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INTEGRATING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) DISCLOSURE ON FINANCIAL PERFORMANCE OF INDONESIAN MINING INDUSTRY SECTOR

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Abstract: The objective of this research is to examine the disclosure of Environmental, Social, and Governance (ESG) in the mining sector of Indonesia to analyze its impact on financial performance. The ESG index disclosed on Indonesia Stock Exchange is used to proxy ESG measurement, and three measures, namely Return on Assets, Tobin's Q, and Sales Growth based on the Global Reporting Initiative, are used to evaluate financial performance. The study includes 19 companies in the mining industry that are listed on the Indonesian Stock Exchange for the years 2020-2021. Multiple Regression Analysis is applied as the analytical method with SPSS software. The findings suggest that ESG disclosure has a concurrent effect on financial performance, as proxied by Tobin's Q and Sales Growth in the Indonesian mining industry. However, in the short run, ESG disclosure has not shown an impact on Return on Asset. Additionally, the partial testing has revealed that environmental and governance results have a positive influence on Tobin's Q, while environmental, social, and governance has been found to enhance sales growth. These results suggest that the mining industry in Indonesia can improve its financial performance by incorporating ESG factors into its operations, which can positively impact the company's stock value and sales growth. It is recommended that mining companies should consider adopting ESG practices and disclosing their ESG scores to demonstrate their commitment to environmental and social responsibility, and governance.

Keywords: ESG Disclosure, investment, financial performance, mining industry, Global Reporting Initiative

Abstrak: *Tujuan dari penelitian ini adalah untuk menganalisis pengungkapan Environmental, Social, and Governance (ESG) di sektor pertambangan Indonesia dan dampaknya terhadap kinerja keuangan. Indeks ESG yang diungkapkan di Bursa Efek Indonesia digunakan sebagai pengukuran proxy ESG, dan tiga ukuran yaitu Return on Assets, Tobin's Q, dan Pertumbuhan penjualan berdasarkan Global Reporting Initiative, digunakan untuk mengevaluasi kinerja keuangan. Penelitian ini mencakup 19 perusahaan di industri pertambangan yang terdaftar di Bursa Efek Indonesia untuk tahun 2020-2021. Analisis regresi berganda diterapkan sebagai metode analisis dengan perangkat lunak SPSS. Temuan menunjukkan bahwa pengungkapan ESG memiliki efek sejalan pada kinerja keuangan, yang diwakili oleh Tobin's Q dan Pertumbuhan Penjualan dalam industri pertambangan Indonesia. Namun, dalam jangka pendek, pengungkapan ESG belum menunjukkan dampak pada Return on Asset. Selain itu, pengujian parsial telah mengungkapkan bahwa hasil lingkungan dan tata kelola memiliki pengaruh positif pada Tobin's Q, sementara lingkungan, sosial, dan tata kelola ditemukan meningkatkan pertumbuhan penjualan. Hasil ini menunjukkan bahwa industri pertambangan di Indonesia dapat meningkatkan kinerja keuangannya dengan mengintegrasikan faktor ESG ke dalam operasinya, yang dapat berdampak positif pada nilai saham dan pertumbuhan penjualan perusahaan. Disarankan agar perusahaan pertambangan mempertimbangkan untuk mengadopsi praktik ESG dan mengungkapkan skor ESG mereka untuk menunjukkan komitmen mereka terhadap tanggung jawab lingkungan dan sosial, dan tata kelola.*

Kata kunci: *pengungkapan ESG, investasi, kinerja keuangan, industri pertambangan, global reporting initiative*

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INTRODUCTION

Indonesia has abundant natural resources, particularly in mining products like coal, oil, natural gas, and tin. Environmental, Social and Governance (ESG) disclosures in the mining industry like this are very important and need to be strengthened because this industry has a large impact on the environment and local communities. The country's economic growth is largely dependent on exploiting these resources through industrial processes, however, this has both positive and negative impacts on Indonesia and its people, causing an economic paradox. To address this, the Financial Services Authority Regulation Number 51/POJK.03/2017 has been introduced by OJK, which requires companies to provide additional reports beyond financial statements, including sustainability reports that cover the economic, environmental, and social aspects of the company (Buallay, 2019). These non-financial reports are expected to enhance decision-making, increase transparency, and promote sustainable financial stability (Eccles et al. 2015).

