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**ESG and Financial Performance in Listed and Non-Listed Mining Firms SRI-KEHATI.**

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**ABSTRACT**

This study aims to analyze the relationship between Environmental, Social, and Governance (ESG) scores and Return on Assets (ROA) in mining sector companies listed and not listed in the SRI-KEHATI index. The background of this research is based on the importance of implementing sustainability principles in company operations and how these principles affect financial performance. This study uses a quantitative approach with descriptive analysis methods and two statistical tests, namely the Independent Sample t-test for the risk variable and the coefficient of variation, and the Mann-Whitney U Test for the return variable. Data was obtained from the company's annual report for the 2019-2023 period. The results show there is no significant difference in risk and return between the two groups of companies. Overall, companies listed in the SRI-KEHATI index generally exhibit higher ESG scores and more stable ROA performance compared to non-listed companies. Although these companies demonstrate strong ESG practices, the occurrence of negative ROA among several SRI-KEHATI constituents indicates that such practices alone may be insufficient to ensure profitability

**Keywords** : ESG; SRI-KEHATI; financial performance; profitability; mining companies

**ABSTRAK**

Penelitian ini bertujuan untuk menganalisis hubungan antara skor Environmental, Social, and Governance (ESG) dengan Return on Assets (ROA) pada perusahaan sektor pertambangan yang terdaftar dan tidak terdaftar dalam indeks SRI-KEHATI. Latar belakang penelitian ini didasarkan pada pentingnya penerapan prinsip keberlanjutan dalam operasional perusahaan serta bagaimana prinsip tersebut memengaruhi kinerja keuangan. Penelitian ini menggunakan pendekatan kuantitatif dengan metode analisis deskriptif dan dua uji statistik, yaitu Independent Sample t-test untuk variabel risiko dan koefisien variasi, serta Mann-Whitney U Test untuk variabel pengembalian. Data diperoleh dari laporan tahunan perusahaan periode 2019–2023. Hasil penelitian menunjukkan bahwa perusahaan yang tergabung dalam indeks SRI-KEHATI memiliki skor ESG yang lebih tinggi dibandingkan perusahaan yang tidak tergabung. Meskipun demikian, tidak ditemukan perbedaan signifikan terhadap risiko dan pengembalian antara kedua kelompok perusahaan. Secara keseluruhan, perusahaan yang terdaftar dalam indeks SRI-KEHATI umumnya menunjukkan skor ESG yang lebih tinggi dan kinerja ROA yang lebih stabil dibandingkan dengan perusahaan yang tidak terdaftar. Namun, adanya ROA negatif pada beberapa perusahaan dalam indeks SRI-KEHATI menunjukkan bahwa praktik ESG yang kuat saja tidak menjamin profitabilitas

**Kata Kunci** : *ESG; SRI-KEHATI; kinerja keuangan; profitabilitas; perusahaan pertambangan*

## **INTRODUCTION**

In recent years, global attention to sustainability issues has increased. Companies around the world are facing demands to implement Environmental, Social, and Governance (ESG) principles as part of efforts towards sustainable business practices. ESG refers to three main pillars, namely: Environmental, which covers the company's efforts to reduce negative impacts on the environment; Social, which focuses on the company's responsibility to society and employee welfare; and Governance, which relates to transparent and ethical decision-making systems and processes.

Based on data from the Central Statistics Agency (BPS) in the 2018-2022 Indonesia Energy Flow and Greenhouse Gas Emissions Balance report, the mining sector is one of the six largest emission contributors in Indonesia. The environmental impact of these emissions is enormous, making it important to immediately find more sustainable solutions in natural resource management. Human activities, such as the use of coal, petroleum, and natural gas, are the main causes of global warming (Ainurrohmah & Sudarti, 2022). The green economy concept has emerged as a solution to the challenges of climate change and environmental degradation. The green economy, as a new paradigm oriented towards environmental sustainability, has given birth to the concept of Green Investment, which is seen as an effective solution in attracting large capital support to finance development projects (Rosyid & Mulatsih, 2024).

This concept is in line with the target of Sustainable Development Goal (SDGs) No. 15, which is to protect, restore, and promote sustainable land use and prevent biodiversity loss (United Nations, 2024). As attention to sustainability issues increases, investments that pay attention to ESG values are gaining more attention in Indonesia, one of which is through the formation of the SRI-KEHATI Index (Adi Cakranegara, 2021). This index aims to identify companies that apply sustainability principles in their business operations. Companies that implement ESG tend to have a better reputation, easier access to financial resources, and can manage risks more effectively.

