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Impact of ESG Disclosure on Financial Performance in Coal Mining and Oil And Gas Companies

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Abstract

This study aims to analyze the effect of Environmental, Social, and Governance (ESG) disclosure on financial performance. The independent variables include environmental disclosure, social disclosure, and governance disclosure, while the dependent variable is financial performance, proxied by Return on Assets (ROA t +1). The research focuses on coal mining and oil and gas companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The data analysis method employed is panel data multiple linear regression using the Random Effect Model (REM), processed with EViews 12 SV software. The study comprises 84 observations selected through purposive sampling. The findings reveal that environmental and governance disclosures have no significant effect on financial performance. In contrast, social disclosure has a negative impact on financial performance. Additionally, the simultaneous disclosure of ESG dimensions significantly influences financial performance, indicating that transparent and consistent ESG reporting may help reduce business risk and enhance firm value. These results highlight the need for more strategic ESG practices to support long-term financial sustainability.

Keywords*: Environmental Disclosure, Social Disclosure, Governance Disclosure, ESG, Financial Performance*

INTRODUCTION

In an increasingly integrated global economy, all economic sectors must continuously enhance performance to remain competitive and sustainable. To address challenges across public and private entities, comprehensive performance evaluation tools are essential to ensure organizational goals are achieved effectively and efficiently. One of the key pillars of success in this context is financial performance.

According to Makatita (2016), financial performance is an analytical process used to evaluate how effectively a company manages its financial activities in accordance with standard principles. It not only reflects a company's financial standing but also serves as a key indicator of its growth and strategic direction. Financial statements are critical for decision-making, and stronger financial performance enhances a firm's ability to communicate transparently with stakeholders.

The growing urgency of climate change issues has shifted corporate priorities beyond profit generation. Companies are now placing greater emphasis on environmental, social, and governance (ESG) aspects that affect ecosystems and human life (Putikadea & Siregar, 2023). ESG disclosure has become a vital tool for transparency and for guiding responsible business practices, helping companies avoid financial risks while strengthening stakeholder relationships. This aligns with stakeholder theory, which views stakeholders as individuals or groups who affect or are affected by organizational goals (Freeman & Reed, 1983).

A 2020 study by GlobeScan and the Global Reporting Initiative (GRI) revealed that public trust in sustainability reporting increased to 51%, with Indonesia showing the highest level of confidence among 27 countries. ESG adoption has significantly grown globally and in Indonesia from 2021 to 2023, indicating a rising awareness of ESG as a metric in investment decisions (Alizar, 2024).

The mining sector is a key industry encouraged to adopt ESG principles due to its considerable environmental damage and complex governance challenges. Specifically, coal and oil & gas sectors are not only major contributors to state revenue but also significant sources of environmental degradation. As reported by VoA Indonesia (2024), Indonesia remains among the highest contributors to deforestation, driven largely by land clearing for plantations and mining.

In 2023, the mining sector (Minerba) contributed over 58% of Indonesia's non-tax state revenue (PNBP), equivalent to IDR 173 trillion, while oil and gas contributed around IDR 117 trillion or 39%, making them the top two contributors within the energy and natural resources sector. Both industries also pose significant environmental risks. According to Suarakalbar.co.id, Indonesian coal companies are among the largest emitters of carbon dioxide (CO_2), contributing to global warming and potential water scarcity. Additionally, Haruni Krisnawati, Expert Staff to the Minister of Environment and Forestry for Energy Affairs, stated that greenhouse gas emissions from the oil and gas sector are also major contributors to the current climate crisis (Anugrah, 2023).

Several studies have shown that Environmental, Social, and Governance (ESG) disclosure can positively influence financial performance (Lee & Isa, 2023; Littahayu & Sulistiyoningsih, 2023; Gabriela et al., 2024). However, its impact remains debated, as other empirical evidence suggests ESG disclosure does not necessarily lead to improved financial outcomes (Husada & Handayani, 2021; Ningwati et al., 2022; Wijaya & Dwijayanti, 2023). These conflicting findings highlight the need for further research, especially amid growing climate concerns.

