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THE EFFECT OF CORPORATE GOVERNANCE ON CORPORATE PERFORMANCE MEDIATED BY ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS (A STUDY OF MINING COMPANIES FROM 2020 TO 2024)

Putri Adeliya Pratiwi[1*], Dian Anita Nuswantara[2]
[1,2]Department of Accounting, Universitas Negeri Surabaya, Surabaya, Indonesia
***putri22073@mhs.unesa.ac.id**

ABSTRACT

This study aims to analyze the impact of corporate governance on the performance of mining companies in Indonesia and to examine the role of Environmental, Social, and Governance (ESG) as a mediating variable. The study population includes all mining sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using purposive sampling, a sample of 20 companies with a total of 100 observations was obtained. The data analysis techniques used were path analysis and the Sobel test to examine the mediating effect. The results indicate that, simultaneously, corporate governance (GCG), ESG, and the control variables capital structure and asset management have a significant impact on firm performance, as proxied by Return on Assets (ROA) and Return on Equity (ROE). However, GCG does not have a significant effect on either ROA or ROE. The results of the Sobel test confirm that ESG does not act as a mediating variable in the relationship between corporate governance and firm performance. This indicates that in the mining sector in Indonesia, the implementation of ESG has not yet been able to bridge the influence of corporate governance on firms' short-term profitability.

Keywords: Corporate Governance; ESG; Corporate Performance; ROA; ROE; Mining Companies.

INTRODUCTION

Corporate governance has become a central topic in discussions regarding corporate sustainability and growth in the modern era, particularly as companies are increasingly required to demonstrate transparency, accountability, and integrity in every aspect of their operations (OECD, 2020). Empirical data indicate that companies that implement sound governance principles tend to demonstrate superior performance, as evidenced by studies showing that strong governance practices can enhance profitability and firm value through improved oversight, accountability, and better access to resources in capital markets (Singh, 2025). A literature review conducted by Garrison et al. (2020) found that effective risk management and transparency in financial reporting contribute to corporate profitability growth. Companies in the mining sector, operating within their respective environments, inevitably face challenges and risks. This context underscores the critical importance of establishing sound corporate governance. Mining companies frequently face criticism, particularly regarding the environmental and social impacts of their operations, as integrated governance and stakeholder management practices have been identified as essential components of sustainability strategy in

Coresponding author
Email Address: putri22073@mhs.unesa.ac.id

extractive industries with high environmental and social consequences (Domínguez-Gómez and González-Gómez, 2021). Additionally, they are subject to various demands from stakeholders to consistently meet sustainability and transparency standards.

The progress of the globalization era requires companies not only to focus on financial profits but also to demonstrate social and environmental responsibility through the implementation of good corporate governance, as the quality of ESG disclosure, including governance aspects, has been directly linked to corporate performance in the mining sector, demonstrating that strong governance practices positively impact both operational and financial outcomes (Gultom and Rosini, 2024). Good governance encompasses the principles of transparency, accountability, and integrity in every aspect of a company's operations, which serve as fundamental pillars for companies in supporting sustainable development (OECD, 2020). Furthermore, Bagh et al. (2025) explain that higher levels of governance disclosure are significantly associated with increased firm value and operational performance, as companies with governance scores above the industry average tend to have higher market value and better performance compared to companies with low governance scores. However, although many studies indicate a significant relationship between corporate governance and performance, the results of previous research remain inconsistent.

La Porta et al. (2021) assert that not all aspects of corporate governance have the same impact on firm performance; therefore, corporate governance must be examined within a specific context. This aligns with Ciftci et al. (2019), who found that in emerging markets such as Turkey, certain governance structures such as the proportion of family members on the board or ownership composition have differing effects on measures of corporate performance, such as ROA and Tobin's Q. Thus, the effectiveness of governance mechanisms is not universal but is influenced by institutional conditions, organizational culture, and the market structure in which the company operates, particularly in the mining sector, which faces environmental pressures and diverse stakeholder expectations.