According to Korwatanasakul (2019), all companies must integrate ESG investment into their core business strategy and treat it as a crucial component of their growth strategy. The goal of ESG investment is to concentrate most investors and financial analysts on financial reporting principles related to environmental, social, and governance issues. Recently, an increasing number of investors have begun to incorporate non-financial factors such as ESG issues into their investment decision-making process. Sudan (2020) asserts that ESG investment and SDG investment have similar goals and mutually reinforce each other. There are three main types of investor motivation regarding ESG investment. First, many investors believe that ESG performance has a material impact on investment risk and return. Second, some investors aim to achieve certain non-financial goals based on ethical, political, and social values without hindering their financial objectives. Lastly, certain investors are willing to sacrifice financial benefits in pursuit of social or environmental benefits. As pointed out by Margaretic and Pouget (2018), a country's better management of natural, human, and financial resources enables it to implement economic policies that produce more income, which can affect its ability to pay state debt. This necessitates the need for companies to share ESG disclosure indicators as a way to supplement annual report data or financial reports. The more value a company places on ESG disclosure, the greater their financial performance tends to be.

Overall, investing in ESG factors can lead to better financial performance and enhanced reputation for companies. Previous studies on the disclosure of environmental, social, and governance (ESG) practices in financial reports have shown varying results on their impact on a company's economic performance (Almajali et al. 2012; Duque-Grisales & Aguilera-Caracuel, 2021; Ferrero-Ferrero et al. 2021; Kocmanová et al. 2011). Investing in ESG factors can lead to increased cost savings, greater revenue and profits, improved collaboration, and overall better performance for companies. This is evident through research that shows ESG companies are more profitable than those that do not prioritize ESG practices. While there is a growing interest in integrating ESG investments into core business strategies, many companies face barriers in doing so. Therefore, more explicit and systematic efforts are needed to align ESG investments with overall business strategies. Interdimensional companies that prioritize ESG practices also tend to have better economic performance compared to other companies. Studies demonstrate a positive relationship between ESG disclosure and financial performance (Cornett et al. 2016; Shakil et al. 2019), particularly Return on Asset consistency, indicating that investors are interested in ESG disclosures as a source of information about a company's financial performance. Furthermore, Ferrero-Ferrero et al. (2023) found that companies that have consistency across different dimensions of ESG practices tend to perform better economically. This positive correlation between ESG practices and financial performance has also been supported by other studies such as those by Cornett et al. (2016) and Yawika and Handayani (2019). However, Climent (2018) and Buallay (2019) showed negative results on the impact of ESG practices on financial metrics like Return on Assets and Return on Equity.

Given these conflicting findings, this research aims to investigate the disclosure of ESG practices in the mining industry listed on the Indonesia Stock Exchange using the standardized Global Reporting Initiative tool. By studying the ESG disclosures of these companies, the researchers seek to gain insights into the relationship between ESG practices and financial performance in this particular industry.

METHODS

According to legitimacy theory, organizations must consider their behavior and decisions in relation to the external environment, as stated by Dowling and Pfeffer (1975) with supporting evidence from Braam (2016). Meanwhile, Stakeholder theory suggests that companies aim to increase profits and corporate value by meeting the expectations of stakeholders. This includes identifying, assessing, and evaluating the stakeholders who are either affected by or impact the organization's business activities, as explained by Freeman and McVea (1984). Finally, Agency theory posits that agents act as representatives of other parties or principals in an organization, as Mitnick (1975) explains. Overall, each of these theories provides insight into the different factors that companies must consider in order to maintain a successful and sustainable business. By adhering to these theories, organizations can create positive relationships with stakeholders, establish a legitimate reputation in the wider environment, and ensure their agents act in the best interests of the company and its principals.