This study aims to provide additional empirical evidence on the effect of ESG disclosure on corporate financial performance. The novelty lies in using a more representative financial performance proxy. The 2021–2023 period was selected due to growing global attention on ESG issues, while the research focuses on the coal and oil & gas sectors two of Indonesia's largest non-tax revenue contributors but also among the most sustainability-challenged industries. The study is titled "**Impact of ESG Disclosure on Financial Performance in Coal Mining and Oil & Gas Companies**". It is expected to offer insights on how these industries can continue contributing to state revenue without compromising the environment and surrounding communities.

THEORETICAL REVIEW

Stackholders Theory

Proposed by R. Edward Freeman in 1984, this theory provides a general framework for understanding corporate activities, including financial, social, and environmental aspects. It asserts that stakeholders both influence and are influenced by corporate actions, creating complex dynamics in balancing sustainable employee well-being and performance. The theory emphasizes that corporate commitment to sustainability disclosure strengthens its dedication to sustainability issues, ultimately generating long-term positive impacts on financial performance (Behl et al., 2022).

Signaling Theory

Proposed by Akerlof (1970), signaling theory emphasizes the value of information and acknowledges the varying levels of information held by stakeholders. The theory posits that firms aim to convey their good intentions to external parties through voluntary disclosure, particularly regarding their values and commitments (Caesaria & Basuki, 2017). Non-financial disclosures, including environmental, social, and governance (ESG) aspects, serve as positive signals to investors, enhancing trust and encouraging capital investment. This aligns with the global trend of ESG becoming a key factor in investment decisions across both domestic and international markets

Financial Performance

Financial performance is a key indicator for assessing the success or failure of managerial decisions . It reflects a firm's effectiveness and efficiency in utilizing available resources to achieve its objectives (Utami & Wuryani, 2020). Moreover, it indicates the company's ability to meet obligations, optimize assets, and generate profits. Consequently, financial performance evaluation

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offers valuable insights for stakeholders such as management, investors, creditors, and shareholders in shaping the company's strategic direction (Ramadhan & Anis, 2022).

Environmental, Social, and Disclosure

ESG disclosure serves as a measurement tool for reporting the environmental, social, and governance impacts of corporate practices. It represents the evolution of voluntary disclosure, progressing from Corporate Social Responsibility (CSR) reporting to sustainability reporting, and ultimately to integrated reporting (Prastiwi et al., 2018). ESG disclosure often includes information voluntarily disclosed by companies beyond what is mandated by accounting standards or regulatory bodies (Permatasari et al., 2020). This practice not only captures non-financial impacts but also creates opportunities for sustainable business and investment.

ESG measurement is guided by the GRI Standards, a globally recognized framework developed by the Global Reporting Initiative (GRI) to assist companies in systematically identifying, managing, and reporting their sustainability impacts. Disclosure is evaluated using a dummy variable approach, assigning a value of 1 for disclosed items and 0 otherwise. Environmental indicators are based on GRI 300 (32 items), social on GRI 400 (40 items), and governance on GRI 102 (56 items), GRI Standards 2021 (30 items), as well as GRI 205 and GRI 207, which address anti-corruption and taxation.

Conceptual Framework and Research Hypotheses

The conceptual framework illustrates the relationship between Environmental (X1), Social (X2), Governance (X3), and aggregated ESG Disclosure (X4) as independent variables, and Financial Performance (Y) as the dependent variable. It clarifies the direction and structure of the relationships examined in this study.

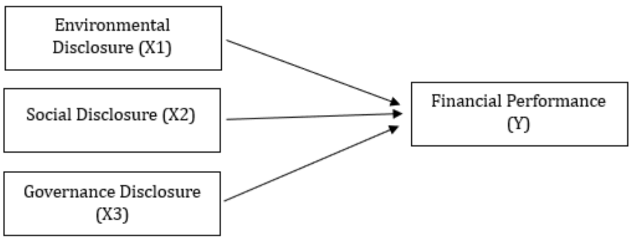

Figure 1. *Conceptual Framework*

Source: Data Processed

Based on the conceptual framework above, the research hypotheses are formulated as follows:

H_1: Environmental disclosure has a positive significant effect on financial performance.
H_2: Social disclosure has a positive significant effect on financial performance.
H_3: Governance disclosure has a positive significant effect on financial performance.
H_4: Simultaneous disclosure has a positive significant effect on financial performance.