Stakeholder theory serves as a valuable addition to the relevant framework for analyzing these relationships. According to Freeman (1984), companies that take stakeholder interests into account tend to be more successful in achieving their objectives. In this context, it is important to adhere to principles that ensure ESG directly influences stakeholder satisfaction, which in turn contributes to improved financial performance. Maharani et al. (2026) further affirm that stakeholder theory provides a foundational basis for understanding how companies can align governance practices with sustainability commitments to achieve long-term corporate objectives.

Law No. 40 of 2007 on *Limited Liability Companies* contains provisions regarding the need for transparency and accountability in corporate management. One such sector is the mining industry. Mining companies in Indonesia face regulations stemming from strict environmental protection laws. Government Regulation No. 22 of 2021 on the Implementation of Environmental Protection and Management emphasizes the importance of companies' roles in preserving environmental conditions. In this regard, the implementation of ESG is not merely a requirement but also a crucial strategic step for the sustainability of company operations, as reinforced by OJK Regulation No. 51/POJK.03/2017, which mandates public companies to integrate sustainability principles and submit annual sustainability reports covering economic, social, and environmental performance.

The emergence of the *Environmental, Social, and Governance* (ESG) concept as a new variable in measuring corporate performance has disrupted the old governance paradigm, shifting attention from purely financial metrics toward a more holistic framework that evaluates corporate operations across social and environmental dimensions alongside financial performance (Warouw et al., 2024). ESG introduces a more systematic approach within a holistic framework to evaluate how companies operate

Coresponding author
Email Address: email veranialendra1@gmail.com

in social and environmental contexts, alongside financial performance, where the relationship between ESG performance and firm performance has been shown to be contextual and non-linear, varying according to firm size and industry characteristics (Chen et al., 2025). ESG principles serve as a guide for companies to continue innovating and creating long-term value, where companies that pay attention to these factors tend to perform better in the market, as a meta-analysis of over 2,000 empirical studies found that the majority of research identifies a non-negative or positive relationship between ESG and financial performance, typically mediated through risk reduction, improved reputation, and stakeholder trust (Friede et al., 2020).

Despite this growing body of evidence, there remains a notable gap in the literature regarding the role of ESG as a mediating variable in the relationship between corporate governance and firm performance (Khan et al., 2021). This raises several critical questions: Does corporate governance significantly influence the financial performance of mining companies in Indonesia, as measured by Return on Assets (ROA) and Return on Equity (ROE)? Does ESG mediate the relationship between corporate governance and firm performance? Thus, this study focuses on analyzing the influence of corporate governance on corporate performance, mediated by ESG, among mining companies in Indonesia during the 2020–2024 period. This study aims to make a relevant contribution to the academic literature regarding the importance of corporate governance and ESG, as well as their impact on sustainable corporate performance. The research findings are expected to serve as a strategic reference for stakeholders in designing more effective policies and strategies to improve corporate governance and performance.

Through research that comprehensively examines the relationships among variables, this study is expected not only to contribute to the development of theory and practice in the field of corporate governance but also to assist companies in formulating better strategies to address future challenges. Furthermore, this study is expected to strengthen the argument regarding the importance of integrating ESG into the corporate governance framework and its role in enhancing the long-term performance of mining companies.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory is a theoretical framework introduced by R. Edward Freeman in 1984 in his book titled *"Strategic Management: A Stakeholder Approach."* This theory argues that a company has responsibilities not only to shareholders but also to all stakeholders involved in and affected by the company's actions and decisions. Freeman (1984) emphasizes that understanding the interests and needs of all stakeholders involved in a company's operations is crucial for achieving sustainability and long-term success. In the context of this study, stakeholder theory serves as the theoretical foundation for understanding the relationships among corporate governance (GCG), Environmental, Social, and Governance (ESG), and firm performance as proxied by *Return on Assets* (ROA) and *Return on Equity* (ROE). Corporate governance, as the primary independent variable, represents a company's commitment to managing stakeholder relationships through the principles of transparency, accountability, and integrity (OECD, 2020). Companies that implement strong governance mechanisms are better positioned to fulfill stakeholder expectations, reduce agency conflicts, and ultimately improve their financial performance (Salim et al., 2022). This is particularly relevant in the mining sector, where stakeholder pressures from regulators, local communities, and investors are especially pronounced.

