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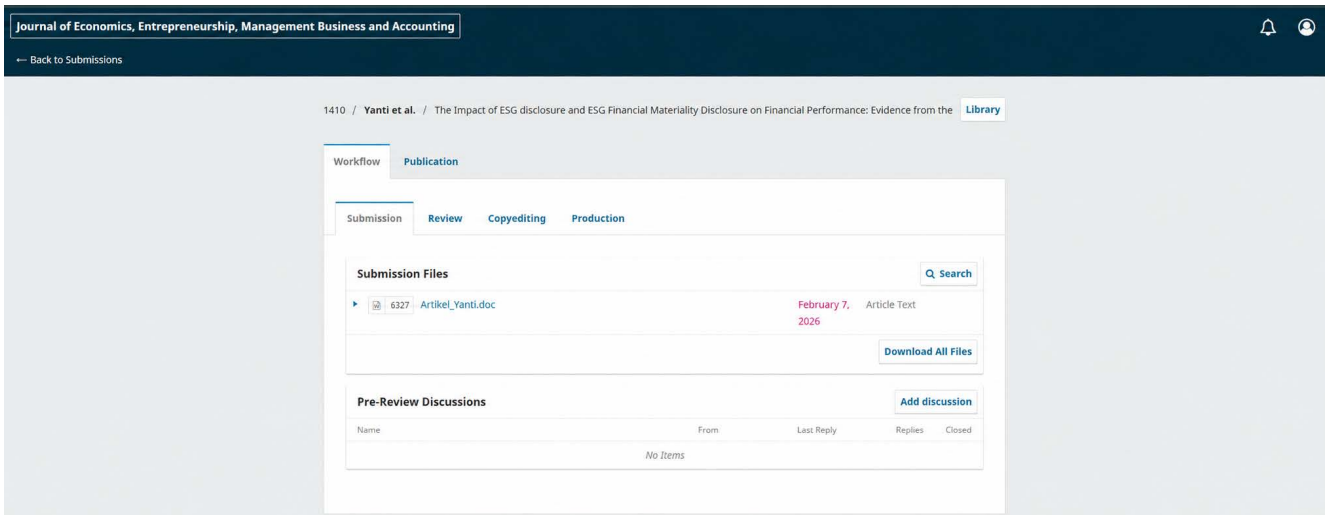

THE IMPACT OF ESG DISCLOSURE AND ESG FINANCIAL MATERIALITY DISCLOSURE ON FINANCIAL PERFORMANCE: EVIDENCE FROM IDX ENERGY SECTOR (2022-2024)

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ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh pengungkapan ESG dan pengungkapan materialitas keuangan ESG terhadap kinerja keuangan perusahaan pada perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia. Pendekatan empiris yang diterapkan dalam studi ini adalah metode kuantitatif, dengan pemanfaatan analisis regresi data panel yang difasilitasi oleh perangkat lunak EViews. Implementasi Model *Fixed Effect Model* (FEM) dipilih sebagai kerangka analisis model, berdasarkan evaluasi hasil uji pemilihan model yang relevan. Data empiris bersumber dari data sekunder yang dihimpun dari laporan tahunan entitas 19 perusahaan di sektor energi yang terdaftar di Bursa Efek Indonesia (BEI) yang terpilih berdasarkan teknik *purposive sampling* dalam rentang waktu 2022 hingga 2024. Hasil yang didapatkan dari penelitian ini menunjukkan bahwa pengungkapan ESG memiliki pengaruh negatif tetapi tidak signifikan terhadap kinerja keuangan, sedangkan pengungkapan materialitas keuangan ESG memberikan pengaruh negatif dan signifikan terhadap kinerja keuangan perusahaan.

Kata Kunci: *Pengungkapan ESG, Pengungkapan Materialitas Keuangan ESG, Kinerja Keuangan*

ABSTRACT

This research aims to analyze the impact of ESG disclosure and ESG financial materiality disclosure on corporate financial performance in energy sector companies listed on the Indonesia Stock Exchange. The empirical approach applied in this study is a quantitative method, utilizing panel data regression analysis facilitated by EViews software. The implementation of the Fixed Effect Model (FEM) was chosen as the model analysis framework, based on the evaluation of the results of relevant model selection tests. The empirical data used is sourced from secondary data collected from the annual reports of 19 companies energy sector listed on the Indonesia Stock Exchange (IDX) for the period 2022 to 2024 with purposive sampling technique. The results obtained from this research indicate that ESG disclosure has a negative but insignificant impact on financial performance, whereas ESG financial materiality disclosure has a negative and significant impact on corporate financial performance.

Keywords: *ESG Disclosure, ESG Financial Materiality Disclosure, Financial Performance*

1. INTRODUCTION

In the current global economic landscape, the energy sector stands at a crucial point of transformation driven by the urgent need for energy transition and decarbonization. In Indonesia, this urgency has become increasingly evident as the Financial Services Authority (OJK) has begun requiring companies in the energy sector to disclose carbon emissions transparently as part of the sustainable finance roadmap (Otoritas Jasa Keuangan, 2023). As a sector with historically significant environmental impacts, energy companies are now required to integrate Environmental, Social, and Governance (ESG) practices into their core strategies in order to strengthen brand reputation, drive innovation, and create sustainable competitive advantages

(Yan, 2025). The shift in the global investment paradigm has transformed ESG criteria from merely voluntary disclosure into a critical indicator that provides positive signals to investors regarding transparency, efficiency, and the readiness of energy companies to mitigate long-term risks amid economic volatility and climate uncertainty (Putri & Paramita, 2025; Noor & Maithy, 2025). Comprehensive ESG disclosure is now recognized as a fundamental mechanism to reduce information asymmetry and mitigate transition risks in carbon-based sectors, while simultaneously functioning as a strategic framework that has been integrated by financial institutions into investment assessment systems to measure corporate resilience and long-term value (Liu, et al., 2025).

Although global pressure for sustainable business practices continues to increase, Environmental, Social, and Governance (ESG) disclosure among energy sector companies listed on the Indonesia Stock Exchange still demonstrates varying levels of implementation across firms. Research indicates that energy companies on the Indonesia Stock Exchange have begun disclosing ESG information in their annual reports as well as sustainability reports, however, the breadth and consistency of these disclosures still differ, resulting in sustainability transparency that is not yet fully uniform for investors (Wijaya & Herwiyanti, 2024). Several studies indicate that transparency in the disclosure of ESG financial materiality by companies still faces inconsistencies due to differences in ESG reporting frameworks, causing information that is truly financially material to not always be clearly disclosed in corporate reports (Oluwakemi & Mishelle, 2025). This condition creates challenges for stakeholders in assessing the credibility of corporate ESG performance, as greenwashing practices and selective ESG disclosures may reduce the reliability of sustainability information used in investment decision-making (Sneideriene & Legenzova, 2025; Hassan, 2024). The low quality of transparency in sustainability reporting within the energy sector has become an important issue because inconsistencies and limitations in ESG information can make it difficult for investors to evaluate corporate risks and may influence the quality of investment decisions in the capital market (Lestari & Gangodawilage, 2025; Zheng, 2024).

Theoretically, the relationship between ESG disclosure and corporate performance can be explained through legitimacy theory and stakeholder theory, which state that the disclosure of sustainability issues can help companies obtain social legitimacy and stakeholder support that ultimately affect how companies are evaluated by investors and the public (Cahyawati & Hidayat, 2026). However, a review of the empirical literature indicates the presence of significant inconsistencies in findings, particularly within the capital-intensive energy sector. On the one hand, research by Nurahman dkk (2024), Retnosari dkk (2025) and Nurlaila & Mutmainah (2025) finds that ESG disclosure consistently contributes positively to corporate performance by improving operational efficiency, strengthening reputation, and reducing investors' risk perceptions. Conversely, studies by Salsabilla & Muslim (2026) and Faradila dkk (2026) demonstrate negative or insignificant effects on corporate financial performance, as the high costs associated with environmental compliance and ESG reporting tend to burden profitability and firm value. This debate becomes even more complex when distinguishing between ESG disclosure and ESG financial materiality disclosure, as several studies suggest that financially material ESG issues possess different informational relevance and market impacts compared to general or narrative disclosures (Prayoga dkk, 2026).

Based on this background, the main objective of this study is to empirically analyze the effect of ESG disclosure and ESG financial materiality disclosure on financial performance. By employing a quantitative approach on energy companies listed on the Indonesia Stock Exchange

during the 2022–2024 period, this study provides an updated overview of the energy sector's response to sustainability reporting mandates in the post-pandemic period. The findings of this study are expected to provide dual contributions: theoretically, by expanding the literature on sustainability accounting through the integration of the audit quality variable; and practically, by providing strategic guidance for the management of energy companies in allocating resources to ESG issues that are financially material.

Our Contribution

This study replicates the research conducted by Sundani & Arsjah (2026). However, several key differences distinguish this study from their work. First, regarding the dependent variable, this study focuses on Financial Performance, whereas Sundani & Arsjah (2026) examine Company Value. Second, in terms of independent variables, this study employs only ESG Disclosure and ESG Financial Materiality Disclosure, while Sundani & Arsjah (2026) also include Corporate Governance.

Theoretical Review

Legitimacy Theory

Legitimacy theory explains that companies operate within a broader social system and must ensure that their activities are aligned with societal values and expectations in order to maintain legitimacy (Janang, et al., 2020). Companies therefore disclose information related to their environmental, social, and governance (ESG) practices to demonstrate that their operations are consistent with societal norms and stakeholder expectations (Asyik dkk, 2024). Such disclosures are used as a communication tool to gain and maintain public trust, which may support the company's sustainability and performance in the long term (Jiddan & Hapsari, 2023)

Stakeholder Theory

Stakeholder theory suggests that companies are accountable not only to shareholders but also to various stakeholders who can affect or are affected by corporate activities. Consequently, firms are encouraged to disclose information related to environmental, social, and governance (ESG) practices to address stakeholder expectations and enhance transparency. ESG disclosure provides stakeholders with insights into a company's sustainability practices, which may influence their evaluation of the firm and potentially impact its financial performance (Nurahman dkk, 2024).

Trade-Off Theory

Trade-off theory suggests that companies face a fundamental conflict between maximizing short-term profitability and fulfilling ESG responsibilities. Extensive ESG disclosure requires a substantial allocation of corporate resources—such as costly data collection systems and third-party audits—which directly increases operational expenses (Moussa & Elmarzouky, 2024). Consequently, diverting critical capital away from core revenue-generating operations strains profit margins and reduces short-term financial returns (Lubis & Rokhim, 2021).

Hypothesis Development

The Effect of ESG Disclosure on Financial Performance

ESG (Environmental, Social, and Governance) disclosure represents a strategic mechanism for companies to communicate their sustainability responsibilities to stakeholders. From the perspective of legitimacy theory, comprehensive ESG disclosure is viewed as a corporate

strategy to respond to social pressures and stakeholder expectations, thereby helping companies—particularly those in the energy sector with high environmental risks—obtain social recognition, maintain reputation, and minimize potential reputational sanctions from the public and investors (Subagio, 2025; Rahmadani & Devilishanti, 2026). High transparency in environmental, social, and governance (ESG) disclosure can reduce information asymmetry between management and investors, thereby improving the quality of information available to the market, lowering perceived corporate risk, and potentially reducing the cost of capital while increasing investor confidence in the company (Angir & Weli, 2024; Moussa & Elmarzouky, 2024). In addition, energy companies that consistently disclose Environmental, Social, and Governance (ESG) performance tend to demonstrate better risk management and more efficient operational practices, thereby improving financial performance and corporate profitability in the long term (Nurahman dkk, 2024; Azzahra & Suzan, 2025). Empirical support for this relationship is found in the study by Sundani & Arsjah (2026), which shows that ESG disclosure has a positive and significant effect on financial performance in the Indonesian energy sector. By increasing information transparency, companies are able to attract sustainability-oriented investors and strengthen their competitive position in the market. Therefore, the following hypothesis is proposed:
H_1: ESG Disclosure has a positive and significant effect on Financial Performance

The Effect of ESG Financial Materiality Disclosure on Financial Performance
Unlike general ESG disclosure, ESG Financial Materiality Disclosure focuses specifically on sustainability issues that directly affect a company's financial condition. From the perspective of trade-off theory, disclosing this information acts as an operational burden that creates a conflict between a firm's social goals and its short-term financial objectives (Moussa & Elmarzouky, 2024). Achieving high transparency requires substantial capital outlays for specialized tracking systems, risk modeling, and continuous third-party verification, which directly increases operational expenses and reduces immediate cash flows (Lubis & Rokhim, 2021). In the capital-intensive energy sector, these heavy reporting costs function as immediate economic drains that strain profitability metrics before long-term market benefits are realized (Ramoeletsi, 2024). By diverting critical resources away from core revenue-generating operations to meet rigid compliance standards, companies face competitive disadvantages. Therefore, the following hypothesis is proposed:
H_2: ESG Financial Materiality Disclosure has a negative and significant effect on Financial Performance