METHOD

Population and Sample

The population of this study comprises all coal and oil and gas mining companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The sample was selected using a purposive sampling method based on the following criteria:

1. Coal and oil & gas mining companies listed on the IDX during the 2021–2023 period
2. Companies that consistently published both annual reports and sustainability reports for the years 2021 to 2023

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3. Companies with complete and relevant data related to all variables used in the study.

Based on these criteria, a total of 28 companies were selected as the sample, resulting in 84 observations throughout the three year period of analysis.

Type and Source of Data

The type of data used in this study is quantitative data in the form of secondary data, obtained from various sources including companies' financial statements, annual reports, and sustainability reports. These documents were accessed through the official websites of the respective companies and the Indonesia Stock Exchange website (www.idx.co.id).

Data Analysis Technique

This study employs panel data multiple linear regression analysis, which combines time series and cross-sectional data. The analysis was conducted using EViews 12 SV software.

Variable Measurement and Formulas

Table 1. Variable Indicators

Variable	Indicator & Formulas	Source
Financial Performance (FP)	$\text{ROA} = \frac{EAT\ t+1}{Total\ Assets\ t+1}$	Wijaya & Dwijayanti (2023)
Environmental Disclosure (ED)	$\text{ED} = \frac{Total\ items\ disclosed\ by\ the\ company}{Total\ number\ of\ disclosure\ items}$	Husada & Handayani (2021)
Social Disclosure (SD)	$\text{SD} = \frac{Total\ items\ disclosed\ by\ the\ company}{Total\ number\ of\ disclosure\ items}$	Husada & Handayani (2021)
Governance Disclosure (GD)	$\text{GD} = \frac{Total\ items\ disclosed\ by\ the\ company}{Total\ number\ of\ disclosure\ items}$	Husada & Handayani (2021)

Source: Data Processed

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Statistic Test

Variable	Observations	Mean	Std. Deviation	Minimum	Maximum
FP	84	11,92	13,04	-11,49	61,63
ED	84	49,85	26,54	9,38	96,88
SD	84	45,71	23,30	5,00	90,00
GD	84	75,18	18,40	33,90	100,00

Source: Data Processed by EViews 12, 2025

Based on Table 2, the mean values of the variables Environmental Disclosure (ED), Social Disclosure (SD), and Governance Disclosure (GD) are greater than their respective standard deviations. This suggests that these three variables exhibit relatively good data distribution and are considered homogeneous. In contrast, the Financial Performance (FP) variable has a mean value lower than its standard deviation, indicating an uneven distribution and substantial differences in values across observations.

Selection of the Best Model

In this study, the data were first analyzed to determine the most appropriate estimation model among three alternatives: the Fixed Effect Model (FEM), the Random Effect Model (REM), and the Common Effect Model (CEM). The model selection process was carried out using a series of tests, namely the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test.

Based on the results of these tests, the Random Effect Model (REM) was deemed the most appropriate, as it provided the most optimal results in accordance with the characteristics of the data. The detailed results of the model selection tests are presented in the table below:

Table 3. Model Selection Test

	Chow Test	Hausman Test	LM Test
Probability	0,0000	0,1626	0,0000
Decision	Reject H0	Accept H0	Reject H0
Selected Model	FEM	REM	REM
Conclusion	Random Effect Model (REM)		

Source: Data Processed by EViews 12, 2025

Based on the selection of the REM, the regression equation for this study is formulated as follows:

$$\mathbf{FP = 21.71 + 0.14ED - 0.24SD - 0.08GD + \varepsilon}$$

Classical Assumption Testing

In general, classical assumption testing consists of five types: linearity, normality, autocorrelation, multicollinearity, and heteroscedasticity tests. However, as noted by Napitupulu et al. (2021) , linearity testing is rarely performed in regression analysis since the linear model inherently assumes a linear relationship. Autocorrelation testing is more relevant for time series data and is not applicable to cross-sectional or panel data.

Furthermore, normality is not a requirement for satisfying the Best Linear Unbiased Estimator (BLUE) criteria. Many scholars argue that it is unnecessary, especially with large samples. Wulandari et al. (2023) support this view, stating that for sample sizes above 30, the Central Limit Theorem allows the data to be considered normally distributed, validating the use of regression analysis. Therefore, this study only conducts multicollinearity and heteroscedasticity tests.