Furthermore, ESG as a mediating variable in this study reflects the extent to which a company

Coresponding author
Email Address: email veranialendra1@gmail.com

translates its governance commitments into concrete social and environmental actions that are visible to stakeholders. Khan et al. (2021) found that companies with strong ESG practices tend to enhance their reputation and attract broader investor support, which in turn positively influences financial performance. Within the stakeholder theory framework, ESG serves as the bridge between good governance and firm performance, since companies that actively respond to stakeholder demands through ESG practices are more likely to achieve stable and sustainable profitability, as reflected in ROA and ROE (Maharani et al., 2026). However, as this study also acknowledges, the effectiveness of ESG as a mediating mechanism is not automatic and depends on the contextual conditions of the industry in which the company operates (Widyawati, 2025).

Thus, stakeholder theory provides a comprehensive lens through which this study examines how corporate governance, when effectively implemented and translated into ESG practices, can contribute to improved firm performance among mining companies in Indonesia during the 2020–2024 period.

Corporate Governance

Corporate governance is a framework that governs the relationships between a company's management, board of directors, shareholders, and other stakeholders (OECD, 2020). The OECD (2020) states that good governance must focus on transparency, accountability, and integrity, all of which are essential for ensuring sustainable and responsible operations. The importance of corporate governance is inseparable from corporate social responsibility (CSR), which is also part of ESG. CSR refers to a company's commitment to making a positive contribution to the communities and environments around it(Porter and Kramer, 2021). Research shows that companies active in CSR programs have a better reputation and tend to enjoy higher customer loyalty.

In the mining sector specifically, the application of good corporate governance goes beyond legal compliance and extends to the adoption of strong ethical principles that reduce the risk of corruption and unethical business practices that could damage corporate reputation and financial performance (Garrison et al., 2020). Companies that implement strong governance mechanisms are better positioned to fulfill stakeholder expectations, reduce agency conflicts, and improve access to capital markets, ultimately contributing to stronger financial performance (Salim et al., 2022).

The Theory of Environmental, Social, and Governance (ESG) Performance

ESG helps investors and other stakeholders evaluate how a company operates beyond its financial aspects (Khan et al. 2021). With growing awareness of sustainability and social responsibility issues, ESG has become a critical component in investment decision-making. Additionally, Khan et al. (2021) also state that companies with high ESG ratings tend to demonstrate better financial performance, reflecting the importance of prioritizing sustainability in business practices.

In Indonesia, the regulatory push for ESG implementation has strengthened through OJK Regulation No. 51/POJK.03/2017, which mandates public companies to integrate sustainability principles into their core business strategies and submit annual sustainability reports covering economic, social, and environmental performance. For mining companies, ESG is particularly significant given their high environmental and social risk exposure, where strong ESG practices help reduce operational disruptions, strengthen legitimacy with local communities and regulators, and ultimately support more stable long-term financial performance (Fikru et al., 2024).

Corporate Financial Performance

A company's financial performance serves as an indicator for assessing the organization's

Coresponding author
Email Address: email veranialendra1@gmail.com

effectiveness and efficiency in achieving its objectives. According to Garrison et al. (2020), financial performance reflects the effectiveness of a company's decision-making and risk management, making performance analysis crucial for understanding the company's position and adaptability in a competitive market. One of the key indicators of financial performance is profitability, which can be measured through *Return on Assets* (ROA) and *Return on Equity* (ROE). ROA indicates a company's ability to utilize assets to generate profit, while ROE measures the return generated from shareholders' equity (Dechow et al. (2020). This means the companies with high profitability tend to have greater access to funding and investment, thereby supporting sustainable growth.

In the context of this study, ROA and ROE are used as the primary proxies for firm performance, as both indicators comprehensively reflect a company's ability to generate returns from its assets and equity within the framework of good governance and ESG implementation. In the mining sector, firm performance is also significantly influenced by the quality of risk management and asset management practices, where companies with robust systems tend to demonstrate more stable financial outcomes in high-risk operating environments (Angelina et al., 2025).