In summary, the hypothesis are shown below:
H_1: ESG Disclosure has a positive and significant effect on Financial Performance
H_2: ESG Financial Materiality Disclosure has a negative and significant effect on Financial Performance

The research model of this study as presented in Figure 1 below:

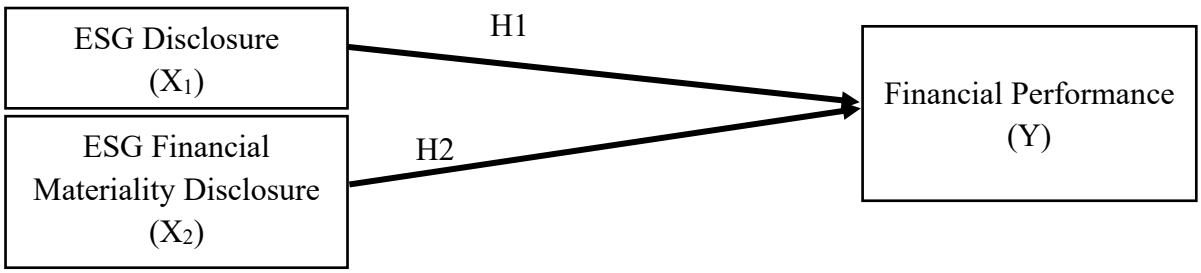

Figure 1. The Research Model

2. RESEARCH METHOD

This study focuses on all companies in the energy sector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The research employs a quantitative approach, and the sampling technique used is purposive sampling. This method selects samples based on specific criteria to ensure that the chosen companies share similar characteristics relevant to the study. The sample selection criteria include: 1) Energy sector companies listed on the IDX, 2) Companies that conducted an IPO after 2022, 3) Companies that did not publish complete financial statements on the IDX during the 2022–2024 period, 4) Companies whose financial years do not end on December 31, 5) Companies that do not disclose information related to the 2021 GRI Standards Index in their Sustainability Report or Annual Report during the 2022–2024 period. Based on these criteria, 25 out of the 91 companies listed on the IDX during the 2022–2024 period were initially selected as the research sample. After conducting an outlier test, the number of companies was reduced to 19. The outlier test was performed using the Z-score method to maintain the validity of the results by identifying and eliminating excessively extreme data points. This study covers three years of observations, resulting in 57 panel data observations derived from 19 companies. The collected data were processed and analyzed using the statistical software EViews. Table 1 below presents the research variables, including the proxies and formulas used to measure each variable.

Table 1. Variable Operationalization Summary

Variables	Proxies and Formula	Source
Financial Performance	ROA = Net Income x 100% / Total Assets	Chung, et al. (2023)
ESG Disclosure	Measured using the GRI Standards 2021	Sundani & Arsjah (2026)
ESG Financial Materiality Disclosure	Measured using the SASB Materiality Map Framework	Sundani & Arsjah (2026)

3. RESULTS AND DISCUSSIONS

Decriptive Statistic Test

Based on the criteria, the total number of observed samples is 57 data points for the period 2022 to 2024. Table 2 below presents the descriptive statistical results for each variable in which ROA (Financial Performance) is the dependent variable, while ESGD (ESG Disclosure) and ESGFM (ESG Financial Materiality Disclosure) are the independent variables.

Table 2. Descriptive Statistic
Source: Processed by the Authors with EViews

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	0.115496	0.074384	0.616346	-0.114902	0.130925
ESGD	0.726895	0.773196	1.000000	0.092784	0.201325
ESGFM	0.976608	1.000000	1.000000	0.833333	0.058406

ROA shows a minimum value of -0.114902 for Buana Lintas Lautan Tbk, indicating a net loss where total expenses exceeded revenues and led to negative asset returns. Conversely, a maximum value of 0.616346 for Golden Energy Mines Tbk reflects a substantial net profit

relative to its total asset base, demonstrating highly efficient and productive management in utilizing assets to maximize profitability.

The minimum ESGD value of 0.092784 indicates that Mitrabahtera Segera Sejati Tbk disclosed only 9 out of 97 ESG items in 2022. Conversely, the maximum value of 1.000000 demonstrates that Indo Tambangraya Megah Tbk achieved full transparency by disclosing all 97 ESG items in both 2023 and 2024.

The minimum ESGFM value of 0.833333 indicates that some companies disclosed only five out of six ESG Financial Materiality items. Conversely, the maximum value of 1.000000 demonstrates that certain companies achieved full transparency by disclosing all required ESG Financial Materiality items.

Panel Model Test Selection

The probability value of the cross-section Chi-square is 0.0000, as shown in Table 3, and it is less than 0.05. Therefore, the selected model is the Fixed Effect Model (FEM). The analysis should then proceed with the Hausman test.

Table 3. Chow Test
Source: Processed by the Authors with EViews

Effect Test	Statistic	d.f.	Prob.
Cross-section F	9.797260	(18,36)	0.0000
Cross-section Chi-square	101.159045	18	0.0000

The probability value of the cross-section random is 0.0273, as shown in Table 4, and it is less than 0.05. Therefore, the selected model is the Fixed Effect Model (FEM). This indicates that FEM is the most appropriate model for this study, and thus, the Lagrange Multiplier test is not required.

Table 4. Hausman Test
Source: Processed by the Authors with EViews

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.202822	2	0.0273

Classical Assumption Test

The results of the classical assumption test confirmed that there were no indications of normality, autocorrelation, multicollinearity, nor heteroskedasticity in the data. Furthermore, Fixed Effect Model was selected by a series of statistical tests, including Chow Test and Hausman Test.

Regression Analysis Test

Before performing the regression analysis, the model was tested using panel model testing. The results of the panel model test indicate that the data are suitable for the Fixed Effect Model (FEM), with the following equation:

ROA = 0.857031188877 - 0.296654074693*ESGD - 0.538495404477*ESGFM

The multiple regression equation illustrates the relationship between financial performance (ROA) as the dependent variable and ESG Disclosure (ESGD) and ESG Financial Materiality (ESGFM) as the independent variables. The constant value of 0.857031 represents the baseline level of ROA when both independent variables are equal to zero. The coefficient of ESG

Disclosure -0.296654 indicates a negative relationship with ROA, implying that an increase in general sustainability reporting is associated with a decrease in financial returns. Similarly, the ESG Financial Materiality coefficient of -0.538495 shows a negative relationship, meaning that a higher disclosure focus on financially material ESG items also leads to a decline in corporate profitability. Comparatively, the larger negative coefficient of ESGFM suggests that disclosing financially material items has a stronger dampening effect on a company's return on assets than general ESG disclosure.

F-Test and t-Test

As shown in Table 5, the probability of the F-statistic is 0.00000, which is less than 0.05. Therefore, it can be concluded that ESG disclosure and ESG financial materiality have a simultaneous significant effect on financial performance.

Table 5. F-Test
Source: Processed by the Authors with EViews

F-statistic	9.947209
Prob(F-statistic)	0.000000

As presented in Table 6, several findings can be concluded from the analysis of the significance values of each variable. First, the ESG disclosure variable has a coefficient value of -1.976413, indicating a negative relationship that could decrease the level of financial performance. However, the significant value of 0.0558, which is greater than 0.05, shows the relationship between ESG disclosure and financial performance is not statistically strong.

Lastly, the ESG financial materiality disclosure variable has a coefficient value of -2.768726. This finding indicates that ESG financial materiality disclosure has the potential for financial performance, with a significant value of 0.0088, which is less than 0.05. This result strengthens the finding that ESG financial materiality disclosure negatively influences financial performance.

Table 6. t-Test
Source: Processed by the Authors with EViews

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.857031	0.202802	4.225942	0.0002
ESGD	-0.296654	0.150097	-1.976413	0.0558
ESGFM	-0.538495	0.194492	-2.768726	0.0088

Multiple Coefficient of Determination Test

Table 7 shows an adjusted R-squared value of 0.761646, likely measures the proportion of variation in the dependent variable that can be explained by all independent variables in the regression model. This result means that financial performance can be explained by the independent variable ESG disclosure and ESG financial materiality disclosure of 76.16%, while the remaining 23.84% is explained by other variables that are not included in this study.

Table 7. Multiple Coefficient of Determination Test
Source: Processed by the Authors with EViews

R-squared	0.846772
Adjusted R-squared	0.761646

Table 8. Hypothesis Test Results
Source: Processed by the Authors

No	Hypothesis	Result
H_1	ESG disclosure has a positive and significant effect on financial performance	Rejected
H_2	ESG financial materiality disclosure has a negative and significant effect on financial performance	Accepted

The Effect of ESG Disclosure on Financial Performance

The results in Table 8 show that ESG disclosure has no effect on financial performance. These findings do not support the hypothesis of this study but are in line with the research conducted by Setiawan & Utami (2023), Ningsih & Astuti (2022), Husada & Handayani (2021), and Saini & Singhania (2019). On the other hand, they contradict the findings of Sundani & Arsjah (2026), Azzahra & Suzan (2025), Angir & Weli (2024), and Nurahman & Rahmawati (2024), who found a positive and significant relationship between ESG disclosure and financial performance. This result suggests that the extent of ESG disclosure implemented by a company does not significantly affect its financial performance, even though the direction of the relationship is negative. When companies expand their sustainability reporting, they tend to experience lower accounting returns, but this dampening effect is not statistically significant. In other words, variations in the level of ESG disclosure do not have a meaningful impact on corporate profitability metrics like ROA. This finding suggests that the stock market and traditional stakeholders do not necessarily penalize or reward companies immediately based on their extensive sustainability reporting. It may also imply that the upfront expenditure required for ESG reporting, such as specialized data collection systems and third-party verification, act as immediate operational drains that slightly depress earnings, yet these costs are not substantial enough to significantly compromise overall financial stability.

The Effect of ESG Financial Materiality Disclosure on Financial Performance

The results in Table 8 show that ESG financial materiality disclosure has a negative and significant effect on financial performance. These findings support the hypothesis of this study and are in line with the research conducted by Moussa & Elmarzouky (2024), Ramoeletsi (2024), and Lubis & Rokhim (2021). On the other hand, they contradict the findings of Sundani & Arsjah (2026), who found a positive and significant relationship between ESG financial materiality disclosure and corporate financial outcomes. This result suggests that the extent of ESG financial materiality disclosure implemented by a company meaningfully diminishes its financial performance. When companies expand their disclosure on sustainability issues that directly affect their financial condition, they experience significantly lower accounting returns. In other words, variations in the level of financial materiality disclosure have a highly visible and detrimental impact on corporate profitability metrics like ROA. This finding suggests that the market and traditional stakeholders actively absorb the heavy compliance and administrative burdens associated with tracking financial materiality. It implies that in capital-intensive sectors, the required upfront expenditures, such as detailed risk modeling, sophisticated tracking systems, and continuous third-party verification, act as severe immediate operational drains. These substantial costs directly inflate operational expenses and compress profit margins, thereby significantly compromising short-term financial returns before any long-term strategic benefits can be realized.

4. CONCLUSIONS AND SUGGESTIONS

The population that meets the sampling criteria consists of 19 companies out of 91 companies, focusing on the energy sector listed on the Indonesian Stock Exchange (IDX) during the period 2022 to 2024. This study found that ESG disclosure does not have a significant effect on

financial performance, while ESG financial materiality disclosure has a negative and significant effect on financial performance.

This study has several limitations that may be addressed in future research. The limitations include: 1) The research period is limited to three year (2022 until 2024), 2) The sample consists of only 19 companies, and 3) The independent variables are limited to ESG disclosure and ESG financial materiality disclosure, without considering other potential factors that may influence financial performance such as firm size, leverage, sales growth, liquidity, and capital intensity.

The recommendations of this study are directed to readers and future researchers to further develop studies related to financial performance. This research can serve as a reference for future studies. Future researchers are encouraged to extend the research period, select a broader range of sectors, and address the limitation that this study only focused on the capital-intensive energy sector, where most companies operate in highly specific extraction and utility sub-sectors, resulting in limited representativeness across the wider market. In addition, the use of different independent variables, such as breaking down ESG into its individual components or the inclusion of control, mediating, or moderating variables, could provide deeper insights and serve as a valuable direction for future research on how sustainability disclosures affect corporate financial performance.