1. Multicollinearity test
   The test results indicate that none of the correlation coefficients between variables exceed 0.85. Thus, it can be concluded that the regression model in this study does not suffer from multicollinearity. Accordingly, both the independent and moderating variables in the model do not exhibit strong intercorrelations.
2. Heteroscedasticity test
   Based on the results of the Glejser test, no probability values were found to be below the significance threshold of 0.05. Therefore, it can be concluded that the regression model in this study does not suffer from heteroscedasticity.

Hypothesis Testing

Table 4. Hypothesis Testing Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	21,70761	4,917274	4,414562	0,0000
ED	0,138329	0,084088	1,645047	0,1039
SD	-0,240688	0,098880	-2,434148	0,0172
GD	-0,075561	0,085320	-0,885622	0,3785
Adj. R-Squared		0,098926		
F-Statistic		4,037418		
Prob. (F-Statistic)		0,009986		

Source: Data Processed by EViews 12, 2025

The results of hypothesis testing indicate that the variables ED and GD do not have a significant effect on FP, as evidenced by their respective probability values exceeding the 0.05 significance threshold. In contrast, the SD variable exhibits a significant negative effect, indicated by a negative coefficient and a probability value below 0.05. Simultaneously, the three ESG dimensions have a significant effect on FP, as reflected in the F-statistic probability value of 0.009 (< 0.05).

The adjusted R^2 value of 0.098 suggests that the model explains only 9.8% of the variation in FP, while the remaining variance is influenced by other factors outside the model. Although this value is relatively low, it is still acceptable in the context of social and behavioral research. Given that ESG disclosure reflects social, environmental, and governance aspects closely related to corporate social responsibility and complex organizational behavior, it is reasonable that its variance is not fully captured by a single model. Therefore, these findings remain relevant and meaningful within the scope of ESG studies.

The Influence of Environmental Disclosure on Financial Performance

Based on the results of data analysis and hypothesis testing using panel data multiple linear regression on a sample of mining and oil and gas companies during the 2021 to 2023 period, it was found that the Environmental Disclosure (ED) variable does not have a significant effect on Financial Performance (FP). Accordingly, the first hypothesis of this study, which proposed that environmental disclosure has a positive influence on a company's financial performance, is rejected.

The insignificant result suggests that environmental disclosure has yet to produce a tangible impact on financial performance. Whether the environmental disclosure score is high or low does not necessarily reflect the profits earned by the company. The research data also show a mismatch between environmental disclosure scores and financial performance, with some firms exhibiting high disclosure scores but poor financial outcomes, and vice versa. This may be attributed to the fact that implementing effective environmental management requires the allocation of additional resources including capital, technology, and human resources, which can lead to increased operational costs (Atan et al., 2018).

These findings are also inconsistent with both stakeholder theory and signaling theory, which posit that environmental disclosure should influence stakeholder perceptions and act as a positive signal to investors. According to the study data, most companies still report environmental disclosure scores below 50 percent. This low level of disclosure may be a key reason why such information is not yet strong enough to affect stakeholder decision-making. Moreover, stakeholders including investors tend to prioritize fundamental analyses, such as financial ratios, in making investment decisions, as these are considered to better reflect long term business prospects.

This study's results are consistent with previous research, such as those conducted by Husada & Handayani (2021) and Utomo (2024), which similarly found that environmental disclosure does not significantly influence financial performance.

The Influence of Social Disclosure on Financial Performance

Based on the results of data analysis and t-hypothesis testing using panel data multiple linear regression on a sample of mining and oil and gas companies during the 2021 to 2023 period, it was found that the Social Disclosure (SD) variable has a negative effect on Financial Performance (FP). Accordingly, the second hypothesis of this study, which posits that social disclosure has a positive influence on financial performance, is rejected.

This finding indicates that social disclosure practices may potentially reduce the company's earnings. The data also show that higher levels of social disclosure are associated with lower profitability. This supports the findings of Galant and Cadez (2017), who argue that allocating resources for social initiatives such as employee welfare programs, community

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development, and other corporate social responsibilities tends to increase operational costs and compress profit margins (Minggu et al., 2023).

