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Sustainability disclosure and mining company values

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Abstract

Purpose & object:
This study aims to examine the effect of sustainability disclosure on firm value in mining companies listed on the Indonesia Stock Exchange during the period 2021-2023. This study provides a theoretical contribution by linking sustainability disclosure practices with signalling theory and legitimacy theory in the context of the mining sector in Indonesia.
Method:
This research uses a quantitative approach with an explanatory method. The sample was selected purposively and consisted of mining companies that published annual and sustainability reports. The number of samples used was 101 samples. Data analysis was conducted with multiple regression using the variables Sustainability Disclosure Index (SDI), company size (SIZE), company age (AGE), and profitability (ROA).
Results & Conclusion:
The results show that sustainability disclosure has a positive and significant effect on firm value, accompanied by the significant effects of firm size and profitability. These results are consistent with signalling theory, where sustainability disclosure serves as a credible signal to stakeholders, reducing information asymmetry. This study emphasises the need for a better regulatory framework to encourage comprehensive sustainability disclosure.
Limitations:
This study only focuses on the mining sector and uses specific data from the 2021-2023 period, which may limit the generalisability of the results.
Implications:
The results emphasise the importance of a stronger regulatory framework to encourage comprehensive sustainability disclosures. Further research could expand the sector coverage and examine the long-term implications.

Keywords: Firm Value, Sustainability Disclosure, Size, Age, ROA

Abstract

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This study aims to examine the effect of sustainability disclosure on corporate value in mining companies listed on the Indonesia Stock Exchange during the 2021-2023 period. This research makes a theoretical contribution by linking the practice of sustainability disclosure with signal theory and legitimacy theory in the context of the mining sector in Indonesia.
Methods:
This study uses a quantitative approach with the explanatory method. The sample was selected purposively and consisted of mining companies that published annual and

sustainability reports. The number of samples used was 101 samples. Data analysis was carried out by multiple regression using the variables Sustainability Disclosure Index (*SDI*), company size (*SIZE),* company age (*AGE*), and profitability (*ROA*).

Results & Conclusions:

The results of the study show that sustainability disclosure has a positive and significant effect on company value, accompanied by a significant influence on company size and profitability. These results are consistent with signal theory, where sustainability disclosure serves as a credible signal to stakeholders, reducing information asymmetry. The study emphasizes the need for a better regulatory framework to drive comprehensive sustainability disclosure.

Limitations:

The study only focused on the mining sector and used specific data from the 2021-2023 period, which may limit the generalization of results.

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1. Introduction

In recent decades, the concept of *sustainability* has developed into one of the main issues in the business world, especially for companies operating in the mining sector. The mining sector, as a sector with significant environmental, social, and economic impacts, faces great pressure from governments, communities, and investors to increase transparency and accountability in its operations (Bose et al., 2024; Kansal et al., 2014; Li et al., 2017; Muttakin & Khan, 2014). One way to meet these expectations is through *sustainability disclosure*, which is the disclosure of information related to the company's performance in environmental, social, and governance (ESG) aspects (Dase et al., 2024).

The current phenomenon shows that many mining companies in Indonesia are still not fully transparent in their sustainability disclosures. Although there has been an increase in ESG disclosure at the global level, in Indonesia, this practice is still relatively new and its application is not evenly distributed (Hao, 2024; Li et al., 2017). In addition, regulations regarding sustainability disclosure, such as the Financial Services Authority (OJK) regulation that requires public companies to disclose sustainability reports, add urgency for companies to comply with these standards (Muttakin & Khan, 2014).

Previous research has shown that sustainability disclosures can increase a company's value. This is mainly due to increased transparency which can reduce information asymmetry between management and investors, as well as increase trust from stakeholders (Dase et al., 2024; Li et al., 2017; Mensah et al., 2024). For example, research by Li et al. (2017) shows that companies that make thorough ESG disclosures tend to have higher corporate values because they receive positive assessments from investors and the public (Li et al., 2017). In addition, research by Velte et al., (2020) found that carbon disclosure can reduce information asymmetry and improve a company's financial performance.