The use of environmental, social, and governance (ESG) criteria in investments has gained popularity worldwide. ESG investment involves setting operational standards that assess the sustainability and impact of a company's investments based on three main factors: the environment, social issues, and governance practices. ESG is a standard that guides investment decisions and is not a burden on costs. Its idea is rooted in responsible business practices that aim for sustainability. A method for calculating ESG score, comprising these individual factors and combining them into an overall score, measures a company's ESG information reporting levels. The reporting of ESG practices by companies has become increasingly important, as the primary goal of businesses has shifted from maximizing profits to sustainable practices. Evaluating company performance helps managers make optimal decisions regarding fund usage. Therefore, tracking and evaluating ESG criteria in the selection process of investments can play a pivotal role in creating a balanced portfolio that encourages sustainable global development. The concept of ESG entails that responsible companies operate in a sustainable manner (Duque-Grisales, E., & Aguilera-Caracuel, 2021). A new approach has been introduced to determine the ESG score by segregating the E, S, and G factors and combining them to measure a company's ESG information reporting. Previously, profitability was the primary objective of businesses; however, now they strive to pay more attention to ESG practices to ensure sustainability (Kocmanová, 2011). The objective of evaluating corporate performance is to obtain information concerning the optimal use of finances and to assist management in making informed decisions (Almajali, 2012).

ESG investments can increase company profitability, productivity, and efficiency, leading to higher revenue and profits. Research has shown that ESG companies tend to be more profitable than non-ESG companies (Korwatanasakul, 2019; Ferrero-Ferrero et al. 2023). The integration of ESG investments into core business strategies, however, remains a challenge for companies, and further efforts should be made to promote their systematic integration (Korwatanasakul, 2019).

Studies have indicated a positive relationship between ESG disclosure and financial performance, particularly return on asset consistency (Buallay, 2019; Alareeni, 2021). The disclosure of non-financial factors, including ESG indicators, can provide additional information about a company's financial performance beyond traditional financial reports (Alareeni, 2021). The higher the ESG disclosure value, the greater the financial performance of the company (Aboud & Diab, 2019). Moreover, ESG factors can contribute directly to increased productivity and efficiency through better management and increased staff retention and satisfaction, resulting in greater collaboration (Korwatanasakul, 2019). These benefits can translate to lower costs and increased revenue, boosting company performance (Ferrero-Ferrero et al. 2023). Additionally, investors are increasingly interested in ESG disclosures, indicating a growing demand for companies to adhere to ESG principles (Buallay, 2019). This means that companies that prioritize and integrate ESG investments into their core business strategies can reap numerous benefits, including increased profitability, productivity, and efficiency, as well as enhanced collaboration and staff retention. Disclosure of ESG factors can also provide valuable information to investors, leading to improved financial performance. Therefore, companies must embrace and promote the systematic integration of ESG investments to achieve long-term, sustainable success. Therefore, it can be hypothesized that ESG disclosure investments lead to a positive impact on financial performance as follows:
H1: ESG disclosure has a positive and significant effect on Return on Assets.

When a company decides to disclose its environmental, social, and governance (ESG) practices, it can make contributions to improving the environment and society on both a regional and global scale. Studies by Mgbame et al. (2020), Aboud & Diab (2018) and Yoon et al. (2018) have shown that ESG disclosures can have an impact on Tobin's Q, a measure of a company's market value. The positive impact of ESG disclosures on Tobin's Q is supported by the fact that certain ESG practices, such as reducing carbon emissions or promoting diversity within the workforce, can increase a company's long-term profitability and mitigate risk (Aboud & Diab, 2018; Mgbame et al. 2020). Therefore, investors may view companies with strong ESG practices as more valuable and may be willing to pay more for their stock, ultimately increasing Tobin's Q (Yoon et al. 2018). In conclusion, ESG disclosures can lead to significant environmental and social improvements and enhance a company's market value. Therefore, it can be hypothesized (H2) that making ESG disclosures can positively influence the market value of a company as follows: *H2: ESG disclosure has a positive and significant effect on Tobin's Q.*