There is a positive relationship between corporate governance (X) and financial performance(Y) in mining companies in Indonesia. This main hypothesis is then broken down into sub-hypotheses based on the financial performance indicators used, namely Return on Assets (ROA) and Return on Equity (ROE), as follows:

H1a: There is a positive relationship between corporate governance (X) and Return on Assets (ROA) in mining companies in Indonesia.

H1b: There is a positive relationship between corporate governance (X) and Return on Equity (ROE) in mining companies in Indonesia.

H2: Environmental, Social, and Governance (ESG) (M) mediates the relationship between corporate governance (X) and corporate financial performance (Y) in mining companies in Indonesia.

Based on the hypotheses developed above, the conceptual framework of this study is illustrated in Figure 1.

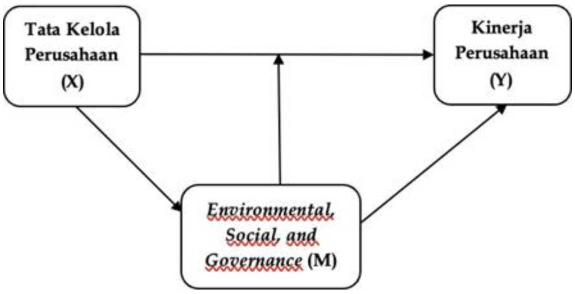

Figure 1. Research Model

RESEARCH METHOD

This study employs a quantitative research method aimed at testing and analyzing the relationships between the variables under investigation, focusing on the influence of corporate governance on corporate performance through the mediation of *Environmental, Social, and Governance* (ESG) in the mining sector. The data were obtained from annual reports and sustainability reports of mining companies listed on the *Indonesia Stock Exchange*, which include information on financial performance as well as disclosures regarding governance and ESG practices, accessed through the Indonesia Stock Exchange (2024) and the official websites of each company under the Investor

Coresponding author
Email Address: email veranialendra1@gmail.com

Relations section (PT Aneka Tambang Tbk, 2024; PT Bukit Asam Tbk, 2024; PT Adaro Energy Indonesia Tbk, 2024). ESG data were additionally obtained from sustainability reports published in accordance with regulatory requirements (Financial Services Authority, 2017).

The population in this study consists of all companies in the mining sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, with the sample determined using purposive sampling, resulting in 20 companies and 100 observations. The analytical techniques employed include descriptive statistical analysis, path analysis, hypothesis testing (t-test and F-test), mediation analysis using the Sobel test, and moderation analysis using *Moderated Regression Analysis* (MRA).

Corporate governance, as the independent variable (X), is defined as the system and structure governing the relationships between management, the board of commissioners, and stakeholders in order to enhance transparency, accountability, and corporate control. It is measured using a corporate governance score derived from governance disclosures in company reports, reflecting the principles of transparency, accountability, responsibility, independence, and fairness, as referenced from La Porta et al. (2021) and Ali et al. (2020). *Environmental, Social, and Governance* (ESG), serving as both the mediating variable (M) and moderating variable (Z), describes a company's sustainability practices encompassing environmental, social, and governance aspects. It is measured using a GRI-based ESG index derived from the level of GRI indicator disclosure in companies' sustainability reports, covering environmental aspects (GRI 300), social aspects (GRI 400), and governance aspects (GRI 200), as referenced from Khan et al. (2021) and Bocken et al. (2021). Meanwhile, corporate performance as the dependent variable (Y) indicates the company's level of success in generating profits and managing resources effectively, measured using Return on Assets (ROA) calculated as net income divided by total assets, and Return on Equity (ROE) calculated as net income divided by total equity, obtained from annual financial reports, as referenced from Lee and Choi (2021) and Friede et al. (2020). Additionally, this study includes two control variables: capital structure, measured using the Debt to Asset Ratio (DAR = Total Debt / Total Assets) following Brigham and Houston (2020), and asset management, measured using Total Asset Turnover (TATO = Sales / Total Assets) following Horne and Wachowicz (2021).