However, there is still a *research gap* in the literature regarding the effect of sustainability disclosure on company value, especially in the mining sector in Indonesia. Many studies have been conducted in developed countries or in other sectors, but few studies specifically analyze the mining sector in Indonesia. For example, research by Kansal et al., (2014) in India, it found that company size and corporate reputation are key factors in CSR disclosure, but did not specifically address the role of regulation in driving disclosure in the mining sector. Similarly, Muttakin & Khan (2014) in Bangladesh revealed that family ownership can influence corporate social disclosure, but this research is limited to the context of developing countries different from Indonesia.

In addition, there is a gap in understanding the role of applicable regulations and standards in encouraging sustainability disclosure in Indonesia. As mentioned by Hao (2024), disclosure regulations can affect a company's cost of capital and value, especially when companies are forced to disclose more information. One of the regulations in Indonesia is the *Financial Services Authority Regulation* (POJK) *No. 51/POJK.03/2017* The implementation of sustainable finance has required companies to prepare sustainability reports, but their impact on company value has not been studied in depth.

The role of sustainability disclosure in the mining sector is particularly important because mining companies operate in environments that are prone to environmental problems such as forest degradation, water pollution, and air pollution (Kansal et al., 2014; Mensah et al., 2024). With pressure from global stakeholders, such as *the United Nations Sustainable Development Goals (SDGs),* and demands from local communities, mining companies are required to increase transparency in their operations. Sustainability disclosure can be an important tool for mining companies to gain the trust of the public and regulators, while also improving their competitiveness in the market (Bose et al., 2024; Mensah et al., 2024).

This research is relevant because there is an urgent need to evaluate the extent to which sustainability disclosures made by mining companies in Indonesia affect the company's value. In the context of increasingly stringent regulations and increasing public awareness of environmental issues, mining companies are expected to not only operate responsibly but also be transparent in reporting their environmental and social impacts (Bose et al., 2024). Therefore, this study focuses on analyzing the impact of sustainability disclosure on the value of mining companies listed on the Indonesia Stock Exchange, with the hope of providing deeper insights into the importance of this disclosure in sectors that are highly affected by sustainability issues.

Thus, this research not only aims to fill the limitations of existing research, but also contributes to the literature on sustainability disclosure in the mining sector, especially in Indonesia. This research is also expected to help mining companies in understanding the importance of sustainability disclosure as part of a strategy to increase company value in the eyes of stakeholders (Bose et al., 2024; Kansal et al., 2014; Mensah et al., 2024).

2. Literature Review

2.1 *Signaling theory*

Signaling theory refers to how the party with more information (the signal sender) uses the signal to convey information to the party with less information (the signal receiver) (Spence, 1973). In the context of sustainability disclosure by mining companies, it can be considered as a signal to investors that the company is committed to sustainability practices. This helps reduce information asymmetry between management and investors. Spence highlights that the effectiveness of a signal depends on the credibility and cost of signaling. In the case of sustainability disclosures, the costs associated with ESG (*Environmental, Social, Governance*) reporting can be considered a company's attempt to provide a credible signal. Only companies that are truly committed will bear these costs so that these signals are considered valid by investors.

Sustainability disclosure serves as a tool to build investor confidence in the company's stability and prospects which can increase the company's market value. In this theory, managers tend to have more information about the company's performance than owners or investors. Sustainability disclosure provides transparent and accurate information about a company's social and environmental impact as one of the company's ways in minimizing the occurrence of information asymmetry (Hao, 2024; Li et al., 2017).

2.2 *Sustainability disclosure*

Sustainability disclosure has become an important concern in the business world, especially in sectors that have a significant impact on the environment and society, such as the mining sector. Sustainability disclosure is the process by which companies transparently report on environmental, social, and governance (ESG) impacts in their operations. This disclosure is usually made in the form of a sustainability report, which covers aspects such as carbon emissions, resource use, social impact, and good governance (Li et al., 2017; Muttakin & Khan, 2014). Various literatures have shown that sustainability disclosures can improve a company's reputation and attract investors' attention. For example, research by Li et al., (2017) found that companies with good ESG disclosures have higher corporate value due to increased trust and transparency to stakeholders. In addition, Dase et al., (2024) show that good sustainability disclosure can serve as a risk mitigation tool for companies, ultimately increasing the company's attractiveness to long-term investors.