The disclosure of ESG information enhances sales growth and firm value for companies that participate in social activities. Sales growth is an essential measure of a company's success, and ESG disclosure has been shown to positively impact it. Romi et al. (2018) conducted a study comparing companies involved in social activities with those that were not and found that firms undertaking social activities had better sales growth. Similarly, Nyame-Asiamah and Ghulam (2020) studied ESG disclosure for companies and found that those disclosing ESG information had better sales growth rates. Furthermore, ESG disclosure has a positive influence on firm value, particularly when it comes to information on environmental activities. This was shown in studies conducted by Romi et al. (2018) and Nyame-Asiamah and Ghulam (2020). Therefore, firms that disclose their ESG information can gain value and grow their sales with the added advantage of supporting social activities. Based on these findings, it can be hypothesized that there is a positive relationship between ESG disclosure, sales growth, and firm value for companies engaged in social activities as follows: *H3: ESG disclosure has a positive and significant effect on Sales Growth.*

The research methodology employed in this study is a quantitative method that makes use of secondary data. The research population comprises mining companies listed on the Indonesia Stock Exchange between the years 2020 to 2021. Purposive sampling was used to select 19 companies as the sample for the study. The analysis in this study is performed using multiple regression. Overall, this study aims to investigate the factors that impact the mining sector's corporate social responsibility (CSR) practices. By conducting multiple regressions utilizing secondary data, the researchers aim to determine which factors contribute significantly to CSR practices within the mining industry of Indonesia. It is expected that the results of the study shed light on the determinants of CSR practices within the mining sector and enable policymakers to make informed decisions for sustainable development in the industry.

Measuring ESG Disclosure involves assessing a company's engagement with the environment, social interaction, and internal control practices. These activities are carried out as part of the company's efforts to achieve its objectives and meet stakeholder needs, according to Masood and Ashraf (2012). Whitelock (2015) explains that ESG disclosure is a means of determining how well a company meets this criterion by providing transparent reporting on its activities related to environment, social interaction, and internal control systems.

The study utilizes various instruments to proxy financial performance including Return on Assets, Tobin's Q, and Sales Growth. Return on Assets measures the profits earned by companies and is commonly used in this context (Buallay et al. 2020). Tobin's Q, on the other hand, is used to evaluate the value of a company and is calculated using a specific formula (Melinda & Wardhani, 2020). In addition, Sales Growth is also used as an indicator in measuring company performance, and it can be used to assess the competitiveness of an industry (Ameer & Othman, 2012). These instruments were chosen to evaluate the financial performance of the companies in the study.

This research conducted hypothesis testing through Multiple Linear Regression Analysis with assistance from the SPSS program. The purpose of Multiple Linear Regression Analysis is to identify the direction and influence of the relationship between independent and dependent variables. The hypothesis was tested by employing a specific model as follows:

Model 1:
$ROA = \alpha_0 + \beta_1 ENV + \beta_2 SOC + \beta_3 CGV + \varepsilon it$

Model 2:
$Tobin'Q = \alpha_0 + \beta_1 ENV + \beta_2 SOC + \beta_3 CGV + \varepsilon it$

Model 3:
$Sales\ Growth = \alpha_0 + \beta_1 ENV + \beta_2 SOC + \beta_3 CGV + \varepsilon it$

Information: FP (Financial performance); α (Constant); β (Regression coefficient); ENV (Environment); SOC (Social); CGV (Governance); εit (Standard error).

RESULTS

Table 1 indicates that the three regression models satisfy the assumption of normality, with a significantly higher level than the reference level of 0.05 (α = 5%). Thus, the models are free from symptoms of autocorrelation. Furthermore, the VIF value for each variable in the multicollinearity test is less than 10, and the tolerance value for all variables is greater than 0.10. Therefore, there are no symptoms of multicollinearity in the regression model. Finally, the heteroscedasticity test shows a significant level above 0.05 (α = 5%), signifying that the three regression models are free from heteroscedasticity. In conclusion, the study's regression models have proved to be normal, without symptoms of autocorrelation or multicollinearity, and free from heteroscedasticity.

