, robust disclosure encourages efficiency in resource use, reduces energy waste, and lowers operational costs (Husada & Handayani, 2021; Bu et al., 2022). Moreover, environmental commitments foster innovation, such as eco-friendly products and clean technologies, enhancing competitiveness and reducing risks. These results align with Inawati and Rahmawati (2023), who note that environmental disclosure improves reputation and investor confidence, which in turn raises revenue and share value. Similarly, Sari and Maryama (2024) argue that such disclosure helps companies anticipate regulatory changes and minimize compliance costs, further stabilizing cash

flows. Environmental disclosure emerges not only as compliance but also as a strategic tool for creating economic value and strengthening sustainable financial performance.

The second hypothesis, which predicted that social disclosure would enhance financial performance, was not supported by the results. Profitability was not significantly impacted by social factors, which include community involvement, human rights, labor practices, and product responsibility. This implies that social projects mostly serve as expenses in the near term, even though they may be beneficial in the long run. Expenditures on social activities increase operational burdens, and unless implemented at sufficient scale or intensity, they fail to deliver measurable financial returns. This aligns with Sari and Maryama (2024), who found that social disclosure does not significantly affect financial outcomes when companies do not effectively integrate social responsibility into value creation strategies. According to stakeholder theory, businesses must satisfy stakeholders' demands in order to produce long-term financial gains. However, in this study, social disclosure appears more compliance-driven or image-oriented, rather than strategically leveraged (Agustina et al., 2025). Thus, social disclosure may require more consistent, large-scale implementation over extended periods before its benefits translate into financial performance.

The third hypothesis stated that governance disclosure improves financial performance, yet the evidence does not support this claim. The findings align with Husada and Handayani (2021), who argue that the lack of impact arises from governance disclosure being implemented in a formalistic manner, particularly in family-controlled firms that resist transparency and shared control. Wahyuni and Ahdim (2025) similarly observe that governance disclosure often reflects symbolic compliance rather than substantive adherence to principles of transparency, accountability, and fairness. From the lens of stakeholder theory, governance practices are intended to align company actions with stakeholder interests to generate long-term value. However, in practice, governance disclosure in Indonesia remains insufficiently embedded in decision-making or operational systems and thus fails to provide direct financial benefits (Suhartini et al., 2024). Therefore, although crucial in theory, governance disclosure has not yet reached its full potential as a financial performance driver.

The results show that environmental disclosure significantly enhances financial performance through efficiency, reputation, innovation, and risk mitigation, supporting stakeholder theory. In contrast, social and governance disclosures did not demonstrate measurable effects, as their implementation remains limited, compliance-oriented, and insufficiently strategic. These findings highlight the importance of advancing beyond formal disclosure practices toward meaningful integration of social and governance dimensions, ensuring they contribute to both stakeholder value and financial sustainability.

## **CONCLUSION**

This study on the impact of ESG disclosures on the financial performance of mining companies listed on the Indonesia Stock Exchange from 2023 to 2024 reveals that environmental disclosure significantly enhances financial outcomes. By improving resource efficiency, reducing operational costs, and strengthening corporate reputation, environmental disclosure fosters stakeholder trust and contributes to long-term profitability. In contrast, social and governance disclosures do not show a significant impact on financial performance. These aspects appear to be implemented in a largely formalistic manner, serving as compliance-driven efforts rather than strategic initiatives that deliver measurable financial benefits. The findings underscore the critical role of environmental initiatives in driving economic value while highlighting the need for more substantive integration of social and governance practices to achieve sustainable financial growth.

The implications of this study suggest that mining companies should prioritize robust environmental disclosure to enhance financial performance and stakeholder confidence. However, the limited impact of social and governance disclosures indicates a need for

more strategic and impactful implementation to translate these efforts into financial gains. A key limitation of this study is the exclusion of Ghozali (2018) from the text, which was listed in the references but not cited, potentially overlooking relevant methodological insights. Future research should incorporate additional financial metrics, such as capital structure or liquidity, to provide a more comprehensive analysis. Extending the study to other sectors, such as manufacturing or finance, and using longer observation periods could also yield deeper insights and enable meaningful cross-sectoral comparisons.

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