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Yanti <yanti@fe.untar.ac.id>

Editor Decision

1 message

Anas Iswanto Anwar <jeemba@sakurapublisher.diginus.id> Fri, March 27, 2026 at 13:21 PM
To: yanti@fe.untar.ac.id

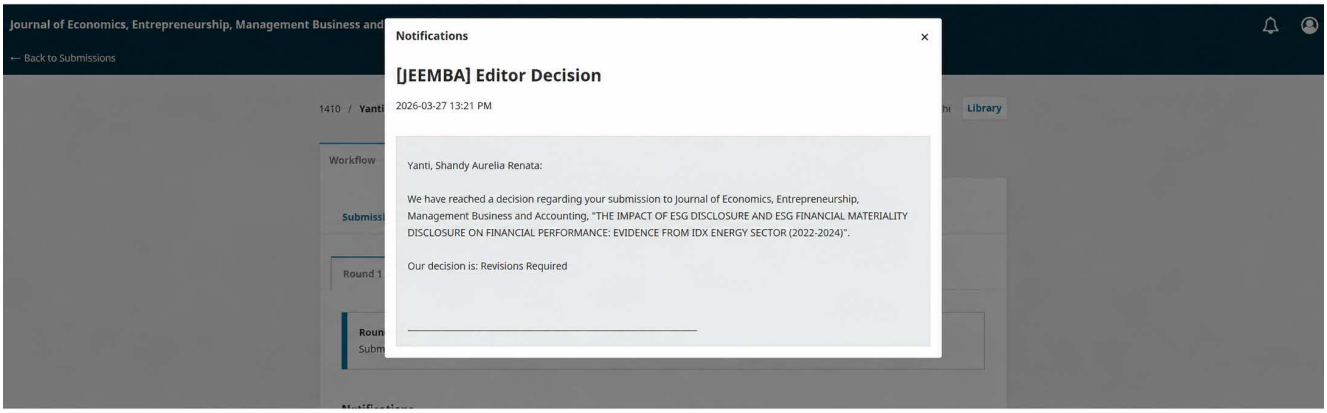
Dear Yanti,

We have completed the preliminary review for your manuscript entitled "The Impact of ESG disclosure and ESG Financial Materiality Disclosure on Financial Performance: Evidence from the Indonesian Energy Sector (2022–2024)". It is suitable for our journal's scope. We sent your paper to the referees to evaluate, and our decision is "**Revision Required**".

Thank you for your interest in our journal

Best regards,

Anas Iswanto Anwar
Editor-in-Chief, Journal of Economics, Entrepreneurship, Management Business and Accounting



This manuscript addresses a relevant and timely topic concerning ESG Disclosure, ESG Financial Materiality Disclosure, and Financial Performance within the Indonesian energy sector. Compared to many ESG studies that focus solely on general ESG disclosure, this study has the potential to contribute to the literature by distinguishing between ESG Disclosure and ESG Financial Materiality Disclosure. Such a distinction is important because financially material ESG information may have different implications for corporate decision-making and financial outcomes than broader sustainability disclosures.

However, the manuscript still suffers from several significant conceptual, methodological, and theoretical weaknesses that limit its suitability for publication in a reputable academic journal. The primary concerns relate to the insufficiently developed research gap, the lack of a clearly articulated theoretical contribution, the overly simplistic research model, the absence of important control variables, and a discussion section that remains largely descriptive rather than analytical. Consequently, the study's academic contribution and explanatory power are not yet sufficiently established.

Table 1. Review Findings and Recommendations Table

Aspect	Identified Weakness	Recommendation for Improvement
Abstract	Key statistical results and effect sizes are not reported.	Report the main coefficients and significance levels of the results.
Introduction	The novelty of the study is not explicitly articulated.	Explain how distinguishing ESG Disclosure from ESG Financial Materiality Disclosure contributes new insights to the ESG literature.
Literature Review	Hypothesis H2 is developed primarily using arguments supporting a negative relationship.	Incorporate studies reporting positive or neutral relationships and explain potential differences.
Methodology	The measurement procedures for ESG Disclosure and ESG Financial Materiality Disclosure are not described in sufficient detail.	Include a detailed explanation of scoring procedures and measurement indicators.
Results	The Adjusted R^2 value of 76.16% is unusually high given that only two independent variables are included.	Provide a more detailed explanation of the model's explanatory power.
Discussion	The discussion primarily compares findings with prior studies.	Focus on explaining why the observed results occurred rather than merely identifying supporting or conflicting studies.
Discussion	The negative impact of ESG Financial Materiality Disclosure is not adequately explained.	Discuss potential trade-offs between ESG compliance costs and short-term profitability.

Conclusion	The conclusion merely restates the findings.	Emphasize theoretical implications and the study's contribution to ESG literature.
Conclusion	Managerial and policy implications remain general and underdeveloped.	Provide more specific recommendations for regulators, investors, and energy companies.

THE IMPACT OF ESG DISCLOSURE AND ESG FINANCIAL MATERIALITY DISCLOSURE ON FINANCIAL PERFORMANCE: EVIDENCE FROM IDX ENERGY SECTOR (2022-2024)

Submitted: dd-mm-yyyy, Revised: dd-mm-yyyy, Accepted: dd-mm-yyyy

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh pengungkapan ESG dan pengungkapan materialitas keuangan ESG terhadap kinerja keuangan perusahaan pada perusahaan sektor energi yang terdaftar di Bursa Efek Indonesia. Pendekatan empiris yang diterapkan dalam studi ini adalah metode kuantitatif, dengan pemanfaatan analisis regresi data panel yang difasilitasi oleh perangkat lunak EViews. Implementasi Model *Fixed Effect Model* (FEM) dipilih sebagai kerangka analisis model, berdasarkan evaluasi hasil uji pemilihan model yang relevan. Data empiris bersumber dari data sekunder yang dihimpun dari laporan tahunan entitas 19 perusahaan di sektor energi yang terdaftar di Bursa Efek Indonesia (BEI) yang terpilih berdasarkan teknik *purposive sampling* dalam rentang waktu 2022 hingga 2024. Hasil yang didapatkan dari penelitian ini menunjukkan bahwa pengungkapan ESG memiliki pengaruh negatif tetapi tidak signifikan terhadap kinerja keuangan, sedangkan pengungkapan materialitas keuangan ESG memberikan pengaruh negatif dan signifikan terhadap kinerja keuangan perusahaan.

Kata Kunci: *Pengungkapan ESG, Pengungkapan Materialitas Keuangan ESG, Kinerja Keuangan*

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ABSTRACT

This research aims to analyze the impact of ESG disclosure and ESG financial materiality disclosure on corporate financial performance in energy sector companies listed on the Indonesia Stock Exchange. The empirical approach applied in this study is a quantitative method, utilizing panel data regression analysis facilitated by EViews software. The implementation of the Fixed Effect Model (FEM) was chosen as the model analysis framework, based on the evaluation of the results of relevant model selection tests. The empirical data used is sourced from secondary data collected from the annual reports of 19 companies energy sector listed on the Indonesia Stock Exchange (IDX) for the period 2022 to 2024 with purposive sampling technique. The results obtained from this research indicate that ESG disclosure has a negative but insignificant impact on financial performance, whereas ESG financial materiality disclosure has a negative and significant impact on corporate financial performance.

Keywords: *ESG Disclosure, ESG Financial Materiality Disclosure, Financial Performance*

1. INTRODUCTION

Commented [A2]: 1. The research gap is primarily based on inconsistent findings from prior studies.
Develop a clearer theoretical, methodological, and contextual gap.

2. The stated research contribution is inconsistent. Audit quality is mentioned as a contribution, yet it is not included in the research model.
Remove or revise statements regarding audit quality to align with the actual model.

3. The integration of Legitimacy Theory, Stakeholder Theory, and Trade-Off Theory is not sufficiently developed.
Clarify how the three theories complement one another in explaining the proposed relationships.

In the current global economic landscape, the energy sector stands at a crucial point of transformation driven by the urgent need for energy transition and decarbonization. In Indonesia, this urgency has become increasingly evident as the Financial Services Authority (OJK) has begun requiring companies in the energy sector to disclose carbon emissions transparently as part of the sustainable finance roadmap (Otoritas Jasa Keuangan, 2023). As a sector with historically significant environmental impacts, energy companies are now required to integrate Environmental, Social, and Governance (ESG) practices into their core strategies in order to strengthen brand reputation, drive innovation, and create sustainable competitive advantages (Yan, 2025). The shift in the global investment paradigm has transformed ESG criteria from merely voluntary disclosure into a critical indicator that provides positive signals to investors regarding transparency, efficiency, and the readiness of energy companies to mitigate long-term risks amid economic volatility and climate uncertainty (Putri & Paramita, 2025; Noor & Maithy, 2025). Comprehensive ESG disclosure is now recognized as a fundamental mechanism to reduce information asymmetry

and mitigate transition risks in carbon-based sectors, while simultaneously functioning as a strategic framework that has been integrated by financial institutions into investment assessment systems to measure corporate resilience and long-term value (Liu, et al., 2025).

Although global pressure for sustainable business practices continues to increase, Environmental, Social, and Governance (ESG) disclosure among energy sector companies listed on the Indonesia Stock Exchange still demonstrates varying levels of implementation across firms. Research indicates that energy companies on the Indonesia Stock Exchange have begun disclosing ESG information in their annual reports as well as sustainability reports, however, the breadth and consistency of these disclosures still differ, resulting in sustainability transparency that is not yet fully uniform for investors (Wijaya & Herwiyanti, 2024). Several studies indicate that transparency in the disclosure of ESG financial materiality by companies still faces inconsistencies due to differences in ESG reporting frameworks, causing information that is truly financially material to not always be clearly disclosed in corporate reports (Oluwakemi & Mishelle, 2025). This condition creates challenges for stakeholders in assessing the credibility of corporate ESG performance, as greenwashing practices and selective ESG disclosures may reduce the reliability of sustainability information used in investment decision-making (Sneideriene & Legenzova, 2025; Hassan, 2024). The low quality of transparency in sustainability reporting within the energy sector has become an important issue because inconsistencies and limitations in ESG information can make it difficult for investors to evaluate corporate risks and may influence the quality of investment decisions in the capital market (Lestari & Gangodawilage, 2025; Zheng, 2024).

Theoretically, the relationship between ESG disclosure and corporate performance can be explained through legitimacy theory and stakeholder theory, which state that the disclosure of sustainability issues can help companies obtain social legitimacy and stakeholder support that ultimately affect how companies are evaluated by investors and the public (Cahyawati & Hidayat, 2026). However, a review of the empirical literature indicates the presence of significant inconsistencies in findings, particularly within the capital-intensive energy sector. On the one hand, research by Nurahman dkk (2024), Retnosari dkk (2025) and Nurlaila & Mutmainah (2025) finds that ESG disclosure consistently contributes positively to corporate performance by improving operational efficiency, strengthening reputation, and reducing investors' risk perceptions. Conversely, studies by Salsabilla & Muslim (2026) and Faradila dkk (2026) demonstrate negative or insignificant effects on corporate financial performance, as the high costs associated with environmental compliance and ESG reporting tend to burden profitability and firm value. This debate becomes even more complex when distinguishing between ESG disclosure and ESG financial materiality disclosure, as several studies suggest that financially material ESG issues possess different informational relevance and market impacts compared to general or narrative disclosures (Prayoga dkk, 2026).

Based on this background, the main objective of this study is to empirically analyze the effect of ESG disclosure and ESG financial materiality disclosure on financial performance. By employing a quantitative approach on energy companies listed on the Indonesia Stock Exchange during the 2022–2024 period, this study provides an updated overview of the energy sector's response to sustainability reporting mandates in the post-pandemic period. The findings of this study are expected to provide dual contributions: theoretically, by expanding the literature on sustainability accounting through the integration of the audit quality variable; and practically, by providing strategic guidance for the management of energy companies in allocating resources to ESG issues that are financially material.

Our Contribution

This study replicates the research conducted by Sundani & Arsjah (2026). However, several key differences distinguish this study from their work. First, regarding the dependent variable, this study focuses on Financial Performance, whereas Sundani & Arsjah (2026) examine Company Value. Second, in terms of independent variables, this study employs only ESG Disclosure and ESG Financial Materiality Disclosure, while Sundani & Arsjah (2026) also include Corporate Governance.

Theoretical Review

Legitimacy Theory

Legitimacy theory explains that companies operate within a broader social system and must ensure that their activities are aligned with societal values and expectations in order to maintain legitimacy (Janang, et al., 2020). Companies therefore disclose information related to their environmental, social, and governance (ESG) practices to demonstrate that their operations are consistent with societal norms and stakeholder expectations (Asyik dkk, 2024). Such disclosures are used as a communication tool to gain and maintain public trust, which may support the company's sustainability and performance in the long term (Jiddan & Hapsari, 2023)

Stakeholder Theory

Stakeholder theory suggests that companies are accountable not only to shareholders but also to various stakeholders who can affect or are affected by corporate activities. Consequently, firms are encouraged to disclose information related to environmental, social, and governance (ESG) practices to address stakeholder expectations and enhance transparency. ESG disclosure provides stakeholders with insights into a company's sustainability practices, which may influence their evaluation of the firm and potentially impact its financial performance (Nurahman dkk, 2024).