The regression model 1 in Table 2 displays an Adjusted R-Square value of 0.112, indicating that only 11.2% of the variability in the dependent variable, Return on Assets, can be accounted for by the independent variables. The other 89.8% of the variation is attributed to factors outside the regression model. Similarly, the Adjusted R Square value of the second model is 0.327, reflecting that the independent variables explain 32.7% of the variability in the dependent variable, Tobin's Q, leaving 67.3% of the variation unaccounted for by the model. Lastly, the third model has an Adjusted R Square value of 0.661, signifying that the independent variable explains 66.1% of the variability in the dependent variable, Sales Growth, while other variables outside the model account for the remaining 33.9%. These results reveal that the models capture only a fraction of the total variability in the dependent variables, proving that other factors not incorporated in the models also contribute substantially to the variation in these variables.

The findings indicate that the first hypothesis (H1) was rejected as the regression model showed that the independent variable, ESG, has no impact on the dependent variable, Return on Assets (Y1). This is evidenced by the Adjusted R Square value for the first regression model of only 0.112, which indicates that only 11.2% of the variability of Return on Assets can be explained by the independent variable ESG (X1). The Adjusted R Square value obtained is too low indicating that the first regression model is not strong enough to explain the relationship between ESG and Return on Assets. This suggests that ESG criteria does not necessarily affect a company's financial performance in terms of returns on assets. This is an interesting finding as it contradicts the view held by some that companies that prioritize ESG are likely to perform better financially.

On the other hand, the second hypothesis (H2) was accepted, as the results demonstrate that the independent variable, ESG, does significantly influence Tobin's Q (Y2), a measurement of a firm's market value. The positive relationship between ESG and Tobin's Q suggests that companies that prioritize ESG criteria may have a better reputation among stakeholders, which can contribute to their market value. This finding is in line with the argument that ESG is viewed positively by investors, who are increasingly taking into account ESG criteria when making investment decisions.

Table 1. Classical assumption test results

Model	RoA			Tobin's Q			Sales Growth		
	Tolerance	VIF	Sig.	Tolerance	VIF	Sig.	Tolerance	VIF	Sig.
Environment disclosures (X1)	0.135	0.420	0.720	0.135	0.420	0.720	0.135	0.420	0.002
Social disclosures (X2)	0.30	0.227	953	0.310	0.227	0.953	0.310	0.227	0.051
Governance disclosures (X3)	0.158	0.343	407	0.158	0.343	0.407	0.158	0.343	0.001

Table 2. Coefficient of Determination (R2)

Model	R Square	Adjusted R Square	Std. Error of the Estimate
Return on Asset (Y1)	0.064	0.112	5.96771
Tobin's Q (Y2)	0.434	0.327	214.32388
Sales Growth (Y3)	0.661	0.593	136.62629

a) Dependent Variable: Y1=Return on Asset; Y2=Tobin's Q; Y3=Sales Growth
b) Predictors: (Constant), X1=Environmental; X2=Social; X3=Governance

Table 3. Simultaneous Effects (F-test)

Model	F-value	Sig.
Environment disclosures (X1)	362	0.781b
Social disclosures (X2)	40.083	0.025b
Governance disclosures (X3)	90.756	0.001b

a) Dependent Variable: Y1=Return on Asset; Y2=Tobin's Q; Y3=Sales Growth
b) Predictors: (Constant), X1=Environmental; X2=Social; X3=Governance

Finally, the third hypothesis (H3) was also accepted, as the results show that ESG has a positive effect on sales growth (Y3). This indicates that companies that prioritize ESG criteria may benefit from increased sales growth, which could be attributable to the positive reputation associated with ESG practices. This finding supports the argument that ESG can bring benefits beyond financial performance, such as increased brand loyalty, customer engagement, and market share. In conclusion, the study demonstrates that the impact of ESG on financial performance is not straightforward, with ESG having a significant impact on certain aspects of financial performance such as market value and sales growth, while having no impact on others such as return on assets. This highlights the importance of considering multiple dimensions of performance when assessing the impact of ESG practices on companies. Simultaneous Effects (F-test) in Table 3.