These results are inconsistent with stakeholder theory and signaling theory, which suggest that social disclosure should enhance corporate attention to stakeholder interests, support operational continuity, and provide positive signals to investors. The discrepancy between theoretical expectations and empirical findings may be attributed to the lagging impact of social initiatives, in which financial returns become apparent only after specific targets or outcomes of social investments are achieved. In other words, prior to reaching these targets, the associated expenditures are more likely to be viewed as costs rather than value-adding activities, and thus do not yet contribute positively to financial performance (Nollet, Filis, and Mitrokostas, 2016).

Moreover, this result contradicts the findings of Elvira (2017), who explained that social performance disclosure has a significant positive effect on financial performance. The divergence may stem from contextual differences such as industry characteristics, stakeholder expectations, and variations in the quality, depth, and consistency of disclosed social information. In extractive industries like mining and oil and gas, where social issues are highly sensitive, disclosure alone may be seen as symbolic if not supported by tangible outcomes, thus limiting its impact on financial performance.

The Influence of Governance Disclosure on Financial Performance

Based on the results of data analysis and t-test hypothesis testing using panel data multiple linear regression on a sample of mining and oil and gas companies during the 2021 to 2023 period, it was found that the Governance Disclosure (GD) variable does not have a significant effect on Financial Performance (FP). Consequently, the third hypothesis of this study, which posited that governance disclosure has a positive impact on corporate financial performance, is rejected.

The insignificance of the relationship suggests that the extent of governance disclosure, whether high or low, has not yet produced a tangible impact on firm profitability. The study's findings reveal a mismatch between governance disclosure scores and financial performance, as several companies with high levels of governance disclosure reported relatively low profitability, and vice versa. One possible explanation is that implementing good corporate governance (GCG) requires substantial upfront investment, including compliance costs, the development of internal control systems, and enhanced transparency and accountability. In the short term, these additional costs may suppress earnings and exert downward pressure on financial performance, despite potential long-term benefits (Wulandari et al., 2023).

These findings do not fully align with stakeholder theory and signaling theory, both of which posit that governance disclosure should foster stakeholder trust, enhance operational sustainability, and serve as a positive signal to investors. However, in the context of extractive industries such as mining and oil and gas, investors appear not to prioritize governance aspects in their investment decision-making processes. This is supported by empirical data showing that the majority of companies in the sample disclosed more than 50 percent of the governance indicators, yet such disclosures were not accompanied by corresponding improvements in financial outcomes. Investors may still place greater emphasis on financial indicators, such as net income and profitability ratios, rather than the substantive implementation of GCG principles.

These results are consistent with prior studies by Ghozali et al. (2020) and Wulandari et al. (2023), which also found that governance disclosure does not significantly influence financial performance. Therefore, within the context of this research, governance disclosure cannot yet be considered a primary determinant of corporate profitability.

The Influence of ESG Disclosure on Financial Performance

Based on the results of data analysis and F-statistic testing through panel data multiple linear regression on a sample of mining and oil and gas companies during the 2021–2023 period,

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it was found that the variables Environmental Disclosure (ED), Social Disclosure (SD), and Governance Disclosure (GD) simultaneously have a positive and significant effect on Financial Performance (FP). This finding supports the fourth hypothesis of this study, which posits that simultaneous ESG disclosure positively influences corporate financial performance.

This result reinforces the view that companies engaging in transparent and consistent ESG disclosure tend to achieve a competitive advantage in the long term. According to Gabriela et al. (2024), effective ESG disclosure can reduce external risks, including environmental hazards, social instability, and potential conflicts of interest. Furthermore, transparency in ESG aspects serves as a managerial control mechanism and enhances corporate reputation, indirectly supporting operational efficiency and profitability.

The finding is also consistent with stakeholder theory and signaling theory. Stakeholder theory explains that a company's attention to stakeholder interests, as reflected in ESG disclosure, contributes to strengthening its social legitimacy and operational sustainability. Meanwhile, signaling theory posits that ESG disclosure serves as a positive signal to investors, indicating the firm's awareness of sustainability issues and its commitment to ethical practices. Consequently, investors and other stakeholders are more likely to trust and support companies with high levels of ESG disclosure, which in turn enhances corporate value and performance.

Moreover, this study's results are consistent with previous research conducted by Ghozali et al. (2020) and Wulandari et al. (2023), which also found that simultaneous ESG disclosure has a significant effect on financial performance. Therefore, it can be concluded that the integration of ESG aspects into corporate disclosure strategies plays a critical role in supporting the achievement of improved financial performance.