Trade-Off Theory

Trade-off theory suggests that companies face a fundamental conflict between maximizing short-term profitability and fulfilling ESG responsibilities. Extensive ESG disclosure requires a substantial allocation of corporate resources—such as costly data collection systems and third-party audits—which directly increases operational expenses (Moussa & Elmarzouky, 2024). Consequently, diverting critical capital away from core revenue-generating operations strains profit margins and reduces short-term financial returns (Lubis & Rokhim, 2021).

Hypothesis Development

The Effect of ESG Disclosure on Financial Performance

ESG (Environmental, Social, and Governance) disclosure represents a strategic mechanism for companies to communicate their sustainability responsibilities to stakeholders. From the perspective of legitimacy theory, comprehensive ESG disclosure is viewed as a corporate strategy to respond to social pressures and stakeholder expectations, thereby helping companies—particularly those in the energy sector with high environmental risks—obtain social recognition, maintain reputation, and minimize potential reputational sanctions from the public and investors (Subagio, 2025; Rahmadani & Devilishanti, 2026). High transparency in environmental, social, and governance (ESG) disclosure can reduce information asymmetry between management and investors, thereby improving the quality of information available to the market, lowering perceived corporate risk, and potentially reducing the cost of capital while increasing investor confidence in

the company (Angir & Weli, 2024; Moussa & Elmarzouky, 2024). In addition, energy companies that consistently disclose Environmental, Social, and Governance (ESG) performance tend to demonstrate better risk management and more efficient operational practices, thereby improving financial performance and corporate profitability in the long term (Nurahman dkk, 2024; Azzahra & Suzan, 2025). Empirical support for this relationship is found in the study by Sundani & Arsjah (2026), which shows that ESG disclosure has a positive and significant effect on financial performance in the Indonesian energy sector. By increasing information transparency, companies are able to attract sustainability-oriented investors and strengthen their competitive position in the market. Therefore, the following hypothesis is proposed:
H_1: ESG Disclosure has a positive and significant effect on Financial Performance

The Effect of ESG Financial Materiality Disclosure on Financial Performance
Unlike general ESG disclosure, ESG Financial Materiality Disclosure focuses specifically on sustainability issues that directly affect a company's financial condition. From the perspective of trade-off theory, disclosing this information acts as an operational burden that creates a conflict between a firm's social goals and its short-term financial objectives (Moussa & Elmarzouky, 2024). Achieving high transparency requires substantial capital outlays for specialized tracking systems, risk modeling, and continuous third-party verification, which directly increases operational expenses and reduces immediate cash flows (Lubis & Rokhim, 2021). In the capital-intensive energy sector, these heavy reporting costs function as immediate economic drains that strain profitability metrics before long-term market benefits are realized (Ramoeletsi, 2024). By diverting critical resources away from core revenue-generating operations to meet rigid compliance standards, companies face competitive disadvantages. Therefore, the following hypothesis is proposed:
H_2: ESG Financial Materiality Disclosure has a negative and significant effect on Financial Performance

In summary, the hypothesis are shown below:
H_1: ESG Disclosure has a positive and significant effect on Financial Performance
H_2: ESG Financial Materiality Disclosure has a negative and significant effect on Financial Performance

The research model of this study as presented in Figure 1 below:

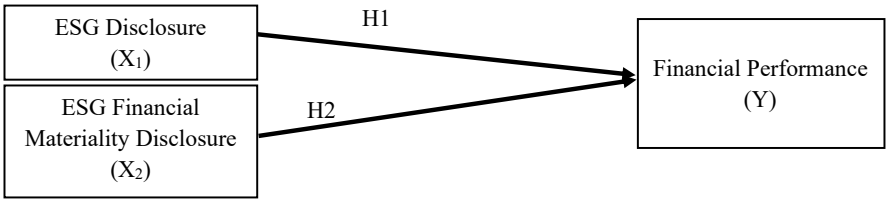

Figure 1. The Research Model

2. RESEARCH METHOD

This study focuses on all companies in the energy sector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The research employs a quantitative approach, and the

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2. The measurement procedures for ESG Disclosure and ESG Financial Materiality Disclosure are not described in Include a detailed explanation of scoring procedures and measurement indicators.

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sampling technique used is purposive sampling. This method selects samples based on specific criteria to ensure that the chosen companies share similar characteristics relevant to the study. The sample selection criteria include: 1) Energy sector companies listed on the IDX, 2) Companies that conducted an IPO after 2022, 3) Companies that did not publish complete financial statements on the IDX during the 2022–2024 period, 4) Companies whose financial years do not end on December 31, 5) Companies that do not disclose information related to the 2021 GRI Standards Index in their Sustainability Report or Annual Report during the 2022–2024 period. Based on these criteria, 25 out of the 91 companies listed on the IDX during the 2022–2024 period were initially selected as the research sample. After conducting an outlier test, the number of companies was reduced to 19. The outlier test was performed using the Z-score method to maintain the validity of the results by identifying and eliminating excessively extreme data points. This study covers three years of observations, resulting in 57 panel data observations derived from 19 companies. The collected data were processed and analyzed using the statistical software EViews. Table 1 below presents the research variables, including the proxies and formulas used to measure each variable.

Table 1. Variable Operationalization Summary

Variables	Proxies and Formula	Source
Financial Performance	ROA = Net Income x 100% / Total Assets	Chung, et al. (2023)
ESG Disclosure	Measured using the GRI Standards 2021	Sundani & Arsjah (2026)
ESG Financial Materiality Disclosure	Measured using the SASB Materiality Map Framework	Sundani & Arsjah (2026)

3. RESULTS AND DISCUSSIONS

Commented [A4]: 1. No year-fixed effects or multiyear effects are considered.
Consider using year dummy variables or a two-way fixed effects model.

2. ESG Disclosure is statistically insignificant (p = 0.0558), yet the discussion treats the relationship as meaningful.
Clearly acknowledge that the relationship is not empirically supported.

Decriptive Statistic Test

Based on the criteria, the total number of observed samples is 57 data points for the period 2022 to 2024. Table 2 below presents the descriptive statistical results for each variable in which ROA (Financial Performance) is the dependent variable, while ESGD (ESG Disclosure) and ESGFM (ESG Financial Materiality Disclosure) are the independent variables.

Table 2. Descriptive Statistic
Source: Processed by the Authors with EViews

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	0.115496	0.074384	0.616346	-0.114902	0.130925
ESGD	0.726895	0.773196	1.000000	0.092784	0.201325
ESGFM	0.976608	1.000000	1.000000	0.833333	0.058406

ROA shows a minimum value of -0.114902 for Buana Lintas Lautan Tbk, indicating a net loss where total expenses exceeded revenues and led to negative asset returns. Conversely, a maximum value of 0.616346 for Golden Energy Mines Tbk reflects a substantial net profit relative to its total asset base, demonstrating highly efficient and productive management in utilizing assets to maximize profitability.

The minimum ESGD value of 0.092784 indicates that Mitrabahtera Segera Sejati Tbk disclosed only 9 out of 97 ESG items in 2022. Conversely, the maximum value of 1.000000 demonstrates that Indo Tambangraya Megah Tbk achieved full transparency by disclosing all 97 ESG items in both 2023 and 2024.

The minimum ESGFM value of 0.833333 indicates that some companies disclosed only five out of six ESG Financial Materiality items. Conversely, the maximum value of 1.000000 demonstrates that certain companies achieved full transparency by disclosing all required ESG Financial Materiality items.

Panel Model Test Selection

The probability value of the cross-section Chi-square is 0.0000, as shown in Table 3, and it is less than 0.05. Therefore, the selected model is the Fixed Effect Model (FEM). The analysis should then proceed with the Hausman test.

Table 3. Chow Test
Source: Processed by the Authors with EViews

Effect Test	Statistic	d.f.	Prob.
Cross-section F	9.797260	(18,36)	0.0000
Cross-section Chi-square	101.159045	18	0.0000

The probability value of the cross-section random is 0.0273, as shown in Table 4, and it is less than 0.05. Therefore, the selected model is the Fixed Effect Model (FEM). This indicates that FEM is the most appropriate model for this study, and thus, the Lagrange Multiplier test is not required.

Table 4. Hausman Test
Source: Processed by the Authors with EViews

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.202822	2	0.0273

Classical Assumption Test

The results of the classical assumption test confirmed that there were no indications of normality, autocorrelation, multicollinearity, nor heteroskedasticity in the data. Furthermore, Fixed Effect Model was selected by a series of statistical tests, including Chow Test and Hausman Test.

Regression Analysis Test

Before performing the regression analysis, the model was tested using panel model testing. The results of the panel model test indicate that the data are suitable for the Fixed Effect Model (FEM), with the following equation:

ROA = 0.857031188877 - 0.296654074693*ESGD - 0.538495404477*ESGFM

The multiple regression equation illustrates the relationship between financial performance (ROA) as the dependent variable and ESG Disclosure (ESGD) and ESG Financial Materiality (ESGFM) as the independent variables. The constant value of 0.857031 represents the baseline level of ROA when both independent variables are equal to zero. The coefficient of ESG Disclosure -0.296654 indicates a negative relationship with ROA, implying that an increase in general sustainability reporting is associated with a decrease in financial returns. Similarly, the ESG Financial Materiality coefficient of -0.538495 shows a negative relationship, meaning that a higher disclosure focus on financially material ESG items also leads to a decline in corporate profitability. Comparatively, the larger negative coefficient of ESGFM suggests that disclosing financially material items has a stronger dampening effect on a company's return on assets than general ESG disclosure.

F-Test and t-Test

As shown in Table 5, the probability of the F-statistic is 0.00000, which is less than 0.05. Therefore, it can be concluded that ESG disclosure and ESG financial materiality have a simultaneous significant effect on financial performance.

Table 5. F-Test
Source: Processed by the Authors with EViews

F-statistic	9.947209
Prob(F-statistic)	0.000000

As presented in Table 6, several findings can be concluded from the analysis of the significance values of each variable. First, the ESG disclosure variable has a coefficient value of -1.976413, indicating a negative relationship that could decrease the level of financial performance. However, the significant value of 0.0558, which is greater than 0.05, shows the relationship between ESG disclosure and financial performance is not statistically strong.

Lastly, the ESG financial materiality disclosure variable has a coefficient value of -2.768726. This finding indicates that ESG financial materiality disclosure has the potential for financial performance, with a significant value of 0.0088, which is less than 0.05. This result strengthens the finding that ESG financial materiality disclosure negatively influences financial performance.

Table 6. t-Test
Source: Processed by the Authors with EViews

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.857031	0.202802	4.225942	0.0002
ESGD	-0.296654	0.150097	-1.976413	0.0558
ESGFM	-0.538495	0.194492	-2.768726	0.0088

Multiple Coefficient of Determination Test

Table 7 shows an adjusted R-squared value of 0.761646, likely measures the proportion of variation in the dependent variable that can be explained by all independent variables in the regression model. This result means that financial performance can be explained by the independent variable ESG disclosure and ESG financial materiality disclosure of 76.16%, while the remaining 23.84% is explained by other variables that are not included in this study.

Table 7. Multiple Coefficient of Determination Test
Source: Processed by the Authors with EViews

R-squared	0.846772
Adjusted R-squared	0.761646

Table 8. Hypothesis Test Results
Source: Processed by the Authors

No	Hypothesis	Result
H_1	ESG disclosure has a positive and significant effect on financial performance	Rejected
H_2	ESG financial materiality disclosure has a negative and significant effect on financial performance	Accepted

The Effect of ESG Disclosure on Financial Performance

The results in Table 8 show that ESG disclosure has no effect on financial performance. These findings do not support the hypothesis of this study but are in line with the research conducted by Setiawan & Utami (2023), Ningsih & Astuti (2022), Husada & Handayani (2021), and Saini & Singhania (2019). On the other hand, they contradict the findings of Sundani & Arsjah (2026),

Azzahra & Suzan (2025), Angir & Weli (2024), and Nurahman & Rahmawati (2024), who found a positive and significant relationship between ESG disclosure and financial performance. This result suggests that the extent of ESG disclosure implemented by a company does not significantly affect its financial performance, even though the direction of the relationship is negative. When companies expand their sustainability reporting, they tend to experience lower accounting returns, but this dampening effect is not statistically significant. In other words, variations in the level of ESG disclosure do not have a meaningful impact on corporate profitability metrics like ROA. This finding suggests that the stock market and traditional stakeholders do not necessarily penalize or reward companies immediately based on their extensive sustainability reporting. It may also imply that the upfront expenditure required for ESG reporting, such as specialized data collection systems and third-party verification, act as immediate operational drains that slightly depress earnings, yet these costs are not substantial enough to significantly compromise overall financial stability.