Research on sustainability disclosure also links this practice to legitimacy theory and stakeholder theory. According to the theory of legitimacy, companies will obtain a "social license" to operate if they are able to meet societal expectations regarding their social and environmental responsibilities (Li et al., 2017; Muttakin & Khan, 2014). Meanwhile, stakeholder theory focuses on the importance of maintaining good relationships with various interested parties, such as consumers, investors, local communities, and the government (Kansal et al., 2014). Sustainability disclosure, according to this theory, is an important tool for building and maintaining such relationships, as it allows stakeholders to assess the extent to which companies pay attention to their interests.

The mining sector needs to make sustainability disclosures because of the nature of the company's operations that greatly affect the environment. The industry is at high risk of environmental damage and social problems, such as water pollution, deforestation, and evictions of local communities (Kansal et al., 2014; Mensah et al., 2024). Therefore, transparent disclosure of the operational impact of mining companies is essential to maintain public trust and reduce the risk of negative reputation (Li et al., 2017; Muttakin & Khan, 2014).

2.3 Sustainability disclosure regulations and standards in Indonesia

One of the regulations related to sustainability disclosure implemented in Indonesia is the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017. The regulation requires public companies to prepare sustainability reports (Hao, 2024). The regulation encourages company management to increase corporate social and environmental responsibility to increase corporate transparency and accountability in terms of sustainability. However, the implementation of this regulation still faces several challenges. Regulations on disclosure can affect a company's cost of capital. While good disclosure can lower the cost of capital because it increases investor confidence and there is also a risk that inadequate disclosure actually increases the risk and cost of capital (Hao, 2024). Therefore, it is important for mining companies to not only comply with regulations but also ensure that the disclosures made are of high quality and relevant to stakeholders.

Sustainable Development Goals (SDGs) play an important role in increasing the value of the company. Companies that actively express their commitment to the SDGs, including in the mining sector, tend to gain greater trust from investors and other stakeholders (Bose et al., 2024). With stricter regulations and increasing demands from stakeholders, sustainability disclosure is no longer just an obligation, but an important strategy to increase company value and maintain public trust. This is especially important for mining companies in Indonesia operating in an environment that is highly affected by social and environmental issues (Bose et al., 2024; Mensah et al., 2024).

2.4 The effect of sustainability disclosure on Firm Value

The relationship between sustainability disclosure and firm value has been widely studied in the literature. The value of a company is measured by Tobin's Q, which reflects the comparison between the market value of a company's assets and its replacement costs (Dase et al., 2024; Li et al., 2017). Several studies have shown that sustainability disclosure can increase a company's value by reducing information asymmetry between management and stakeholders and increasing company transparency (Li et al., 2017; Velte et al., 2020). Research by Velte et al., (2020) shows that carbon disclosure has a positive influence on a company's financial performance because this disclosure can increase investor confidence and reduce risks related to environmental uncertainty. In addition, research in India found that company size and corporate reputation are significant factors in CSR disclosures, and those disclosures have a positive impact on company value (Kansal et al., 2014).

Sustainability disclosure also plays an important role in reducing reputational risk. Companies with greater media exposure tend to be more proactive in disclosing their social responsibilities. This shows that companies that are under stricter public scrutiny feel compelled to increase transparency in order to maintain their social legitimacy (Reverte, 2009). In addition, disclosures in the mining sector related to biodiversity and nature conservation can affect public perception of companies that can increase or decrease the value of companies (Mensah et al., 2024). Based on a review of previous theories and research, the conceptual framework of this research proposes a positive relationship between sustainability disclosure and corporate value. The disclosure of sustainability to the company's value can be described as follows:

H1 = Sustainability disclosure has a positive effect on the value of mining companies in Indonesia.

3. Research Method

The study uses a quantitative approach with the aim of examining the effect of sustainability disclosure on the value of mining companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2023 period. The research method used is explanatory research with a focus on the causal relationship between independent variables (*sustainability disclosure*) and dependent variables (company value). Data analysis was carried out using the Eviews application. The research population is all mining sector companies listed on the IDX in the 2021-2023 period. Purposive sampling is used in sample selection with the following criteria:

1. Mining companies listed on the IDX in 2021-2023.
2. The company's sustainability report and year-end report are available and accessible.
3. Complete company data related to the variables studied, including relevant financial statement data.