The findings of the partial significance test are presented in Table 4, indicating that Environment variable (X1), Social variable (X2), and Governance variable (X3) do not have a significant effect on the dependent variable, Return on Assets (Y1). This implies that environmental disclosure, social disclosure, and governance do not contribute much to financial performance, despite previous research indicating a positive relationship between ESG and financial performance. The impact of Environment variable (X1), on Tobin's Q (Y2), is partially significant. However, Social variable (X2) has no impact on Tobin's Q (Y2), while Governance (X3) has a partial effect on Tobin's Q (Y2). This is evidenced by the Significance (Sig.) value of 0.025b which is shown in Table 4. Significance value expressed as p-value, indicates the level of statistical significance of the relationship between the independent variable (X2) and the dependent variable (Y2). Therefore, when it comes to Tobin's Q, only the environment variable (X1) partially affects it, whereas social disclosure has no effect. Additionally, Environment variable (X1), Social variable (X2) both have a partial effect on Sales Growth (Y3), while Governance variable (X3) partially affects Sales Growth (Y3) as well. This implies that the disclosure of ESG factors influences sales growth, with environmental disclosure and social disclosure having a partially positive effect and governance having a partially negative effect.

The study found that ESG can only influence ROA. Moreover, the research implies that ESG disclosure may not benefit the mining industry in the short run as it has no significant influence on ROA. The mining industry is expected to respond to stakeholder expectations and maximize profits by identifying, assessing, and evaluating affected stakeholders. Furthermore, the investment costs associated with social responsibility practices for the mining industry are higher than maximizing company value, thus making it challenging to invest in ESG practices that could positively impact the financial performance of the company. Thus, the study rejected the notion that ESG disclosure has a positive influence on ROA, which aligns with the findings of a study conducted by Buallay et al. (2020). The study highlights that various ESG variables influence ROA, indicating that mining companies cannot solely rely on ESG disclosure to improve their financial performance. Therefore, mining companies should adopt a long-term perspective by investing in ESG practices that could have a far-reaching impact on their financial performance and sustainability.

Table 4. Test of significance of partial coefficients

Model	Dependent Variable		
	RoA	Tobin's Q	Sales Growth
	Sig.	Sig.	Sig.
(Constant)	0.370	0.670	0.458
Environment disclosures (X1)	0.601	0.014**	0.003**
Social disclosures (X2)	0.567	0.317	0.047
Governance disclosures (X3)	0.439	0.009**	0.001**

a) Dependent Variable: Y1=Return on Asset; Y2=Tobin's Q; Y3=Sales Growth
b) Predictors: (Constant), X1=Environmental; X2=Social; X3=Governance

A partial measurement analysis found that environmental disclosures (X1) do not have an impact on the Return on Assets (Y1) of companies. It was concluded that the financial sector investors did not consider environmental practices and disclosure as a decisive factor while making investment decisions. The study found that environmental disclosure is not a significant factor that affects the Return on Assets of companies. Buallay (2020) claimed that most of the sample companies failed to properly implement environmental disclosure practices. The study results were in line with the Agency Theory, as companies tend to prioritize profits over expenses related to environmental practices, as a result of the differing goals of agents and owners. Agents are motivated by personal gains such as reputation, whereas the owner's objective is profitability. Therefore, companies minimize cost by avoiding environmental expenses to maximize profits for owners. The finding that environmental disclosures have no significant effect on a company's Return on Assets indicates that financial sector investors may not consider environmental practices and disclosures as the main determining factors in making investment decisions. The findings of this study also show that most of the sample companies fail to properly implement environmental disclosure practices indicating the need for companies to pay more attention to and improve ESG disclosure practices.