CONCLUSION

Based on the results of data processing using panel data multiple linear regression analysis, this study presents the following findings:

1. Environmental Disclosure (ED) does not have a significant effect on financial performance. This may be due to the fact that implementing effective environmental management requires the allocation of additional resources such as capital, technology, and human expertise, which can lead to increased operational costs without delivering immediate financial benefits.
2. Social Disclosure (SD) has a significant negative effect on financial performance. This occurs because allocating resources for social initiatives such as employee welfare programs, community development, and other corporate social responsibilities tends to raise operational expenses and reduce profit margins, thereby adversely affecting financial outcomes in the short term.
3. Governance Disclosure (GD) does not significantly influence financial performance. The implementation of sound governance practices often necessitates substantial initial investments in compliance systems, internal controls, and transparency efforts. In the short term, these costs may suppress profitability and exert downward pressure on financial performance, despite potential benefits in the long run.
4. Environmental, Social, and Governance (ESG) disclosures, when examined collectively, have a positive and significant impact on financial performance. This suggests that companies engaging in transparent and consistent ESG disclosure tend to gain a competitive advantage over time. Effective ESG disclosure can mitigate external risks including environmental threats, social instability, and conflicts of interest, thereby supporting more stable business operations and improved financial results.

Implication

This study contributes significantly to the understanding of ESG practices in Indonesia, particularly in the coal mining and oil and gas sectors. For academics, it provides a foundation for

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further research on ESG effectiveness and the exploration of other variables influencing financial performance, especially in developing countries.

From a practical perspective, the findings emphasize the importance for corporate management to perceive ESG disclosure not merely as a matter of regulatory compliance, but as a strategic instrument for establishing meaningful communication with stakeholders. Improving the quality and relevance of disclosed ESG information is essential in delivering positive signals to investors and reinforcing corporate legitimacy over the long term.

Furthermore, for regulators and policymakers, the results of this study can serve as a reference in formulating policies that better support optimal ESG implementation. This includes the development of more structured and measurable disclosure standards, as well as the provision of incentives for companies demonstrating genuine commitment to sustainability principles.

Lastly, for investors, this research provides valuable insights that can inform their evaluation and decision-making processes. A deep understanding of a company's ESG practices is critical not only for identifying potential risks but also for recognizing investment opportunities aligned with sustainability and corporate social responsibility values.

Limitation

This study possesses several methodological limitations that should be acknowledged to provide a more comprehensive understanding of the findings. First, the quantitative approach employed in this research does not allow for an in-depth exploration of the qualitative context underlying corporate decisions regarding ESG disclosure. Consequently, important aspects such as managerial motivations, stakeholder pressures, and context-specific strategic considerations could not be thoroughly analyzed. This limits the understanding of non-financial factors that influence ESG practices at the firm level.

Second, limitations also arise from the use of secondary data to measure the extent of ESG disclosure. Variations in assessment methodologies across sources and the lack of standardized indicators may introduce bias and inconsistency in ESG scores among companies. This, in turn, may affect the validity and reliability of the analytical results and pose challenges in generalizing the findings to a broader context

Recommendation

Future research is encouraged to expand the scope of analysis by including a broader range of sectors and extending the study period. This would allow for comparisons of the effect of ESG disclosure on financial performance between companies with high and low levels of sustainability risk. Such an approach would contribute to generating more accurate, contextual, and comprehensive insights into ESG dynamics across different industries.

Furthermore, the application of a mixed-methods approach integrating both quantitative and qualitative techniquesis highly recommended to gain a deeper understanding of corporate motivations and managerial decision-making processes related to ESG disclosure. This approach may also uncover strategic, social, and institutional dimensions that cannot be adequately captured through quantitative methods alone.

In addition, cross-verification among different ESG assessment methodologies should be conducted to enhance the accuracy and consistency of measurement outcomes, given the potential bias arising from methodological variations across data sources. Researchers are also advised to measure financial performance using Return on Assets (ROA) over extended periods (t+2, t+3, and t+…), as ESG disclosure represents a long-term investment whose impact on profitability may not be immediate but instead requires time to materialize significantly.

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