The model in the study using multiple regression analysis is as follows:

$FV_{it} = \alpha + \beta_1 SDI_{it} + \beta_2 SIZE_{it} - \beta_3 AGE_{it} + \beta_4 ROA_{it} + \varepsilon$

The dependent variable of the study is *FV* (*Firm Value*) and the independent variable is *SDI* (*Sustainability Disclosure Index*). The control variables are *SIZE* (Company Size), *AGE*

(Company Age), and *ROA* (*Profitability*). The measurement of these variables is presented in the following table 1:

Tabel.1 Variable Operations

Variable	Definition	Measurement
Variable Dependencies		
Firm Value	A measure that reflects the market's perception of a company's overall value	$\text{Tobin's Q} = \frac{(\text{Stock price x Number of Shares outstanding}) + \mathit{Total\ Libilities}}{\mathit{Total\ Assets}}$ (An et al., 2025)
Independent Variables		
Sustainability Disclosure Index	Corporate ESG disclosure index	$SDI = \frac{\text{ESG disclosed}}{\text{Total ESG disclosure items}}$ / (An et al., 2025)
Control Variables		
Company Size (SIZE)	This variable describes the size of the company	SIZE = Logarithm of the total natural assets of the company. (Santoso & Setiawan, 2024)
Company Age (AGE)	This variable describes the age of the company	AGE = Research year-year of the company's establishment (Octavio & Setiawan, 2024)
Profitability (ROA)	This variable describes the extent to which the company uses its total assets to make a profit	ROA = Net Profit (Loss) / Total Assets

Source : research results

4. Results and Discussion

4.1. Results

Descriptive statistics for all variables are presented in Table 2. The average percentage of the sustainability disclosure index (*SDI*) is 50%, indicating that the disclosures made by mining companies over the past 3 years have not fully optimized the disclosure of the company's sustainability information. There are several factors that cause disclosure to not be carried out optimally such as a low level of compliance with sustainability reporting standards, lack of strict regulations, or obstacles in the implementation of such reporting as shown in Table 2, a total of 101 observations. The company size variable (*SIZE)* showed an average value of 29.59 and a standard deviation *of SIZE* of 1,754 showed that the size of mining companies in the sample was quite diverse, including companies with small to very large assets. Company size is often considered to affect a company's behavior and performance, including sustainability disclosures. Large companies typically have more resources to meet sustainability standards, so they can be more transparent in their reporting. The company age variable (*AGE*) shows an average value of 15 years, meaning that most of the companies in the study sample have been established for more than a decade with a sufficient level of operational stability.

Older companies tend to have more experience and resources to meet sustainability reporting standards, so they may have higher *SDI* scores. Older companies usually have a better reputation and trust from stakeholders, which has the potential to increase the company's value. The profitability variable (ROA) has an average value of 12.96%, indicating that in general, the mining companies in the sample have a good level of profitability, indicating the company's ability to generate profits from assets. However, the existence of a minimum value of -41.06% indicates that some companies are experiencing losses, likely due to fluctuations in commodity prices (coal & oil), high operating expenses and decreased demand or poor efficiency.

Tabel.2 Descriptive Statistics

Variabel	Mean	Minimum	Maximum	Std. Dev.
FV	1.478547	0.001726	4.858824	1.009654
SDI	49.83396	5.13	81.58	18.79669
SIZE	29.59146	24.9948	32.70868	1.754781
AGE	15.56436	1	34	9.907993
ROA	12.96751	-41.06	61.76	16.20992