RESULT AND DISCUSSION

This studyuses a sample of mining sector companies listed onthe IDXduring the 2020-2024 period.Usingpurposivesampling,20companieswereselectedeachyearthat metthecriteria: being continuously listed, publishing complete annual and sustainability reports, and having researchdata suitable for analysis.Thus, thetotalnumber ofobservations inthisstudyis100. Descriptivestatistics are provided in Table 1.

Table1.DescriptiveStatisticalAnalysis

	AM	CS	ESG_M	GCG_X	ROA_Y1	ROE_Y2
Mean	0.787	0.7969	79.88	82.11	9.845	16.08
Median	0.75	0.80	81.00	82.50	5.65	9.65
Maximum	1.85	1.20	92.00	93.00	55.4	85.20

Coresponding author
Email Address: email veranialendra1@gmail.com

Minimum	0.30	0.52	60.00	62.00	-8.20	-15.40
Std.Dev.	0.300	0.108	7.6002	6.201816	10.966	17.279
Skewness	1.022	0.468	-0.4724	-0.7253	1.6753	1.598
Kurtosis	3.974	5.664	2.448	3.352748	6.2423	5,948
Jarque-Bera	21,373	33.239	4.9853	9.287617	90,584	78,783
Sum	78.76	79.69	7,988.0	8,211.00	984.50	1,608.0
Sumof Squares	8.9314	1.156	5,718.6	3,807.790	11,906.09	29,559.32
Observations	100	100	100	100	100	100

Source: Researcher Data, 2026

Table 1 shows that the *Asset Management* (AM) variable has a mean of 0.787 with a standard deviation of 0.300, indicating reasonably good asset management efficiency, though with notable variation across companies. *The Capital Structure* (CS) variable has a mean of 0.797 and a standard deviation of 0.108, suggesting relatively homogeneous capital structures across the sample. The ESG variable records a mean of 79.88 within a range of 60.00–92.00, while GCG has a mean of 82.11, indicating that both ESG disclosure and corporate governance implementation are at a relatively good level among sampled companies. Meanwhile, ROA and ROE record means of 9.845 and 16.08, respectively, with notably wide value ranges, reflecting significant differences in financial performance across companies and across periods. The wide standard deviations of ROA (10.966) and ROE (17.279) suggest that short-term profitability in the mining sector is highly variable, which is consistent with the sector's characteristic exposure to commodity price cycles and external market conditions (Garrison et al., 2020).

The Effect of Corporate Governance on ESG

The regression results for the effect of corporate governance on ESG are presented in Figure 2, yielding the following structural equation:

Dependent Variable: ROA_Y1
Method: Panel Least Squares
Date: 02/26/26 Time: 02:11
Sample: 2020 2024
Periods included: 5
Cross-sections included: 20
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.217772	23.20285	-0.354171	0.7240
GCG_X	0.116774	0.327368	0.356707	0.7221
DIREKSI	1.058677	0.563984	1.877141	0.0636
KOMISARIS	-1.330330	0.831465	-1.599983	0.1130
ESG_M	0.016298	0.233640	0.069758	0.9445
CS	-14.16756	12.00282	-1.180353	0.2409
AM	24.58392	2.864751	8.581520	0.0000

R-squared	0.685856	Mean dependent var	9.845000
Adjusted R-squared	0.665589	S.D. dependent var	10.96647
S.E. of regression	6.341725	Akaike info criterion	6.599608
Sum squared resid	3740.225	Schwarz criterion	6.781970
Log likelihood	-322.9804	Hannan-Quinn criter.	6.673413
F-statistic	33.84044	Durbin-Watson stat	0.664962
Prob(F-statistic)	0.000000		

Figure 2. Regression Test Results on the Impact of Corporate Governance and ESG on ROA
Source: Processed Data, 2026

Figure 2 indicates that GCG exerts the largest positive influence on ESG, suggesting that