The Effect of ESG Financial Materiality Disclosure on Financial Performance

The results in Table 8 show that ESG financial materiality disclosure has a negative and significant effect on financial performance. These findings support the hypothesis of this study and are in line with the research conducted by Moussa & Elmarzouky (2024), Ramoeletsi (2024), and Lubis & Rokhim (2021). On the other hand, they contradict the findings of Sundani & Arsjah (2026), who found a positive and significant relationship between ESG financial materiality disclosure and corporate financial outcomes. This result suggests that the extent of ESG financial materiality disclosure implemented by a company meaningfully diminishes its financial performance. When companies expand their disclosure on sustainability issues that directly affect their financial condition, they experience significantly lower accounting returns. In other words, variations in the level of financial materiality disclosure have a highly visible and detrimental impact on corporate profitability metrics like ROA. This finding suggests that the market and traditional stakeholders actively absorb the heavy compliance and administrative burdens associated with tracking financial materiality. It implies that in capital-intensive sectors, the required upfront expenditures, such as detailed risk modeling, sophisticated tracking systems, and continuous third-party verification, act as severe immediate operational drains. These substantial costs directly inflate operational expenses and compress profit margins, thereby significantly compromising short-term financial returns before any long-term strategic benefits can be realized.

Commented [A5]: 1. The discussion primarily compares findings with prior studies.
Focus on explaining why the observed results occurred rather than merely identifying supporting or conflicting studies.

2. The negative impact of ESG Financial Materiality Disclosure is not adequately explained.
Discuss potential trade-offs between ESG compliance costs and short-term profitability.

4. CONCLUSIONS AND SUGGESTIONS

The population that meets the sampling criteria consists of 19 companies out of 91 companies, focusing on the energy sector listed on the Indonesian Stock Exchange (IDX) during the period 2022 to 2024. This study found that ESG disclosure does not have a significant effect on financial performance, while ESG financial materiality disclosure has a negative and significant effect on financial performance.

This study has several limitations that may be addressed in future research. The limitations include: 1) The research period is limited to three year (2022 until 2024), 2) The sample consists of only 19 companies, and 3) The independent variables are limited to ESG disclosure and ESG financial materiality disclosure, without considering other potential factors that may influence financial performance such as firm size, leverage, sales growth, liquidity, and capital intensity.

The recommendations of this study are directed to readers and future researchers to further develop studies related to financial performance. This research can serve as a reference for future studies.

Future researchers are encouraged to extend the research period, select a broader range of sectors, and address the limitation that this study only focused on the capital-intensive energy sector, where most companies operate in highly specific extraction and utility sub-sectors, resulting in limited representativeness across the wider market. In addition, the use of different independent variables, such as breaking down ESG into its individual components or the inclusion of control, mediating, or moderating variables, could provide deeper insights and serve as a valuable direction for future research on how sustainability disclosures affect corporate financial performance.

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Commented [A6]: Several references are drawn from relatively recent local journals with limited international impact. Increase the use of high-quality references from Scopus-indexed Q1/Q2 journals.

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Editor Respons for Revised Manuscript

1 message

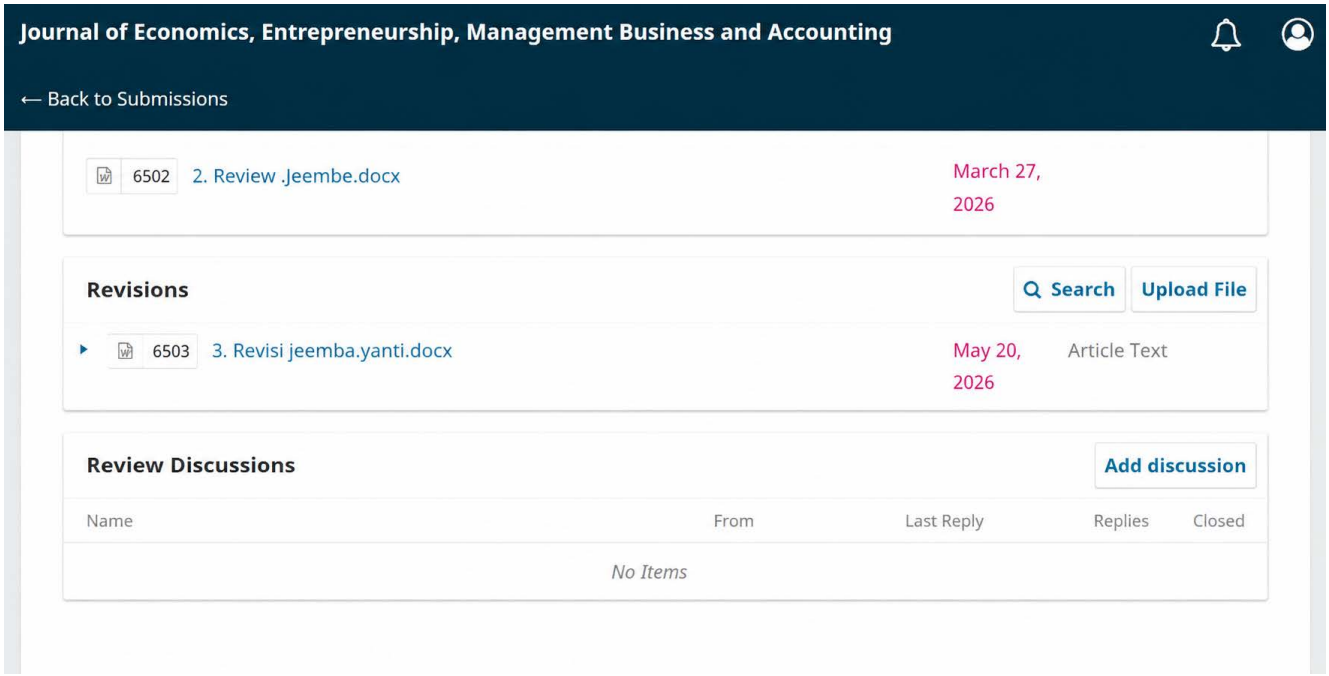
Anas Iswanto Anwar <jeemba@sakurapublisher.diginus.id> Wed, May 20, 2026 at 9:17 PM
To: yanti@fe.untar.ac.id

Dear Yanti,

Thank you for submitting your revised manuscript entitled "The Impact of ESG disclosure and ESG Financial Materiality Disclosure on Financial Performance: Evidence from the Indonesian Energy Sector (2022–2024)" to Journal of Economics, Entrepreneurship, Management Business and Accounting. We appreciate your efforts in addressing the reviewers' comments and improving the quality of your submission.

Best regards,

Anas Iswanto Anwar
Editor-in-Chief, Journal of Economics, Entrepreneurship, Management Business and Accounting



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The Impact of ESG disclosure and ESG Financial Materiality Disclosure on Financial Performance: Evidence from the Indonesian Energy Sector (2022–2024)

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ABSTRACT

Purpose – Sustainability reporting has become increasingly important in the energy sector due to growing regulatory requirements and stakeholder expectations. Nevertheless, evidence regarding the financial implications of ESG-related disclosures remains inconclusive. This study examines the impact of ESG disclosure and ESG financial materiality disclosure on the financial performance of energy companies listed on the Indonesia Stock Exchange (IDX) during 2022–2024.
Design/methodology/approach – This study employed a quantitative research design using panel data regression analysis. The sample comprised 19 energy sector companies selected through purposive sampling, resulting in 57 firm-year observations. ESG disclosure was measured based on the GRI Standards 2021, while ESG financial materiality disclosure was assessed using the SASB Materiality Framework. Data were analyzed using the Fixed Effect Model (FEM).
Finding/Results – The results show that ESG disclosure is negatively associated with financial performance, although the relationship is not statistically significant. In contrast, ESG financial materiality disclosure has a negative and significant effect on financial performance, indicating that the costs associated with material ESG reporting may reduce short-term profitability.
Originality/Value – The findings suggest that not all ESG-related disclosures generate similar financial outcomes. This study provides evidence that financially material ESG disclosure may have different implications from general ESG disclosure, offering insights for energy companies in designing sustainability reporting strategies.

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1. Introduction

The energy sector occupies a strategic position in global sustainability discourse because its business activities are closely linked to environmental risk, carbon emissions, natural resource extraction, and long-term social consequences. In recent years, companies operating in this sector have faced increasing pressure to demonstrate not only financial resilience but also accountability in environmental, social, and governance practices. This pressure has intensified as investors, regulators, and communities increasingly demand transparent information on how firms identify, manage, and report sustainability-related risks. ESG disclosure has therefore evolved from a voluntary reporting practice into a strategic mechanism for improving transparency, strengthening corporate accountability, and supporting responsible investment decisions. In Indonesia, this issue is particularly relevant because the energy sector remains economically important while also being highly exposed to sustainability scrutiny. The growing attention to sustainable finance, carbon disclosure, and responsible business conduct has made ESG reporting an important concern for listed energy companies. Consequently, examining the financial implications of ESG disclosure in this sector is essential for understanding whether sustainability transparency contributes to corporate economic outcomes.

The empirical phenomenon in Indonesia shows that ESG disclosure among energy sector companies is still developing and varies considerably across firms. Although many listed companies have begun to present ESG-related information in annual reports and sustainability reports, the scope, consistency, and comparability of such disclosures remain uneve. Mukti, Hariyanto, and Edward (2025) note that energy companies listed on the Indonesia Stock Exchange have increasingly adopted ESG reporting practices, yet their disclosure levels still differ across reporting indicators. This variation creates practical difficulties for investors because ESG information may not always provide a complete and reliable picture of corporate sustainability performance. The problem becomes more complex when companies disclose broad ESG narratives but provide limited information on sustainability issues that are financially relevant to their operations. In such conditions, stakeholders may find it difficult to distinguish between symbolic disclosure and disclosure that has clear economic relevance. This situation indicates the need to examine not only general ESG disclosure but also ESG financial materiality disclosure in relation to corporate financial performance.

The urgency of this study is strengthened by the increasing use of ESG information in capital market decision-making. Investors today are no longer concerned only with profitability, liquidity, and asset efficiency, but also with how companies manage environmental and social risks that may affect future cash flows. Prior studies indicate that transparent ESG reporting can reduce information asymmetry, improve investor confidence, and support long-term corporate resilience (Ellili 2022; Q. Li, Liu, and Lin 2026; Liang and Cao 2024). However, the benefits of ESG disclosure are not always immediate, particularly in capital-intensive sectors such as energy. Companies may need to allocate substantial resources to data collection, compliance systems, sustainability reporting, internal monitoring, and external assurance before financial benefits can be realized. These costs may create short-term pressure on profitability, especially when ESG practices have not yet been fully integrated into operational efficiency. Therefore, the relationship between ESG disclosure and financial performance needs to be tested empirically rather than assumed to be uniformly positive.

The relationship between sustainability disclosure and financial performance remains theoretically and empirically debatable. From the perspective of legitimacy theory and stakeholder theory, ESG disclosure may improve corporate reputation, reduce uncertainty, and strengthen stakeholder trust. In contrast, trade-off theory suggests that ESG disclosure may impose additional costs that reduce short-term financial returns. This tension is particularly relevant for energy companies because sustainability reporting may simultaneously function as a legitimacy-building mechanism and as a cost-intensive managerial activity. Previous empirical findings also remain inconsistent. Some studies report that ESG disclosure improves financial performance by enhancing transparency and risk management, while others find insignificant or negative effects due to high compliance and reporting costs (Al Amosh 2025; Fagbemi et al. 2025; Oluwakemi and Mishelle 2025; Sun et al. 2026). These mixed results indicate that the financial consequences of ESG disclosure may depend on sectoral characteristics, measurement approach, and the type of ESG information disclosed.

A more specific research gap emerges from the distinction between general ESG disclosure and ESG financial materiality disclosure. Most previous studies have examined ESG disclosure as an aggregate construct, while relatively few have separated broad sustainability disclosure from disclosure that is financially material to corporate performance. ESG financial materiality disclosure focuses on sustainability issues that may affect revenue, costs, assets, liabilities, risk exposure, and long-term firm value. Del Gesso and Lodhi (2024) argue that the financial relevance of ESG information depends not only on the amount of disclosure but also on whether the disclosed information is material to business performance. Similarly, Eng and Fikru et al. (2022) suggest that SASB-based materiality disclosure may provide more decision-useful information than general sustainability narratives. However, in capital-intensive energy companies, disclosing financially material ESG issues may require more rigorous measurement systems, risk modeling, internal control, and verification processes. This creates a critical gap because the same disclosure practice that improves decision usefulness for investors may also increase short-term reporting and compliance costs for companies.

Based on these gaps, this study aims to examine the effect of ESG disclosure and ESG financial materiality disclosure on the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Financial performance is measured using return on assets, while ESG disclosure and ESG financial materiality disclosure are examined as the main explanatory variables. This study contributes theoretically by clarifying the different roles of general ESG disclosure and financially material ESG disclosure in explaining financial performance. It also contributes empirically by providing recent evidence from the Indonesian energy sector, a capital-intensive industry facing strong sustainability pressure and high reporting demands. Practically, the findings are expected to help corporate managers evaluate whether sustainability disclosure practices are aligned with financial efficiency and strategic resource allocation. For investors, this study offers insights into how different types of ESG disclosure may be interpreted when assessing profitability and sustainability-related risks. Overall, this study provides a more nuanced understanding of ESG reporting by distinguishing between disclosure breadth and disclosure materiality in relation to financial performance.