Source : Eviews

In this study, several tests were carried out to answer the hypothesis proposed. The initial test carried out is to determine the choice of regression model between *the Common Efect Model* (CEM) or *Fixed Effect Model* (FEM) and *the Chow test*. Next, a regression model was selected between *the Common Efect Model* (CEM) or *the Random Effect Model* (REM) with the *Breusch Pagan Lagrange Multiplier* (LM) test. Based on the *Chow test*, the probability value in *Cross-section F* shows a prob of > 5% and H0 is declared accepted, so the panel model selected is *the Common Efect Model*. Then the LM test also showed the results that the selected model was a *Common Efect Model* because the value *of Prob* < chibar2 > 5% in the LM test. CEM may be a better option to avoid estimation bias (Gujarati, 2012). The regression results are presented in the following table:

Tabel.3 *Chow and LM Test Results*

Chow test	**Statistic**	**d.f.**	**Prob.**
Cross-section F	1.369036	(47,49)	0.1394
Cross-section Chisquare	84.699947	47	0.0006

Lagrange Multiplier (LM) test	***Test Hypothesis***		
	Crosssection	Time	Both
Breusch-Pagan	2.04287	0.784662	2.827532
	-0.1529	-0.3757	-0.0927

Source : Eviews

Prob < F = 0.1394 Prob < chilbar^2 = 0.1529

The multicollinearity test was carried out to ensure that the regression model did not have a high linearity relationship. The correlation value between the variables presented in Table 4 does not exceed 0.9. It can be concluded that the data in this study does not experience multicollinearity (Ismanto & Pebruary, 2021).

Tabel. 4 Results of Correlation Analysis

	FV	*SDI*	*SIZE*	*AGE*	*ROA*
FV	1				
SDI	0.19	1			
SIZE	-0.18	0.56	1		
AGE	-0.20	0.34	0.33	1	
ROA	0.45	0.35	0.09	-0.11	1

Source : Eviews

The coefficient for *the SDI variable* shows a positive number which means that the percentage of disclosure is able to increase the value of the mining company. Based on the results of the F test in the Table. 5 indicates that the significance value shows a value smaller than the significance level (0.00 < 0.05). The Adj R2 value shows a value of 0.28 or 28%, the value of a mining company is influenced by the disclosure of sustainability, company size and profitability of the company. Furthermore, 72% is influenced by other variables.

Tabel. 5 F-Test and Coefficient of Determination

Description	Value
R-squared	0.306847
Adjusted R-squared	0.277966
S.E. of regression	0.857929
Sum squared resid	70.66
Log likelihood	-125.272
F-statistic	10.62441
Prob(F-statistic)	0.00000

Source : Eviews

Based on some of the tests described earlier, the *Common Efect Model* (*CEM*) is a qualified regression model that can be used in research. The results of *the CEM* regression presented in Table 6 can be seen that the independent variable (sustainability disclosure/*SDI*) has a significant effect on the dependent variable (company value). The test results show that the calculated t-value is greater than the t-table (2.630191 > 1.9842) and the SDI significance *value* of 0.0099 is smaller than the significant level (α = 5%). In addition, the control variable also had an influence on the company's value, namely the size of the company with a significance value of 0.0025 and profitability of 0.0003 below the significant level (α = 5%).

Tabel.6 Regression results *Common Effect Model (CEM)*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SDI	0.016134**	0.006134	2.630191	0.0099
SIZE	-0.18711**	0.060197	-3.10829	0.0025
AGE	-0.01594	0.009641	-1.65315	0.1016
ROA	0.022236**	0.005877	3.783628	0.0003

Source : Eviews

Note: This table presents regression results that use the *Common Effect Model* All variables are defined in Table 1. *, **, ***, showed significance at 10%, 5%, and 1%, respectively.

The test results prove that the value of mining companies in Indonesia is partly influenced by the percentage of sustainability disclosure in the company's annual report and sustainability. In terms of increasing corporate legitimacy by increasing transparency, companies are able to reduce the level of information asymmetry from stakeholders (Dase et al., 2024; Li et al., 2017; Mensah et al., 2024). The positive and significant relationship between SDI and company value confirms the application of signal theory. A high SDI score reflects proactive ESG practices, increasing investor confidence and the company's reputation. These findings are in line with previous research highlighting that good sustainability disclosure can reduce risk and improve financial performance (Li et al., 2017; Velte et al., 2020). Control variables such as the size of the company and the level of propriety of the company affect the value of the company.