Coresponding author
Email Address: email veranialendra1@gmail.com

improvements in corporate governance practices are associated with higher ESG disclosure scores. This finding is consistent with the theoretical argument that good governance, characterized by transparency, accountability, and integration, creates an institutional environment that encourages companies to systematically disclose and improve their environmental and social practices (OECD, 2020). The board of commissioners also shows a positive coefficient, suggesting that stronger supervisory board structures support broader ESG engagement, in line with stakeholder theory, which emphasizes that companies attentive to stakeholder expectations tend to be more successful in achieving sustainability objectives (Freeman, 1984). Conversely, *Capital Structure* and *Asset Management* show negative coefficients toward ESG, suggesting that companies with higher debt ratios or that prioritize asset utilization efficiency may allocate relatively fewer resources to ESG-related activities, as financial constraints and operational efficiency pressures may crowd out discretionary sustainability investments (Kholilah and Solikhah, 2024).

The Effect of Corporate Governance and ESG on ROA

The regression results for the effect of corporate governance and ESG on ROA are presented in Figure 3, yielding the following structural equation:

Dependent Variable: ROA_Y1
Method: Panel Least Squares
Date: 02/26/26 Time: 02:11
Sample: 2020 2024
Periods included: 5
Cross-sections included: 20
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.217772	23.20285	-0.354171	0.7240
GCG_X	0.116774	0.327368	0.356707	0.7221
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Log likelihood	-322.9804	Hannan-Quinn criter.	6.673413
F-statistic	33.84044	Durbin-Watson stat	0.664962
Prob(F-statistic)	0.000000		

Figure 3. Regression Results: Effect of Corporate Governance and ESG on ROA
Source: Processed Data, 2026

Figure 3 indicates that the simultaneous test produces an F-statistic of 33.840 with a probability of 0.000 (< 0.05), confirming that GCG, ESG, Capital Structure, and Asset Management jointly and significantly influence ROA. However, the partial test results reveal that GCG, the board of directors, the board of commissioners, ESG, and Capital Structure individually do not exert a significant effect on ROA, as each records a probability value above 0.05. Asset Management emerges as the sole variable with a significant positive effect on ROA, with a coefficient of 24.584 and a probability of 0.000. This finding reflects the critical role of operational efficiency in driving short-term profitability in the mining sector, where the ability to optimize asset utilization directly translates into higher returns on assets (Angelina et al., 2025). The non-significance of GCG at the partial level suggests that while governance structures are in place, their impact on profitability may be diluted by the dominant influence of operational and commodity-related factors that characterize the mining industry.

The mediation analysis using the Sobel test, as illustrated in Figure 2, produces a Sobel test statistic of z = 0.0697 (p > 0.05), confirming that ESG does not play a significant mediating role in the relationship between GCG and ROA. Furthermore, the moderation analysis results presented in Figure 4 yield the following equation:

Coresponding author
Email Address: email veranialendra1@gmail.com

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-87.59183	78.49232	-1.115929	0.2674
GCG_X	1.108868	0.992742	1.116975	0.2669
DIREKSI	1.116436	0.566255	1.971616	0.0517
KOMISARIS	-1.267168	0.833068	-1.521087	0.1317
ESG	1.099335	1.049508	1.047477	0.2976
GCG_ESG	-0.013313	0.012578	-1.058474	0.2926
CS	-16.13493	12.13821	-1.329268	0.1870
AM	24.76001	2.867728	8.634014	0.0000

R-squared	0.689636	Mean dependent var	9.845000
Adjusted R-squared	0.666021	S.D. dependent var	10.96647
S.E. of regression	6.337625	Akaike info criterion	6.607504
Sum squared resid	3695.225	Schwarz criterion	6.815917
Log likelihood	-322.3752	Hannan-Quinn criter.	6.691852
F-statistic	29.20369	Durbin-Watson stat	0.647316
Prob(F-statistic)	0.000000		

Figure 4. Moderated Regression Analysis: Effect of GCG on ROA Moderated by ESG
Source: Processed Data, 2026

The interaction variable GCG×ESG in Table 4 records a probability value of 0.2926 (> 0.05), confirming that ESG does not function as a moderating variable in the relationship between GCG and ROA. These results collectively indicate that in the context of Indonesian mining companies, ESG has not yet been able to bridge or strengthen the influence of corporate governance on short-term profitability as measured by ROA.