The study found that there is no significant relationship between social disclosure and Return on Assets, which can be attributed to the fact that social practices only yield results when a certain level of investment or achievement has been reached. Therefore, any expenditure on social practices before reaching that point is unlikely to affect financial performance. Similarly, governance disclosure also has no effect on Return on Assets due to the weak implementation of good corporate governance practices within the company. The prevalence of family ownership structures in Indonesian companies is a major contributing factor to this outcome, as family-owned businesses tend to avoid implementing good corporate governance practices (Wirawan & Diyanty, 2014). This finding is consistent with previous research that has suggested the need for companies to achieve a certain level of sustainability before reaping the benefits of social and environmental performance (Elettra, 2015). Therefore, companies must prioritize the implementation of effective corporate social responsibility practices and good corporate governance to achieve sustainable growth and improve their financial performance.

The findings showed that ESG disclosure has an impact on Tobin's Q, a measure of a company's market value. This demonstrates that companies can improve their financial performance through ESG initiatives in the long term. The findings highlight the importance of stakeholder theory, which suggests that companies must meet stakeholder expectations to increase profits and corporate value (Freeman & McVea, 1984). The mining industry in Indonesia has implemented stakeholder theory effectively, focusing on environmentally responsible decision making (Dowling & Pfeffer, 1975). Furthermore, the study indicates that the application of Agency theory can maximize corporate value through socially responsible practices with minimal investment costs, providing shareholder benefits (Mitnick, 1975). The study supports the idea that ESG disclosure has a positive impact on financial performance, consistent with Mgbame et al. (2020), who found that ESG commitments contribute to environmental and social improvements. The results of other studies also support the idea that ESG disclosure has an impact on Tobin's Q (Aboud & Diab, 2018; Yoon et al. 2018). Overall, the results suggest that ESG disclosure can have a significant effect on Tobin's Q, indicating that companies that are committed to environmentally and socially responsible practices can enhance their financial performance in the long term. Furthermore, stakeholder and Agency theories support the idea that companies can benefit from ESG initiatives, making it a worthwhile investment for shareholders and stakeholders alike. These findings demonstrate the importance of corporate awareness and commitment to environmental, social and governance (ESG) responsible practices. Companies need to realize that ESG initiatives do not only have a positive impact on the environment and society. The application of ESG can provide long-term benefits for companies and society as a whole, which include improved financial performance and positive environmental and social impacts. Stakeholders, including investors and financial analysts, must pay more attention to ESG factors in making investment decisions. Companies that are committed to ESG may offer attractive investment opportunities in the long term and have the potential to add value to shareholders.

The findings on the impact of ESG disclosure on company performance in the mining industry in Indonesia found that ESG has a significant effect on sales growth by 66.1%, indicating that companies that engage in ESG practices have a competitive advantage in terms of sales growth. However, the study found no effect of ESG on Tobin's Q, which measures the market value of a company's assets. This suggests that ESG practices can impact a company's ability to compete with other companies, but may not necessarily increase its market value. The legitimacy theory suggests that companies should behave in a socially responsible manner to maintain their legitimacy in the eyes of stakeholders and the community (Dowling & Pfeffer, 1975). This theory is supported by the study's finding that investment in ESG practices can have a positive impact on a company's financial performance. The agency theory also supports the idea that investment in socially responsible practices can lead to higher corporate value while minimizing investment costs (Mitnick, 1975). The study's findings are consistent with previous research, which found that companies that engage in social activities are more likely to experience sales growth (Romi et al. 2018; Nyame-Asiamah & Ghulam, 2020). Therefore, it is important for companies to engage in ESG practices to remain competitive and to increase sales growth.

Managerial Implications

The results of the research demonstrate that environmental disclosure has a partial effect on Tobin's Q, indicating that shareholders consider investing in environmental practices more important than maximizing firm value. This suggests that companies should prioritize environmental disclosure in order to increase shareholder value. However, the study also found that social disclosure has no effect on Tobin's Q. This is because firms assume that goals other than profit maximization will hinder their efforts to achieve a sustainable competitive advantage. As a result, companies tend to focus on tools such as profits, liquidity levels, and sales instead of social practices and disclosure when trying to increase their value (Buallay et al. 2020; Maama & Appiah, 2019). Furthermore, the research conducted by Christofi et al. (2012) revealed that the governance disclosure variable has an effect on Tobin's Q, indicating that good corporate governance practices are fully operational and that disclosures made will expose the company's operations. This suggests that companies should prioritize governance disclosure as well, in order to increase shareholder value. Overall, the research suggests that companies should prioritize environmental and governance disclosures in order to increase their value, as these practices have a direct impact on Tobin's Q. While social disclosures may not have a significant effect, companies should still strive to be socially responsible, as this can have long-term benefits for the company and its stakeholders.

The findings of this research suggest that environmental, social, and governance (ESG) disclosure has a partial effect on sales growth. Companies that consider environmental practices and disclosures as part of their strategies apply them in their daily activities, resulting in a gradual process that takes time to see returns (Castro & Gradillas, 2022). This indicates that ESG practices and disclosures are more of a long-term investment that requires patience to see their impact on financial performance. Therefore, environmental disclosure information can reflect financial performance. In addition, social disclosure also plays a significant role in influencing sales growth. Companies that disclose their social practices accurately reflect actual social practices, providing useful information for investors to evaluate companies' social practices and disclosures (Maama & Appiah, 2019). Consequently, social disclosure information is a critical measure for investors to assess a company's commitment to responsible business.

Governance disclosure is also an essential factor that influences sales growth. In this study, companies that practice and disclose good corporate governance reflect their financial performance, as proxied by sales growth (Maama & Appiah, 2019). This means that companies that prioritize good governance and are transparent in their operations have a higher probability of achieving improved sales growth. Overall, ESG disclosure is important for investors to make informed decisions, and companies that prioritize ESG practices can expect to see a positive impact on their financial performance in the long term.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study found that there is a significant relationship between ESG disclosure and financial performance in the mining industry in Indonesia, as measured by Tobin's Q and Sales Growth. However, it was discovered that ESG disclosure does not seem to have a significant effect on Return on Assets in the short term. The study contributes to the existing literature on the relationship between ESG disclosure and financial performance in the mining industry, especially in Indonesia. The findings that ESG disclosure has a significant relationship with Tobin's Q and Sales Growth suggest that companies that disclose more ESG information have better financial performance than those that do not. These results validate the stakeholder theory, which argues that companies should not only focus on maximizing profits but also should consider the interests of their stakeholders, including the environment and the community.

As practical implications, the findings of the study provide useful insights for companies operating in the mining industry in Indonesia. They suggest that companies should disclose more ESG information, as it can improve their financial performance in the long term. The study also highlights the importance of considering ESG factors in the decision-making process. Companies should not only focus on short-term profitability but also should consider the environmental and social impacts of their operations.

The study's limitations include a small sample size and limited data availability. The study only includes 19 companies in the mining industry in Indonesia. The study relies on the disclosure of ESG information on the Indonesia Stock Exchange, which may not provide a comprehensive picture of a company's ESG performance. The study also fails to account for industry-specific challenges that may not be captured by ESG disclosure metrics, such as safety incidents and environmental disasters. Additionally, the study only covers a short period of time. The study only covers the years 2020-2021. A longer timeframe may provide a more robust understanding of the relationship between ESG disclosure and financial performance.

Recommendations

The study suggests that further research is needed to identify the factors that influence ESG disclosure. By focusing on ESG disclosure as the dependent variable rather than the independent variable, researchers can identify the factors that drive companies to disclose their ESG performance. Moreover, the study suggests that future research should use ESG as an intervening variable that can affect firm value. By doing so, it will be possible to determine the extent to which ESG performance drives financial performance. This can be achieved by examining the impact of ESG disclosure on other variables that are known to affect firm value. There are a number of factors that can affect ESG disclosure, including company size, age, industry type, capital structure, and intellectual capital. These factors need to be taken into account when looking at the relationship between ESG disclosure and financial performance. This will shed more light on the relationship between ESG performance and financial performance, and ultimately help companies to make more informed decisions about their ESG strategies.

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