2. Literature Review and Hypothesis Development

2.1 Legitimacy Theory

Legitimacy theory provides a relevant foundation for explaining why companies disclose sustainability-related information to external stakeholders. This theory assumes that companies operate within a broader social system and must ensure that their activities are consistent with societal values, norms, and expectations (Berrone et al. 2023; Senadjki et al. 2023). When corporate activities create environmental or social impacts, companies are expected to communicate how they manage those impacts in order to maintain public acceptance. ESG disclosure can therefore be understood as a mechanism through which firms demonstrate accountability and justify their continued operation. This is particularly important for energy sector companies because their activities are closely associated with carbon emissions, resource extraction, environmental degradation, and community impacts. By disclosing environmental, social, and governance information, firms attempt to show that they are responsive to sustainability concerns and regulatory expectations. In this sense, ESG disclosure functions not only as a reporting practice but also as a strategic tool for maintaining corporate legitimacy.

The relevance of legitimacy theory becomes stronger in the context of industries with high environmental sensitivity. Hummel and Bauernhofer (2024) argue that sustainability disclosure enables companies to present themselves as socially responsible organizations and to reduce the legitimacy gap between corporate operations and stakeholder expectations. Dechow (2023) also emphasize that sustainability reporting may strengthen public trust when companies provide clear information about their social and environmental responsibilities. From this perspective, ESG disclosure may help firms reduce reputational risk and improve their standing in the eyes of stakeholders. However, legitimacy-oriented disclosure may also become symbolic when companies disclose sustainability information merely to satisfy external expectations without integrating ESG principles into operational practices. Therefore, legitimacy theory helps explain both the potential benefits and limitations of ESG disclosure in relation to financial performance.

2.2 Stakeholder Theory

Stakeholder theory complements legitimacy theory by emphasizing that companies are accountable not only to shareholders but also to broader stakeholder groups. These stakeholders include investors, creditors, employees, customers, regulators, local communities, and other parties affected by corporate activities. According to this theory, firms need to manage stakeholder relationships because stakeholder support can influence corporate survival, reputation, access to resources, and long-term performance. ESG disclosure is one way for companies to respond to stakeholder demands for transparent, relevant, and reliable information. When companies disclose ESG information, they reduce information asymmetry and provide stakeholders with a clearer basis for evaluating corporate sustainability practices. This is particularly important for investors who increasingly incorporate ESG considerations into investment decision-making. Therefore, from the stakeholder perspective, ESG disclosure may contribute to financial performance by improving stakeholder confidence and strengthening corporate reputation.

In the energy sector, stakeholder expectations are often more complex because companies operate in an industry with significant environmental and social consequences. Ferdous, Rana, and Yeboah et al. (2025) suggest that ESG disclosure can enhance financial performance by

improving transparency, strengthening investor trust, and supporting more responsible corporate governance. Boulton (2024) also show that ESG disclosure may provide useful signals to the market by reducing asymmetric information between corporate management and investors. These arguments indicate that ESG information can become economically valuable when stakeholders perceive it as credible and relevant. However, stakeholder theory also implies that disclosure must be substantive rather than merely formal. If ESG disclosure is broad but lacks material relevance, stakeholders may not interpret it as strong evidence of corporate quality. Thus, the stakeholder perspective supports the importance of distinguishing between general ESG disclosure and ESG financial materiality disclosure.

2.3 Trade-Off Theory

While legitimacy theory and stakeholder theory emphasize the potential benefits of ESG disclosure, trade-off theory provides a more cautious explanation. This theory suggests that companies may face a conflict between allocating resources to sustainability-related activities and maintaining short-term profitability. ESG disclosure requires investment in reporting systems, data collection, internal monitoring, external verification, and compliance activities. These activities may generate long-term benefits, but they can also increase operating costs in the short run. Sheehan et al. (2023) argue that ESG practices may impose financial burdens when companies allocate substantial resources to activities that do not immediately generate revenue. Wu and Abeysekera (2023) further explain that ESG reporting may influence firms' financial outcomes because disclosure quality is closely related to risk assessment, compliance costs, and capital market expectations. Therefore, ESG disclosure may not always produce immediate financial advantages.

Trade-off theory is particularly relevant for capital-intensive industries such as energy. Energy companies often require large investments in assets, technology, safety systems, environmental management, and regulatory compliance. When these companies expand ESG disclosure, they may need additional resources to identify, measure, verify, and report sustainability-related information. Arvidsson and Dumay (2022) notes that ESG reporting may produce different financial consequences across sectors because the costs and benefits of disclosure depend on industry characteristics. In the energy sector, financially material ESG issues such as emissions, health and safety, resource management, community relations, and climate-related transition risk may require more complex reporting systems than general narrative disclosures. As a result, disclosure of financially material ESG information may place pressure on short-term profitability, particularly when companies have not yet transformed disclosure practices into operational efficiency. This theoretical explanation supports the possibility that ESG financial materiality disclosure may have a negative relationship with financial performance.

2.4 ESG Disclosure and Financial Performance

ESG disclosure refers to the communication of corporate information related to environmental, social, and governance practices. Environmental disclosure generally includes information on energy use, emissions, waste management, biodiversity, water consumption, and climate-related risks. Social disclosure covers issues such as employee welfare, occupational health and safety, human rights, customer responsibility, and community engagement. Governance disclosure includes information on board structure, ethics, risk management, anti-corruption policies, and shareholder rights. In this study, ESG disclosure is measured based on the GRI Standards 2021, which provide a comprehensive framework for

sustainability reporting. The use of GRI-based disclosure indicators allows this study to evaluate the extent to which companies report sustainability information across broad ESG dimensions. As a disclosure construct, ESG disclosure reflects the breadth of sustainability information communicated by companies to external stakeholders.

Prior studies indicate that ESG disclosure may influence financial performance through several mechanisms. First, ESG disclosure may improve corporate reputation because companies that disclose sustainability information are perceived as more transparent and accountable. Second, ESG disclosure may reduce information asymmetry by providing investors with additional non-financial information that supports risk assessment. Third, ESG disclosure may encourage internal improvements in risk management, operational efficiency, and governance practices. Aydoğmuş, Gülay, and Ergun (2022) find that ESG disclosure is associated with profitability in companies exposed to environmental and workplace safety issues. Ramadika and Putikadea (2025) also report that ESG disclosure contributes to financial performance in Indonesian mining companies. Similarly, Rabaya and Saleh (2022) argue that ESG disclosure can enhance competitive advantage and support firm performance. These findings suggest that ESG disclosure may produce financial benefits when it is supported by substantive sustainability practices.

Nevertheless, the relationship between ESG disclosure and financial performance is not always consistent. Some studies report insignificant or negative effects, indicating that the market may not immediately reward firms for broader ESG reporting. Alfalih (2023) find that ESG disclosure does not necessarily improve financial performance, while Buallay (2022) show that sustainability disclosure may have different effects depending on the reporting dimension and sectoral context. Han et al. (2024) also suggest that ESG disclosure in high-carbon sectors may not directly increase profitability because companies face high environmental compliance costs. These findings imply that ESG disclosure may improve transparency but not automatically generate higher accounting returns. However, based on legitimacy theory and stakeholder theory, broader ESG disclosure is still expected to provide positive signals, enhance stakeholder trust, and support corporate financial outcomes. Therefore, the first hypothesis is formulated as follows:

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

2.5 ESG Financial Materiality Disclosure and Financial Performance

ESG financial materiality disclosure refers to the disclosure of sustainability issues that are expected to have direct financial implications for a company. Unlike general ESG disclosure, which focuses on broad sustainability transparency, ESG financial materiality disclosure emphasizes ESG topics that may affect revenue, costs, assets, liabilities, risk exposure, and firm value. In this study, ESG financial materiality disclosure is measured using the SASB Materiality Map Framework because this framework identifies sustainability issues that are financially relevant to specific industries. For energy companies, financially material ESG issues may include greenhouse gas emissions, air quality, water management, operational safety, community impacts, regulatory risk, and climate-related transition risk. Disclosure of these issues is important because it provides investors with more decision-useful information than general ESG narratives. Therefore, ESG financial materiality disclosure represents a more focused and financially oriented form of sustainability reporting.

Theoretically, ESG financial materiality disclosure may create benefits because it helps stakeholders understand the financial relevance of sustainability risks. Del Gesso and Lodhi

(2024) argue that the usefulness of ESG disclosure depends not only on the amount of information disclosed but also on whether the information is financially material. Pizzi, Principale, and de Nuccio (2022) further emphasize that SASB-based materiality disclosure may enhance the value relevance of sustainability information because it focuses on issues that are more closely related to firm performance. From an investor perspective, materiality-based disclosure can improve risk assessment, reduce uncertainty, and support more efficient capital allocation. However, the financial consequences of ESG financial materiality disclosure may differ from those of general ESG disclosure. Because materiality-based disclosure requires more detailed measurement, monitoring, verification, and risk analysis, it may impose higher reporting and compliance costs. This distinction is important because a disclosure practice that is useful for investors may still reduce short-term accounting performance if its implementation is costly.

In the energy sector, the cost implications of ESG financial materiality disclosure may be particularly strong. Companies that disclose financially material ESG issues are often required to develop more sophisticated internal systems to measure emissions, safety performance, environmental risk, and regulatory exposure. These processes may require additional investment in data infrastructure, expert consultation, assurance services, and sustainability risk management. Van der Zahn (2022) indicate that ESG reporting may influence financial outcomes through compliance and capital-related costs. Chen et al. (2026) also suggest that ESG-related activities may create a trade-off when sustainability investments reduce short-term profitability. In line with this argument, Chen et al. (2025) finds that the relationship between ESG disclosure and financial performance may vary across contexts because reporting costs and sector characteristics influence financial outcomes. Therefore, based on trade-off theory, ESG financial materiality disclosure is expected to have a negative effect on short-term financial performance in capital-intensive energy companies.

H2: ESG financial materiality disclosure has a negative and significant effect on financial performance.

2.6 Research Framework

Based on the theoretical review and hypothesis development, this study examines the relationship between ESG disclosure, ESG financial materiality disclosure, and financial performance. ESG disclosure is positioned as the first independent variable because it reflects the breadth of sustainability information disclosed by companies based on the GRI Standards 2021. ESG financial materiality disclosure is positioned as the second independent variable because it reflects the extent to which companies disclose sustainability issues that are financially relevant based on the SASB Materiality Map Framework. Financial performance is positioned as the dependent variable and is measured using return on assets. The proposed research framework is developed to clarify whether general ESG disclosure and financially material ESG disclosure have different implications for corporate financial performance. The conceptual framework of this study is presented in Figure 1.

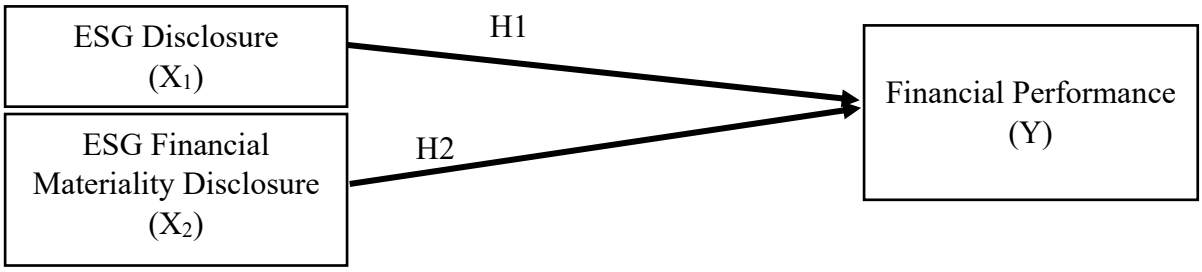

Figure 1. Research Framework

The research framework illustrates two hypothesized relationships. First, ESG disclosure is expected to have a positive and significant effect on financial performance. Second, ESG financial materiality disclosure is expected to have a negative and significant effect on financial performance. These two hypotheses reflect the theoretical tension between legitimacy and stakeholder benefits on the one hand, and short-term cost trade-offs on the other. By separating general ESG disclosure from ESG financial materiality disclosure, this study provides a more specific framework for examining how different types of sustainability disclosure are associated with financial performance in the energy sector.

3. Methodology

Research Design

This study employed a quantitative explanatory research design to examine the effect of ESG disclosure and ESG financial materiality disclosure on corporate financial performance. The quantitative approach was selected because the study tested measurable relationships among variables using numerical firm-level data. The explanatory design was considered appropriate because the main objective was not merely to describe ESG reporting practices, but to explain whether variations in ESG disclosure and ESG financial materiality disclosure affect financial performance. The study used panel data regression because the dataset combined cross-sectional observations from several companies and time-series observations across three fiscal years. This approach enabled the analysis to capture differences across firms as well as changes over time, making it suitable for evaluating disclosure practices and financial performance in listed companies.