The Effect of Corporate Governance and ESG on ROE

The regression results for the effect of corporate governance and ESG on ROE are presented in Table 5, yielding the following structural equation:

Dependent Variable: ROE_Y2
Method: Panel Least Squares
Date: 02/26/26 Time: 02:20
Sample: 2020 2024
Periods included: 5
Cross-sections included: 20
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.405473	37.06345	0.172825	0.8632
GCG_X	-0.114589	0.522927	-0.219129	0.8270
DIREKSI	1.346768	0.900889	1.494933	0.1383
KOMISARIS	-1.652231	1.328154	-1.244005	0.2166
ESG_M	0.137813	0.373208	0.369265	0.7128
CS	-28.57936	19.17290	-1.490612	0.1394
AM	40.33470	4.576057	8.814291	0.0000

R-squared	0.677141	Mean dependent var	16.08000
Adjusted R-squared	0.656312	S.D. dependent var	17.27944
S.E. of regression	10.13006	Akaike info criterion	7.536320
Sum squared resid	9543.481	Schwarz criterion	7.718682
Log likelihood	-369.8160	Hannan-Quinn criter.	7.610126
F-statistic	32.50863	Durbin-Watson stat	0.740820
Prob(F-statistic)	0.000000		

Figure 5. Regression Results: Effect of Corporate Governance and ESG on ROE
Source: Processed Data, 2026

Figure 5 indicates that the simultaneous test produces an F-statistic of 32.509 with a probability of 0.000 (< 0.05), confirming that the model as a whole significantly explains variations in

Coresponding author
Email Address: email veranialendra1@gmail.com

ROE. Partially, *Asset Management* again emerges as the only variable with a significant positive effect on ROE, with a coefficient of 40.335 and a probability of 0.000, while GCG, the board of directors, the board of commissioners, ESG, and *Capital Structure* do not show significant partial effects. The negative coefficient of GCG toward ROE is noteworthy, suggesting that in certain configurations, higher governance scores may be associated with lower equity returns, possibly because companies with more rigorous governance structures incur higher compliance and monitoring costs that compress short-term equity returns, a pattern also observed by Kholilah and Solikhah (2024) in Indonesian listed companies. The Sobel test result illustrated in Figure 3 produces a statistic of $z = 0.369$ ($p > 0.05$), confirming that ESG does not significantly mediate the relationship between GCG and ROE, consistent with the ROA findings.

DISCUSSION

The Effect of Corporate Governance on Company Performance

Based on the results of hypothesis testing and additional analyses conducted, the corporate governance variable, proxied by GCG, generally does not have a significant effect on firm performance as measured by ROA and ROE. This suggests that the presence of a corporate governance structure does not necessarily translate into a direct improvement in financial performance. In other words, the implementation of corporate governance in the mining sector has not yet been optimal in driving corporate performance effectiveness. This finding is consistent with La Porta et al. (2021), who assert that not all aspects of corporate governance have the same impact on firm performance, and that the effectiveness of governance mechanisms is not universal but is instead shaped by institutional conditions, organizational culture, and the market structure in which the company operates.

The non-significant result may be attributed to several factors. First, the mining industry tends to be more strongly influenced by external factors such as commodity price fluctuations, government regulations, and global market conditions, which diminish the relative dominance of governance mechanisms in determining short-term financial performance. When commodity prices rise, mining companies may record high profits regardless of the quality of their governance practices, and conversely, even well-governed firms may suffer financial losses during periods of commodity price decline. This structural characteristic of the sector means that ROA and ROE, as short-term profitability proxies, may not be sensitive enough to capture the long-term value created by governance improvements. Second, a high governance score does not necessarily reflect the quality of effective decision-making in practice. Governance disclosures in annual reports may reflect formal compliance rather than substantive implementation, meaning that companies can achieve high governance scores without necessarily applying governance principles in ways that meaningfully improve operational and financial outcomes (Garrison et al., 2020). Third, in the context of Indonesian mining companies, Ekawati and Pasaribu (2025) found that while good corporate governance and intellectual capital do influence organizational performance, the magnitude and direction of the effect depend heavily on the specific governance mechanisms examined and the period of observation. This further supports the argument that governance effectiveness in the mining sector requires contextual analysis rather than a generalized assessment. Taken together, these findings suggest that corporate governance, while important as a structural foundation, may require complementary factors, such as operational efficiency, asset management, and sustainability practices, to meaningfully translate into improved short-term financial performance.