Large companies tend to have broader sustainability disclosures, in line with the theory of legitimacy. The company faces public scrutiny and higher regulatory expectations, prompting them to adopt transparent ESG reporting practices. These findings are consistent with research by Mensah et al. (2024), which states that company size significantly affects ESG reporting practices. The positive influence of profitability on company value highlights the role of financial stability in supporting sustainability initiatives. Profitable companies are in a better position to adopt and disclose sustainability initiatives to increase market valuations. The results of the study support previous research which states that sustainability disclosure has a positive influence on company value, can improve company reputation, stakeholder trust and is able to reduce and mitigate risks (Li et al., 2017; Mensah et al., 2024; Ameer & Othman, 2012; Carvajal & Nadeem, 2023; Dase et al., 2024; Helfaya et al., 2023; Li et al., 2017; Liu et al., 2024; Malik & Kashiramka, 2024).

4.2. Discussion

The findings of this study highlight the positive influence of sustainability disclosure on the value of companies in Indonesia's mining sector. The results shown by the regression analysis stated that the *Sustainability Disclosure Index (SDI*) significantly increased the company's value. This reflects the importance of transparent environmental, social, and governance (*ESG*) practices in corporate management to increase company value. This role is able to minimize information differences among *stakeholders*. These results are in line with the theory of legitimacy which states that companies gain social trust by meeting stakeholder expectations through sustainability practices (Li et al., 2017; Muttakin & Khan, 2014).

This study improves the theoretical understanding of sustainability disclosure by integrating signal theory and legitimacy theory in the context of the mining sector in Indonesia. Based on signal theory, sustainability disclosure serves as a mechanism for companies to communicate their commitment to environmental, social, and governance (ESG) practices. This commitment provides a signal of credibility and reduces information asymmetry between management and stakeholders. In addition, the theory of legitimacy explains how mining companies adapt their practices to society's expectations of maintaining a "license to operate."

This study reinforces the findings in the previous literature which stated that the size of a company seen from the size of the total assets owned tends to reveal a broader sustainability report (Mensah et al., 2024). These companies benefit from increased investor confidence and reduced information asymmetry. The positive impact of profitability (*ROA*) on company value also shows that financially strong companies are in a better position to adopt and disclose sustainability initiatives to increase the company's market valuation.

However, challenges related to sustainability disclosure will still exist. This can be seen in the *SDI* value which has a relatively low average score (49.83%). Based on these results, there is a need for stricter regulatory enforcement and capacity building to improve sustainability practices across industries. This finding is consistent with Hao (2024) who emphasizes the role of regulations applied related to disclosure in improving the performance and legitimacy of *company stakeholders*. While regulatory frameworks such as POJK No. 51/POJK.03/2017 provide a strong foundation, their practical implementation requires stronger monitoring mechanisms. By addressing this gap, companies can be better aligned with the global Sustainable Development Goals (SDGs) thereby increasing the company's competitive advantage and long-term value creation.

5. Conclusion

This study confirms the significant impact of sustainability disclosure on firm value in the Indonesian mining sector. Higher levels of transparency in environmental, social and governance practices contribute positively to a firm's market valuation by fostering stakeholder trust and reducing information asymmetry. Factors such as company size and profitability also play an important role in determining the level and impact of sustainability disclosures. These findings underscore the need for enhancing the regulatory framework and encouraging the practice of sustainability disclosure comprehensive sustainability to bridge the current gap in disclosure quality. The results of this study contribute to the sustainability disclosure literature by highlighting specific challenges and opportunities in Indonesia's mining sector. By strengthening sustainability disclosure practices, mining companies can not only comply with regulatory requirements but also gain a strategic advantage in achieving sustainable growth and aligning with global sustainability standards.

Mining companies in Indonesia should improve SDI practices to improve stakeholder perception and align with global sustainability standards. The study emphasizes the importance of stricter regulatory enforcement and monitoring mechanisms to ensure compliance with sustainability reporting standards. The research is limited to the mining sector so the results may not be generalizable to other sectors so it does not describe the long-term effects of sustainability disclosures. Future research should explore the long-term implications of sustainability disclosures on corporate performance in various industry sectors, particularly in developing countries such as Indonesia.

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