Research Setting and Period

The research was conducted in the context of energy sector companies listed on the Indonesia Stock Exchange. The energy sector was selected because it is closely associated with environmental risk, carbon-intensive operations, natural resource use, and increasing pressure for sustainability transparency. Companies in this sector are also highly relevant for ESG research because their operations are frequently exposed to public scrutiny, regulatory demands, and investor concerns regarding long-term sustainability risks. The observation period covered three fiscal years, from 2022 to 2024. This period was chosen to reflect recent ESG reporting practices in Indonesia, particularly during a period when sustainable finance, carbon disclosure, and sustainability reporting have received growing attention from regulators, investors, and corporate stakeholders.

Population and Sample

The population of this study consisted of all energy sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The sample was selected using purposive sampling, as this technique allows researchers to select companies that meet specific criteria relevant to the research objectives. The inclusion criteria required companies to be consistently listed in the IDX energy sector during the observation period, publish complete annual reports and financial statements, have a fiscal year ending on December 31, and provide sufficient ESG-related information in annual reports or sustainability reports. Companies were excluded if they conducted an initial public offering after the beginning of the observation period, had incomplete financial data, used a fiscal year-end other than December 31, or did not provide sufficient disclosure information required for measuring ESG disclosure and ESG financial materiality disclosure. Based on these criteria, 25 companies were initially identified as eligible samples. After conducting an outlier screening using the Z-score method, the final sample consisted of 19 companies, resulting in 57 firm-year observations.

Data Sources and Measurement Instrument

This study used secondary data obtained from publicly available corporate reports. The primary data sources consisted of annual reports, sustainability reports, and financial statements published by energy sector companies through the Indonesia Stock Exchange website and the official websites of each company. These documents were selected because they provide verified and publicly accessible information regarding financial performance, ESG reporting practices, and sustainability-related disclosures. The measurement instrument used in this study was a structured documentation checklist developed based on the GRI Standards 2021 and the SASB Materiality Map Framework. The checklist was used to code the presence or absence of ESG disclosure items and financially material ESG disclosure items in each company report.

Financial performance was measured using return on assets, which reflects the company's ability to generate net income from its total assets. ROA was calculated by dividing net income by total assets. ESG disclosure was measured using disclosure items derived from the GRI Standards 2021, which cover environmental, social, and governance reporting aspects. Each disclosed item was assigned a score of 1, while each undisclosed item was assigned a score of 0. The ESG disclosure score was calculated by dividing the number of disclosed items by the total number of relevant GRI disclosure items. ESG financial materiality disclosure was measured using the SASB Materiality Map Framework, which identifies sustainability issues that are financially relevant to firms within specific industries. Similar to ESG disclosure, each financially material item disclosed by the company was coded as 1, while undisclosed items were coded as 0. The final ESG financial materiality disclosure score was calculated as the ratio between the number of disclosed financially material items and the total number of relevant materiality items.

Data Quality Assurance

Several procedures were applied to ensure the quality, consistency, and reliability of the data. First, the measurement of ESG disclosure was based on the GRI Standards 2021, while ESG financial materiality disclosure was based on the SASB Materiality Map Framework. The use of these internationally recognized frameworks strengthened the content validity of the disclosure indicators because both frameworks provide structured criteria for sustainability

reporting. Second, a standardized coding sheet was prepared before the data extraction process to ensure that all company reports were assessed using the same criteria. Third, each disclosure item was coded only when explicit and relevant information was found in the annual report or sustainability report, thereby reducing subjective interpretation. Fourth, the coded results were rechecked by comparing information across annual reports, sustainability reports, and financial statements. Fifth, outlier detection was conducted using the Z-score method to identify extreme values that could distort the regression results. These procedures were applied to improve the accuracy, consistency, and replicability of the dataset.

Data Collection Procedure

The data collection process was conducted in several systematic stages. First, the researcher identified all energy sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Second, the companies were screened based on the inclusion and exclusion criteria to ensure that only firms with complete and comparable data were included in the sample. Third, annual reports, sustainability reports, and financial statements were collected from the IDX website and the official websites of each company. Fourth, financial data were extracted to calculate return on assets as the proxy for financial performance. Fifth, ESG disclosure items were coded using the GRI Standards 2021, while ESG financial materiality disclosure items were coded using the SASB Materiality Map Framework. Sixth, all coded data were compiled into a panel dataset consisting of firm-year observations. Finally, the dataset was checked for completeness, consistency, and outliers before being analyzed using EViews.

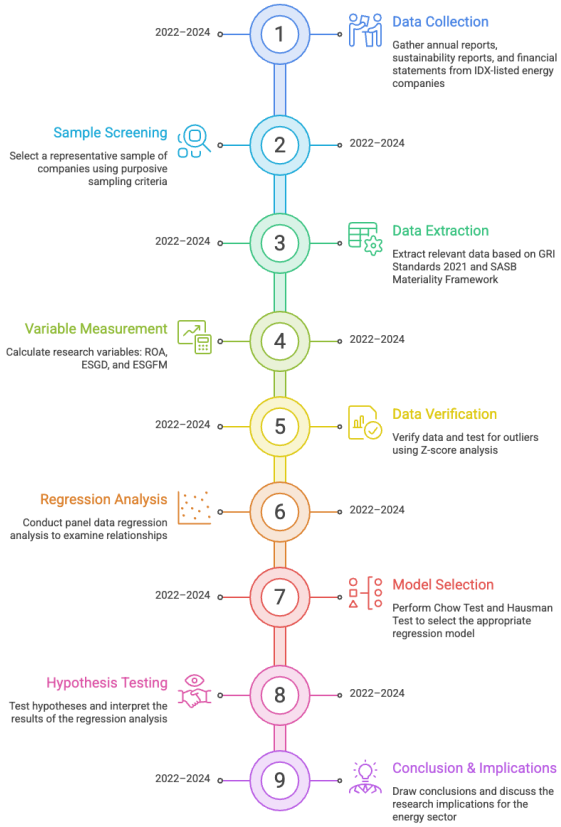

Figure 1. Research Methodology gor Energy Sector Company Analysis (2022-2024)

Data Analysis Technique

The data were analyzed using panel data regression with EViews software. Descriptive statistical analysis was first performed to provide an overview of the characteristics and distribution of the research variables. Subsequently, panel model selection tests were conducted to determine the most appropriate estimation model. The Chow test was used to compare the Common Effect Model and Fixed Effect Model, while the Hausman test was employed to determine whether the Fixed Effect Model or Random Effect Model was more suitable. Classical assumption testing was then conducted to evaluate the adequacy of the regression model. The hypotheses were tested using t-tests to assess the individual effects of each independent variable and F-tests to examine the simultaneous effects of the independent variables on financial performance. Statistical significance was evaluated at the 5% significance level (α = 0.05). In addition, the coefficient of determination (Adjusted R^2) was used to assess the explanatory power of the model.

This study adhered to academic research ethics by utilizing publicly available secondary data and ensuring accurate representation of all reported information. No personal or confidential information was collected, and no direct interaction with human participants occurred during the research process. All data sources were properly acknowledged, and the analysis was conducted objectively to maintain transparency, integrity, and scientific rigor throughout the study.

4. Result and Discussion

4.1 Descriptive Statistics Test

Based on the established sampling criteria, this study obtained 57 firm-year observations for the 2022–2024 period. Table 1 presents the descriptive statistics for each research variable. In this study, ROA represents financial performance as the dependent variable, while ESGD represents ESG disclosure and ESGFM represents ESG financial materiality disclosure as the independent variables.

Table 1. Descriptive Statistic

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
ROA	0.115496	0.074384	0.616346	-0.114902	0.130925
ESGD	0.726895	0.773196	1.000000	0.092784	0.201325
ESGFM	0.976608	1.000000	1.000000	0.833333	0.058406

The ROA variable has a minimum value of -0.114902, recorded by Buana Lintas Lautan Tbk. This value indicates that the company experienced a net loss, resulting in a negative return on assets. Conversely, the maximum ROA value of 0.616346 was recorded by Golden Energy Mines Tbk, indicating a relatively high level of profitability compared with its total asset base. This result reflects the company's ability to utilize its assets efficiently in generating net income.

The minimum ESGD value of 0.092784 indicates that Mitrabahtera Segera Sejati Tbk disclosed only 9 out of 97 ESG items in 2022. In contrast, the maximum ESGD value of 1.000000 shows that Indo Tambangraya Megah Tbk achieved full disclosure by reporting all 97 ESG items in both 2023 and 2024. These results indicate that ESG disclosure practices among the sampled companies varied considerably during the observation period.

The minimum ESGFM value of 0.833333 indicates that several companies disclosed only five out of six ESG financial materiality items. Meanwhile, the maximum value of 1.000000 indicates that some companies fully disclosed all required ESG financial materiality items. Compared with general ESG disclosure, ESG financial materiality disclosure shows a smaller variation, as reflected in its lower standard deviation.

4.3 Panel Data Model Selection

The panel model selection process began with the Chow test to determine whether the Common Effect Model or Fixed Effect Model was more appropriate. As shown in Table 2, the probability value of the cross-section Chi-square is 0.0000, which is lower than the 5% significance level. Therefore, the Fixed Effect Model (FEM) was selected over the Common Effect Model. The analysis then proceeded to the Hausman test to determine whether the Fixed Effect Model or Random Effect Model should be used.

Table 2. Chow Test Results

Effect Test	Statistic	d.f.	Prob.
Cross-section F	9.797260	(18,36)	0.0000
Cross-section Chi-square	101.159045	18	0.0000

As presented in Table 3, the probability value of the cross-section random is 0.0273, which is lower than 0.05. This result indicates that the Fixed Effect Model is more appropriate than the Random Effect Model. Since the Chow test and Hausman test both support the use of the Fixed Effect Model, the Lagrange Multiplier test was not required. Thus, the Fixed Effect Model was used as the final estimation model in this study.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.202822	2	0.0273

4.4 Classical Assumption Test Results

The classical assumption test was conducted to ensure that the regression model was statistically appropriate for hypothesis testing. The results indicated no serious violations of the normality, autocorrelation, multicollinearity, and heteroskedasticity assumptions. In addition, the Fixed Effect Model had been selected through the panel model selection procedures, namely the Chow test and the Hausman test. Therefore, the regression model was considered suitable for further analysis.

4.5 Panel Regression Results

Before conducting regression analysis, panel model testing was performed to identify the most appropriate estimation model. The results confirmed that the Fixed Effect Model (FEM) was suitable for this study. The estimated regression equation is as follows:

ROA = 0.857031 - 0.296654ESGD - 0.538495ESGFM

The regression equation illustrates the relationship between financial performance, measured by ROA, and the two independent variables, namely ESG disclosure and ESG financial materiality disclosure. The constant value of 0.857031 indicates the estimated ROA value when ESGD and ESGFM are assumed to be zero. The coefficient of ESGD is -0.296654, indicating a negative relationship between ESG disclosure and ROA. This suggests that an increase in

general ESG disclosure is associated with a decrease in financial performance, although the statistical significance of this relationship must be interpreted through the t-test. Similarly, the coefficient of ESGFM is -0.538495, indicating a negative relationship between ESG financial materiality disclosure and ROA. The larger negative coefficient of ESGFM suggests that ESG financial materiality disclosure has a stronger negative association with return on assets than general ESG disclosure.

4.6 F-Test and T-test

As shown in Table 4, the probability value of the F-statistic is 0.000000, which is lower than 0.05. This result indicates that ESG disclosure and ESG financial materiality disclosure simultaneously have a significant effect on financial performance. Therefore, the independent variables jointly explain variations in ROA among the sampled energy sector companies.

Table 4. F-Test

Statistic	Value
F-Statistic	9.947209
Prob(F-Statistic)	0.000000

Table 5 presents the results of the partial significance test for each independent variable. The ESG disclosure variable has a coefficient of -0.296654, a t-statistic of -1.976413, and a probability value of 0.0558. Since the probability value is greater than 0.05, ESG disclosure does not have a statistically significant effect on financial performance. Although the direction of the relationship is negative, the effect is not strong enough to be considered statistically significant.

The ESG financial materiality disclosure variable has a coefficient of -0.538495, a t-statistic of -2.768726, and a probability value of 0.0088. Since the probability value is lower than 0.05, ESG financial materiality disclosure has a negative and statistically significant effect on financial performance. This result supports the finding that higher disclosure of financially material ESG items is associated with lower ROA.

Table 5. t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.857031	0.202802	4.225942	0.0002
ESGD	-0.296654	0.150097	-1.976413	0.0558
ESGFM	-0.538495	0.194492	-2.768726	0.0088

The regression results table should be placed immediately after the paragraph explaining the regression equation. This table should include the coefficient, standard error, t-statistic, and probability value for each variable, namely the constant, ESG disclosure, and ESG financial materiality disclosure. Presenting the regression table in this position allows readers to directly compare the narrative interpretation with the statistical output.