However, the relationship between ESG implementation and financial performance is contradictory. Some studies find that ESG implementation has a positive impact on financial performance through increased operational efficiency and reduced legal risk. On the other hand, there are also studies that show that the cost of ESG implementation can reduce short-term profitability, especially in sectors with high levels of resource intensity, such as mining. In addition, other research results show that the disclosure of Environmental, Social, and Governance has no effect on the level of profitability proxied by ROA.

The results of research by Husada, Era Vivianti Handayani (2021), and Nugroho & Hersugondo (2022) show that ESG disclosure affects Return on Asset. The results of research by Antonius & Ida (2023) and Safriani & Utomo (2020) also show that environmental, social, and governance (ESG) disclosure performance has a positive impact on the company's financial performance. Meanwhile, studies that show the opposite results are Khairunnisa & Widiastuty (2023) and Ghazali (2020). ESG has no positive and significant effect on the company's financial performance and profitability level proxied by ROA. According to Zehir & Aybars (2020) showed that there is no relationship between responsible investment and portfolio performance.

In this study, ESG and financial performance variables are added to provide a clearer picture of the extent to which ESG implementation affects the risk, return on investment and financial performance of the company. Understanding the relationship between ESG and financial performance is expected to provide benefits for stakeholders, including investors, regulators, and company management in making sustainable and long-term oriented decisions.

## RESEARCH METHOD

This type of research is quantitative research that uses two statistical test methods, namely the Independent Sample t-test and the Mann-Whitney U Test. Independent Sample t-test is used to test differences in risk variables and coefficient of variation between two groups of companies, while the Mann-Whitney U Test is used to test differences in return variables. These two methods were chosen because they are able to compare two unpaired groups and consider differences in data distribution on each variable.

In addition, this study also uses descriptive analysis to describe the Environmental, Social, and Governance (ESG) value and profitability of mining companies listed and not listed in the SRI-KEHATI index. Data is presented in the form of tables and graphs to provide a clear visualization. Furthermore, further analysis is carried out to determine the level of ESG value and profitability in both categories of mining companies.

The type of data used in this study is secondary data in the form of time series data with an annual scale. The data in this study include ROA ratio data and average ESG disclosure scores sourced from the company's website and the BGK Foundation. The sampling technique in this study used nonprobability sampling with the purposive sampling method. According to Sugiyono (2017) nonprobability sampling is a sampling technique that does not provide an equal opportunity for each member of the population to be selected as a sample, because the sample is selected based on certain criteria.

The sample selection in this study focused on mining sector companies operating in the metal and mineral industry. It includes both firms listed on the SRI-KEHATI index and those not listed during the 2019–2023 period. Companies were selected based on the availability of ESG disclosure scores averaged over the same period, ensuring consistency in ESG data. Additionally, only companies with complete financial reports for the 2019–2023 period is included.

Based on the predetermined criteria, this study analyzes mining sector companies listed in the SRI-KEHATI index and two other companies in the same sector, but not listed in the index. The list of companies used in this study is presented in the following Table 1.

**Table 1. List of Sample Mining Sector Companies Listed and Not Listed in the SRI-KEHATI Index**

Listed in SRI-KEHATI Index	Not Listed in SRI-KEHATI Index
PT. Aneka Tambang Tbk (ANTM)	PT. Bumi Resources Minerals Tbk (BRMS)
PT. Vale Indonesia Tbk (INCO)	PT. Merdeka Copper Gold Tbk (MDKA)
PT. Timah Tbk (TINS)	PT. Cita Mineral Investindo Tbk (CITA)

Source: *kehati*

## RESULTS AND DISCUSSION

In the research we have conducted regarding the level of risk, return, and coefficient of variation in mining sector companies listed and not listed on the SRI-KEHATI index during the 2019-2023 period, there is no significant difference in the three variables between the two groups of companies as displayed in Table 2.

**Table 2. The results of the difference test of risk, return, and coefficient for the 2019-2023 period**

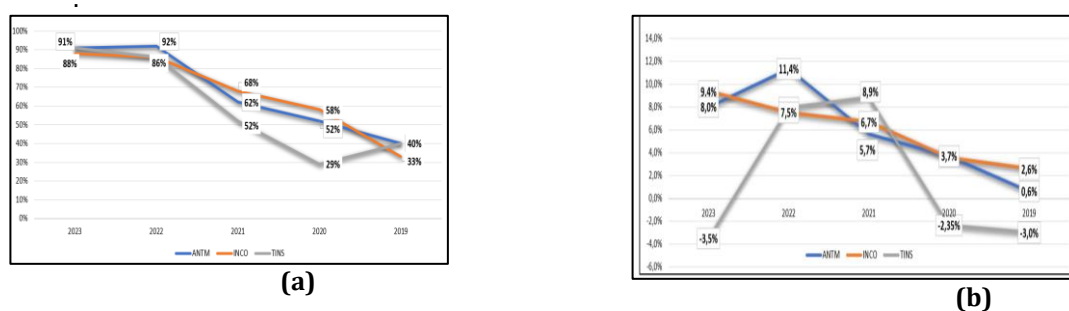
Variables	Statistical Test Methods	Sig. (2-tailed)/ Asymp. Sig. (2-tailed)	Difference Test Results
Risk	Independent Sample t-test	0,277	No difference between the risk of mining sector companies listed on the SRI-KEHATI index and those not listed.
Return	Mann-Whitney U Test	0,275	No difference between the returns of mining sector companies listed on the SRI-KEHATI index and those not listed.

Source: Output SPSS (2024)

Yasya et al., (2023) which states that there is no significant difference between the level of risk and return on the SRI-KEHATI stock index and the LQ45. Potential investors consider other factors, such as financial performance, global market conditions, and commodity price volatility in the mining sector, compared to sustainability signals shown through membership in the SRI-KEHATI index.

This study extends our previous research by focusing on analyzing the level of Environmental, Social, and Governance (ESG) values and financial performance. A comparative approach is used to understand how the level of ESG value and financial performance of mining companies listed and not listed on the SRI-KEHATI index. This research aims to provide a deeper understanding of the influence of sustainability aspects on financial performance in the mining sector.

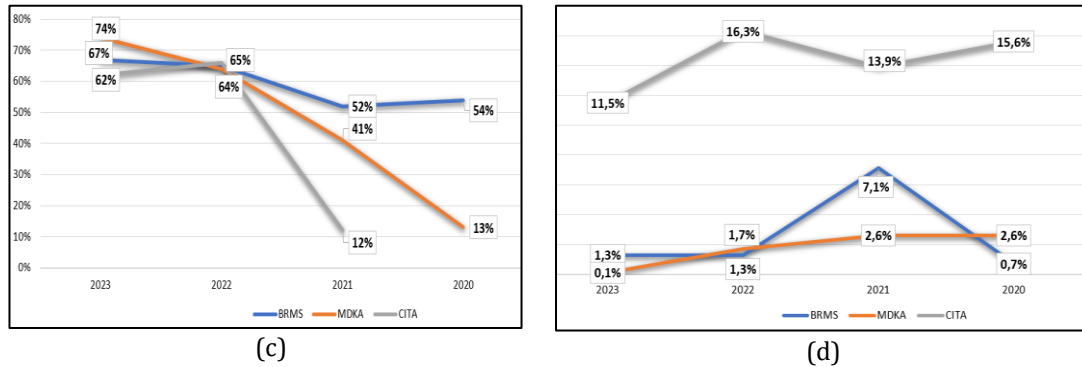
Company performance is not only measured based on profitability, but also on social and environmental responsibility. One of these assessment methods is through the Environmental, Social, and Governance (ESG) score. ESG scores reflect a company's commitment to sustainability and social responsibility. On the other hand, Return on Assets (ROA) shows the company's efficiency in utilizing assets to generate profits. This study compares the level of ESG scores and ROA ratios between companies in the mining sector indexed by SRI-KEHATI and those not indexed to understand the relationship between sustainability performance and financial performance as displayed in Fig.1 (a) & (b)



Source: bgkfoundation (a) and company financial report (b), 2024

**Figure 1. ESG Score (a) and ROA Ratio (b) of SRI-KEHATI Indexed Mining Sector**

Figure 1 shows that the average ESG disclosure score shows that the ESG scores for the three companies (ANTM, INCO, TINS) fluctuated throughout the period. The highest ESG score was achieved in 2022, where ANTM had a score of 92%, followed by INCO at 86%, and TINS at 68%. However, there was a significant decline in the following years. In terms of ROA, the ROA ratios of ANTM and INCO showed a positive trend with a peak in 2022, while TINS experienced a decline, even recording a negative ROA ratio in several years, as displayed in Fig. 2 (a) & (b).



Source: *bgkfoundation (c) and company financial report (b), 2024*

**Figure 2. ESG Score (c), ROA Ratio (d) of SRI-KEHATI Non-Indexed Mining Sector**

Figure 2 shows the average ESG disclosure score and ROA ratio for mining sector companies that are not indexed by SRI-KEHATI (BRMS, MDKA, CITA). The highest ESG score was recorded in 2023, where MDKA's ESG score reached 74%, followed by BRMS at 67% and CITA at 62%. In terms of ROA, the three companies show varying growth, with CITA recording the highest peak of 16.3% in 2022, which is higher than the indexed companies by SRI-KEHATI. However, BRMS and MDKA have lower values than most companies in the SRI-KEHATI index.

An analysis of companies listed in the SRI-KEHATI index, specifically ANTM, INCO, and TINS, reveals that their ESG scores remained relatively high in 2023, ranging between 86% and 92%. Nevertheless, these scores experienced a notable decline from previous years, particularly toward 2019, indicating challenges in consistently maintaining strong sustainability practices. In terms of financial performance, both ANTM and INCO consistently reported positive returns on assets (ROA) during the 2019–2023 period. However, TINS recorded negative ROA figures in 2019, 2020, and 2023, amounting to -3.0%, -2.35%, and -3.5%, respectively. These results suggest that while inclusion in the SRI-KEHATI index is associated with higher ESG standards, it does not fully guarantee consistent profitability across all constituent companies. Overall, listed companies exhibited relatively greater ROA stability compared to their non-listed counterparts, albeit with certain exceptions.

In contrast, companies not included in the SRI-KEHATI index, namely BRMS, MDKA, and CITA, demonstrated lower ESG scores. Despite the deterioration in ESG performance, CITA achieved remarkable financial results, with ROA peaking at 16.3% in 2022 and maintaining a high figure of 15.6% in 2023. Conversely, BRMS and MDKA recorded relatively low and volatile ROA outcomes. These findings imply that lower ESG performance does not necessarily preclude financial success; rather, companies with weaker ESG profiles may still attain substantial profitability, albeit accompanied by higher volatility and potential sustainability risks. The divergence between ESG performance and financial outcomes is more pronounced among companies not listed in the index.

Interestingly, companies not included in the index, such as CITA, recorded lower ESG scores yet achieved significantly higher ROA, particularly in 2022. This finding stands in contrast to previous research by Kusumawati & Warastuti (2020) that firms listed in the SRI-KEHATI index tend to achieve higher ROA than non-listed firms. The divergence between this study's findings and prior literature suggests that ESG performance may be insufficient as a predictor of profitability in the mining sector. Sustainability factors are not the only determinant of financial performance in this sector. External factors such as market conditions also play an important role in determining company performance.

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Other studies by Ruan & Liu (2021) and Duque-Grisales & Aguilera-Caracuel (2021) that companies ESG activities have a significantly negative impact on firm performance and companies with good ESG have low profits are mostly influenced by high input costs.

## CONCLUSION

Companies listed in the SRI-KEHATI index generally display higher ESG scores and more stable ROA performance compared to non-listed firms. However, the presence of negative ROA among certain listed companies, such as TINS, highlights that strong ESG practices alone do not assure financial profitability. Meanwhile, non-listed companies demonstrate greater variability in both ESG performance and financial outcomes, with some firms achieving notable profitability despite poor ESG scores. These observations suggest that while high ESG scores contribute to financial stability, they are not directly predictive of superior profitability. Conversely, companies with lower ESG performance may realize significant financial gains, although they are more likely to encounter heightened volatility and associated risks. The importance of integrating ESG principles into company operations as part of a long-term strategy. ESG is an indicator to create added value for stakeholders.

## RECOMMENDATIONS

Based on the findings, it is recommended that companies, particularly those aiming for long-term financial stability, prioritize the enhancement of their ESG performance. While a strong commitment to ESG may not directly guarantee higher short-term profitability, it appears to contribute to more stable financial outcomes. Firms listed on sustainability indices such as SRI-KEHATI are encouraged to continuously monitor and improve their ESG initiatives to sustain investor confidence and mitigate financial risks. Companies not currently included in such indices may also benefit from integrating ESG principles into their business strategies, thereby enhancing their corporate reputation. A high ESG score may thus serve as an indicator of a company's long-term viability rather than its immediate financial returns. Future research is warranted to explore the causal relationship between ESG improvements and financial performance over extended time horizons and across various industry sectors.

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