The Role of ESG as a Mediator in the Effect of Corporate Governance on Firm Performance

Coresponding author
Email Address: email veranialendra1@gmail.com

The results of the mediation analysis using the Sobel test indicate that ESG does not play a significant role as a mediator between the corporate governance (GCG) variable and either ROA or ROE. These findings suggest that although GCG and corporate board structure may influence the level of ESG disclosure, the direct impact of ESG on short-term financial performance remains weak in the sample of mining companies studied. The results of the moderation test further confirm that ESG is unable to strengthen the relationship between corporate governance and firm performance, as indicated by the non-significance of the interaction variable between GCG and ESG in the MRA model.

Several explanations can be offered for these results. First, the relationship between ESG and financial performance is contextual and non-linear, varying according to firm size, industry type, and the time horizon examined (Widyawati, 2025). In the short term, ESG investments, particularly in environmental compliance and social programs, may actually increase operational costs without immediately generating proportional financial returns, especially for mining companies that are required to allocate significant resources to environmental remediation and community development programs. This cost burden may suppress ROA and ROE in the near term, masking any potential long-term value creation from ESG practices. Second, the quality and consistency of ESG measurement remain a challenge. As Fikru et al. (2024) note in their study of ESG ratings in the mining industry, ESG scores are often influenced by the quality of disclosure rather than actual sustainability performance, meaning that companies with high ESG disclosure scores may not necessarily have superior sustainability outcomes that translate into financial gains. This gap between ESG reporting and ESG substance weakens the mediating pathway from governance to performance. Third, Naeem et al. (2022) found that the impact of ESG performance on financial outcomes differs significantly between emerging and developed markets, with companies in emerging markets such as Indonesia generally showing weaker ESG-performance linkages due to less mature investor expectations, limited institutional enforcement of sustainability standards, and lower market premiums for ESG compliance. This structural market condition limits the ability of ESG to function as an effective mediating mechanism in the Indonesian mining sector. Finally, while theoretically stakeholder theory predicts that ESG practices should increase stakeholder trust and thereby improve financial performance (Freeman, 1984; Khan et al., 2021), the practical realization of this pathway depends on the maturity of ESG implementation within the firm. In the Indonesian mining sector during the 2020–2024 period, ESG practices appear to be at a relatively early stage of integration, where companies are still in the process of building the institutional capacity needed to convert governance commitments into ESG actions that are substantive enough to influence financial outcomes. This indicates that the mediating role of ESG between corporate governance and firm performance may become more pronounced over a longer observation period as ESG implementation matures and as market and regulatory pressures continue to intensify.

CONCLUSION

Based on research on the influence of corporate governance on the performance of mining companies and the role of ESG as a mediating variable, it can be concluded that corporate governance variables such as GCG, the number of directors, and the board of commissioners tend to influence company performance as measured by ROA and ROE. However, among the control variables, only Asset Management was found to have a significant effect on company performance, while GCG did not show a significant effect. Furthermore, the results of the mediation analysis using the Sobel test indicate that ESG does not act as a significant mediator in the relationship between corporate governance and firm performance, in either the ROA or ROE models. Thus, although corporate governance has the potential to influence firm performance, the role of ESG as a mediating variable has not been proven to

Coresponding author
Email Address: email veranialendra1@gmail.com

be significant in the mining companies included in the study sample.

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Coresponding author
Email Address: email veranialendra1@gmail.com

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Coresponding author
Email Address: email veranialendra1@gmail.com