4.6 Multiple Coefficient of Determination Test

Table 7 shows an R-squared value of 0.846772 and an adjusted R-squared value of 0.761646. The adjusted R-squared value indicates that 76.16% of the variation in financial performance can be explained by ESG disclosure and ESG financial materiality disclosure. Meanwhile, the remaining 23.84% is explained by other variables that are not included in this study. These variables may include firm size, leverage, liquidity, sales growth, capital intensity, operational efficiency, or other financial and non-financial factors.

Table 6. Multiple Coefficient of Determination Test

Statistic	Value
R-square	0.846772
Adjusted R-squared	0.761646

Table 7. Hypotheiss Test Result

No	Hypothesis	Result
H_1	ESG disclosure has a positive and significant effect on financial performance	Rejected
H_2	ESG financial materiality disclosure has a negative and significant effect on financial performance	Accepted

4.10 Discussion

The findings of this study indicate that ESG disclosure has a negative but statistically insignificant effect on financial performance, suggesting that broader sustainability reporting does not automatically translate into higher return on assets among Indonesian energy sector companies. This result implies that the extent of ESG information disclosed by companies may not yet be strong enough to influence accounting-based profitability in the short term. From the perspective of legitimacy theory, ESG disclosure can help companies demonstrate conformity with social expectations, but legitimacy-oriented reporting does not necessarily generate immediate financial returns when stakeholders perceive the disclosure as procedural rather than strategic. This finding partly challenges the optimistic view of stakeholder theory, which assumes that greater transparency improves stakeholder trust and eventually enhances performance. The result is consistent with Darnall et al. (2022), Ellili (2022), and Vichitsarawong (2021), who found that ESG or sustainability disclosure does not always produce significant financial benefits. However, it differs from Murwaningsari (2025) and Mukti (2025), who reported positive effects of ESG disclosure on firm performance. This difference suggests that ESG disclosure in the Indonesian energy sector may still be in a transitional stage, where reporting practices have improved but have not yet been fully converted into operational efficiency or profitability.

The insignificant effect of ESG disclosure also indicates that disclosure breadth alone may have limited explanatory power when the disclosed information is not sufficiently connected to financially relevant business risks. Although companies may disclose a large number of ESG items, investors and other stakeholders may not interpret such disclosure as value-enhancing if it is too general, fragmented, or narrative in nature. This finding extends stakeholder theory by showing that transparency is not only a matter of how much information is disclosed, but also whether the information is credible, comparable, and useful for assessing corporate risk. In the context of energy companies, broad ESG disclosure may be viewed as a compliance response rather than evidence of substantive sustainability transformation. This interpretation is supported by Eng, Fikru, and Vichitsarawong (2021), who note that ESG reporting practices among Indonesian energy companies remain uneven across indicators. It also aligns with Al Amosh (2025), who argues that the usefulness of ESG reports depends on transparency quality rather than disclosure volume alone. Therefore, the finding suggests that companies should not treat ESG reporting as a checklist activity, but as a communication mechanism that must be linked to measurable risk management and financial relevance.

In contrast, ESG financial materiality disclosure was found to have a negative and significant effect on financial performance, indicating that disclosure of financially material ESG issues is associated with lower return on assets. This finding is conceptually important because it shows that materiality-based ESG disclosure may have different financial consequences from general ESG disclosure. From the perspective of trade-off theory, companies that disclose financially material ESG issues may incur higher costs related to measurement systems, internal controls, risk modeling, assurance, regulatory compliance, and sustainability monitoring. These costs can reduce short-term profitability, particularly in capital-intensive sectors where firms already face high operational and investment expenditures. The result supports the arguments of Arvidsson and Dumay (2022) and Choi (2025), who suggest that ESG-related practices may create financial pressure when their implementation requires substantial corporate resources. However, it contrasts with Huq and Mohammadrezaei (2024) and Raith (2022), who emphasize the value relevance of materiality-based disclosure for investors and corporate value. This difference indicates that financial materiality disclosure may be informative for the market, but its short-term accounting impact can still be negative when disclosure costs exceed immediate operational benefits.

The negative effect of ESG financial materiality disclosure should not be interpreted simply as evidence that materiality-based disclosure is harmful. Rather, it reflects a timing problem between the cost of producing high-quality ESG information and the delayed realization of its economic benefits. Energy companies that disclose material ESG issues such as emissions, operational safety, environmental risk, and community impacts may need to invest in data infrastructure, technical expertise, third-party verification, and risk management systems before those disclosures produce measurable financial value. In the short run, these investments may reduce ROA because they increase operating expenses or require additional capital allocation. This interpretation is consistent with Ivascu et al. (2022), who show that ESG reporting can affect firms through compliance and capital-related costs, and with Li, Liu, and Lin (2026), who emphasize that financially material ESG information has economic relevance but may depend on transparency quality and firm capability. The finding therefore modifies trade-off theory by suggesting that the negative impact of materiality disclosure is not necessarily permanent, but may occur during the early stage of disclosure institutionalization. For managers, this means that materiality-based ESG reporting should be integrated into operational strategy rather than treated as a separate reporting burden.

The simultaneous significance of ESG disclosure and ESG financial materiality disclosure indicates that sustainability reporting variables jointly explain financial performance, even though their individual effects differ in strength and significance. This finding suggests that ESG-related disclosure cannot be ignored in assessing the financial condition of energy companies, but the financial meaning of disclosure depends on its type and depth. The high explanatory power of the model implies that disclosure practices are closely associated with variations in ROA among the sampled firms, although other factors such as firm size, leverage, liquidity, sales growth, capital intensity, and operational efficiency may also influence performance. From a theoretical standpoint, this result shows that legitimacy theory, stakeholder theory, and trade-off theory should not be treated as mutually exclusive explanations. ESG disclosure may simultaneously function as a legitimacy instrument, a stakeholder communication tool, and a cost-generating activity. This interpretation helps reconcile the mixed findings reported by Khandelwal (2023), Pinelli (2024), Wyse and

Bradbury (2022).The implication is that future ESG research should move beyond the simple question of whether ESG disclosure is beneficial and instead examine under what conditions, through which mechanisms, and over what time horizon ESG disclosure affects financial performance.

The Indonesian energy sector provides an important context for understanding why ESG disclosure does not produce uniformly positive financial outcomes. Companies in this sector operate under high environmental scrutiny, but they also face commodity price volatility, large fixed assets, regulatory pressure, and high costs of environmental compliance. These structural conditions may weaken the immediate financial benefits of ESG reporting because profitability is strongly influenced by operational scale, market cycles, asset utilization, and production costs. In such a context, ESG disclosure may improve transparency without directly improving ROA in the same reporting period. This explains why the present findings differ from studies that report positive ESG effects in broader or less capital-intensive samples, such Guo (2023), and S. Li (2026).It also supports the argument of Nuhu and Alam (2023) that sectoral characteristics shape the relationship between ESG disclosure and corporate performance. Therefore, this study contributes to the global ESG literature by showing that evidence from emerging-market energy companies may differ from findings in more diversified samples or mature capital markets.

Overall, the findings provide a more nuanced understanding of ESG reporting by distinguishing between general ESG disclosure and ESG financial materiality disclosure. General ESG disclosure appears insufficient to improve financial performance when it is not perceived as economically substantive, while financial materiality disclosure has a significant negative association with profitability because it likely reflects higher reporting and compliance costs. This distinction contributes conceptually by extending legitimacy and stakeholder theories: disclosure may strengthen accountability, but its financial effect depends on materiality, credibility, and the firm's ability to convert ESG information into operational value. At the same time, the findings reinforce trade-off theory by showing that financially material ESG disclosure can impose short-term costs in capital-intensive industries. Compared with previous studies that examine ESG disclosure as a single aggregate construct, this study offers a more differentiated perspective on how disclosure breadth and disclosure materiality relate to financial performance. The practical implication is that energy companies should prioritize ESG disclosures that are not only comprehensive but also strategically integrated with risk management, efficiency improvement, and long-term value creation. For investors, the findings suggest that ESG disclosure should be evaluated critically by considering both its informational benefits and its potential cost implications for short-term profitability.

5. Conclusion and Suggestion

This study concludes that ESG disclosure and ESG financial materiality disclosure have different implications for the financial performance of energy sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. ESG disclosure has a negative but insignificant effect on financial performance, indicating that broader sustainability reporting does not automatically improve return on assets in the short term. This finding suggests that general ESG disclosure may still function mainly as a transparency and legitimacy mechanism rather than as a direct driver of profitability. In contrast, ESG financial materiality disclosure has a negative and significant effect on financial performance, implying that the disclosure of

financially material ESG issues may create short-term financial pressure due to higher reporting, monitoring, verification, and compliance costs.

Theoretically, the findings support the relevance of trade-off theory in explaining the financial consequences of ESG reporting in capital-intensive industries. Although legitimacy theory and stakeholder theory suggest that ESG disclosure may strengthen corporate reputation, transparency, and stakeholder trust, these benefits may not be immediately reflected in accounting-based financial performance. This study also contributes to the ESG literature by distinguishing between general ESG disclosure and ESG financial materiality disclosure, which are often treated as a single construct in previous studies. Practically, the results suggest that energy companies should integrate ESG reporting with risk management, operational efficiency, and long-term strategic planning so that sustainability disclosure does not merely increase administrative costs but also supports value creation.

This study has several limitations, including the relatively short observation period, the limited sample of energy sector companies, and the use of return on assets as the only proxy for financial performance. Future research is encouraged to extend the observation period, include companies from other sectors, and use alternative financial performance indicators such as return on equity, profit margin, Tobin's Q, or market-based measures. Future studies may also include control, moderating, or mediating variables such as firm size, leverage, liquidity, audit quality, corporate governance, sustainability assurance, and capital intensity. In addition, separating ESG disclosure into environmental, social, and governance dimensions may provide deeper insights into which ESG component has the strongest influence on corporate financial performance.

6. Limitations and Future Research

This study has several limitations that should be considered when interpreting the findings. First, the observation period was limited to three fiscal years, from 2022 to 2024, so the results may not fully capture the long-term financial consequences of ESG disclosure and ESG financial materiality disclosure. Second, the sample was restricted to energy sector companies listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other sectors with different sustainability risks, reporting practices, and capital structures. Third, financial performance was measured only by return on assets, while other accounting-based and market-based indicators may provide different perspectives on corporate performance. Future research is therefore encouraged to extend the observation period, include broader industry sectors, and use alternative performance measures such as return on equity, net profit margin, Tobin's Q, or firm value. Further studies may also incorporate control, moderating, or mediating variables such as firm size, leverage, liquidity, capital intensity, audit quality, corporate governance, or sustainability assurance to provide a more comprehensive explanation of the relationship between ESG disclosure and financial performance.

7. Declaration of AI and AI-assisted technologies in the writing

During the preparation of this manuscript, the authors used AI-assisted technology to support language refinement, improve sentence clarity, enhance academic coherence, and organize several sections of the manuscript. The AI tool was used only as a writing assistance tool and did not replace the authors' intellectual contribution, research design, data collection, data analysis, interpretation of findings, or final scholarly judgment. All AI-assisted outputs were critically reviewed, revised, verified, and approved by the authors to ensure accuracy,

originality, and alignment with the objectives of the study. The authors take full responsibility for the content, validity, and integrity of the final manuscript.

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Editor Decision

1 message

Anas Iswanto Anwar <jeemba@sakurapublisher.diginus.id> Sun, June 21, 2026 at 15:16 PM
To: yanti@fe.untar.ac.id

Dear Yanti,

We have reached a decision regarding your submission to Journal of Economics, Entrepreneurship, Management Business and Accounting, "The Impact of ESG disclosure and ESG Financial Materiality Disclosure on Financial Performance: Evidence from the Indonesian Energy Sector (2022–2024)"
Our decision is to: **Accept Submission**.

Andika Isma
Editor-in-Chief, Journal of Economics, Entrepreneurship, Management Business and Accounting

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LETTER OF ACCEPTANCE

Number: 035/LOA/SDN/VI/2026

Dear Author.

We are pleased to inform you that based on the results of the peer-review process and editorial evaluation, the following manuscript has been **accepted** for publication in the Journal of Economics, Entrepreneurship, Management Business and Accounting (JEEMBA).

Article Information:

Title	:	The Impact of ESG disclosure and ESG Financial Materiality Disclosure on Financial Performance: Evidence from the Indonesian Energy Sector (2022–2024)
Authors	:	Yanti, Shandy Aurellia Renata
First Authors' Institution	:	Universitas Tarumanagara, Indonesia

Manuscript will be scheduled for publication in **Volume 4, Issue 4, July 2026**.

This letter serves as an official confirmation of the acceptance of this manuscript for publication in the Journal of Economics, Entrepreneurship, Management Business and Accounting (JEEMBA). Thank you for your consideration.

Editor-in-Chief

Andika Isma

Journal JEEMBA has been indexed in: