



FINANCIAL PERFORMANCE AND ESG SCORES IN MINING-INDUSTRIAL FIRMS DURING COVID-19

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Abstract

Introduction: Environmental, Social, and Governance (ESG) performance gained prominence during COVID-19, yet whether internal financial fundamentals shape sustainability commitments remains debated. This study examines ESG scores as a function of profitability (ROA), solvency (DER), and liquidity (CR) in crisis conditions.

Methods: Using panel data from 10 mining and industrial firms listed on the Indonesia Stock Exchange during 2020–2021, this study applies Random Effect Model regression with dummy and interaction terms to capture sectoral differences.

Results: ROA, DER, and CR have no significant simultaneous or partial effect on ESG scores (Adj. $R^2 = 13.48\%$). Liquidity shows the strongest positive association. Profitability exhibits a weak positive tendency in mining but weak negative in industrial firms, though differences are statistically insignificant.

Discussion: ESG commitments during the pandemic were not driven by financial performance, suggesting stronger influence from external pressures and non-financial factors. Sector-specific contexts should inform future ESG strategies.

Keywords: ESG Score; ROA; DER; CR; COVID-19

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A. INTRODUCTION

Global awareness of sustainability has shifted the business orientation from just achieving short-term profits to creating long-term value through the implementation of Environmental, Social, and Governance (ESG). ESG is now a crucial instrument for investors in assessing a company's non-financial risks that are not captured in traditional financial statements. Companies that focus on material ESG issues show superior accounting and market performance over their competitors (Khan et al., 2016). Di Indonesia, this encouragement is strengthened by the Financial Services Authority (OJK) through POJK No. 51/2017 which requires sustainability reporting for issuers, in order to create a resilient sustainable financial ecosystem. However, during the pandemic, Companies face a dilemma between allocating resources for operational efficiency or for sustainability investments whose results can only be felt in the long term (Pratama, 2024).

However, a company's commitment to ESG standards often comes at the expense of limited financial resources. Based on Slack Resources Theory, companies need reserve funds to fund sustainability projects that require large initial investments, idle resources being crucial in explaining how companies fund ESG initiatives. Profitability is a decisive factor that provides flexibility for management to invest in social and environmental activities without disrupting core operations (Li et al., 2021). Without adequate profitability, companies tend to prioritize financial recovery over improving their ESG scores, so the relationship between financial performance and ESG becomes dynamic to investigate. Profitability is a key catalyst for companies to conduct comprehensive ESG disclosures (Sari et al., 2025).

In addition to profitability, leverage-proxied capital structure (DER) and liquidity level (CR) play a significant role in determining a company's ESG capacity. High levels of debt are often considered an obstacle to ESG investments due to pressure from creditors to prioritize financial obligations. Strong financial resources are positively correlated with the availability of ESG data, but excessive debt burdens can limit a company's room to make voluntary disclosures (Drempetic et al., 2020). On the other hand, strong liquidity signals that the company has sufficient cash resilience to run its operations responsibly (Yuan, 2022).

This study focuses on the mining and industrial sectors because both sectors have high exposure to environmental and social issues, although with different operational characteristics. Differences in sectoral characteristics are also predicted to create different dynamics in the relationship between financial and ESG ratios. The mining sector and the manufacturing industry sector on the Indonesia Stock Exchange are the two sectors that are most often in the spotlight related to environmental impacts. The mining sector has high-risk characteristics for ecosystem damage, while the manufacturing industry sector contributes significantly to pollution and carbon waste. Although both are equally exposed to ESG risks, the mechanism of using profitability as sustainability capital is predicted to be different. The extractive sector tends to be more reactive to global pressures to maintain its operational social license than the manufacturing sector which is more oriented towards production cost efficiency (Gunawan & Setiawan, 2025). Companies in environmentally sensitive sectors tend to have higher ESG disclosures as a means of mitigating reputational and legal risks (Garcia et al., 2017). Therefore, for the three mining companies in this study, achieving a good ESG score is an absolute prerequisite for obtaining a social license to operate and minimizing resistance from stakeholders.

On the other hand, industrial companies in this study represent the processing

sector whose ESG challenges are more focused on energy efficiency and labor standards. Although the environmental impact is not as extreme as the mining sector, the industrial sector is required to meet international ESG standards to win investor trust in the global supply chain. Good governance (G) and social responsibility (S) in the manufacturing sector contribute directly to improving long-term financial performance (Ameer et al., 2012; Velte, 2017). This difference in operational focus demands an in-depth analysis of how financial ratios affect their sustainability commitments differently.

This condition becomes even more complex when faced with external economic shocks due to the COVID-19 pandemic in the 2020-2021 period. The pandemic created cash flow uncertainty that forced companies to reprioritize their expenses. Companies that consistently maintain their ESG score in times of crisis actually have better resilience in the eyes of investors (Chen, 2024). This phenomenon raises the question of whether profitability is still the main driver of sustainability when a company's liquidity is under pressure, or whether the legitimacy factor of the sector dominates management decisions more.

Although there have been many studies examining the relationship between financial performance and ESG, there is still a research gap related to how sector interactions modify these relationships, especially in times of crisis. Most previous studies have tended to generalize entire industry sectors in a single regression model. In fact, the difference in operational characteristics between the extractive mining sector and the transformative industrial sector can produce different slack resource dynamics. Therefore, this study aims to fill this gap by examining whether the impact of profitability on ESG Score differs significantly between the two sectors.

Based on the description above, this study is important to fill the literature gap regarding the consistency of the influence of financial performance the effect of profitability (ROA), solvency (DER), and liquidity (CR) on ESG in the comparative perspective of the industrial and mining sectors during the covid-19 crisis, using panel data for the 2020-2021 period, this study will test whether profitability, solvency, and liquidity have a uniform or contradictory impact on the two sectors. This study also examines whether sectoral differences indicate different relationship patterns between financial performance and ESG. The research sample consists of 10 companies, namely 7 industrial sector companies and 3 mining sector companies, selected based on the availability and completeness of ESG score data during the observation period. The limited number of samples reflects the still limited disclosure and availability of ESG score data among Indonesian listed companies during the pandemic period. The findings are expected to contribute to the sustainability accounting literature and provide insights for investors and regulators regarding ESG practices during crisis conditions.

B. LITERATURE REVIEW

1. Stakeholder Theory

This theory states that a company's sustainability depends heavily on its ability to balance the interests of various stakeholders, not just shareholders. The Company has a moral responsibility to provide added value to the environment and the Society (Freeman, 2010). In the context of ESG, companies make disclosures as a form of response to stakeholder expectations to ensure long-term business sustainability (Donaldson et al., 1995).

2. Legitimacy Theory

The theory of legitimacy explains that companies seek to ensure that their activities operate within norms accepted by society. The mining sector, which is often considered a "dirty" sector due to its environmental impact, has greater legitimacy pressure than the manufacturing industry sector (Suchman, 1995). Therefore, ESG disclosures are often used as a communication tool to improve their image and gain social permission to operate.

3. Slack Resources Theory

This theory is the main foundation of this research. Slack resources are the availability of financial or operational resources that exceed the minimum needs of the company (Cyert & March, 2020). In relation to sustainability performance, this theory predicts that companies with superior financial performance have a "reserve" of funds that can be allocated to social and environmental activities without disrupting key operational stability (Waddock et al., 1997).

4. Hypothesis Development

Based on Slack Resources Theory, strong profitability provides financial support for companies to improve ESG performance. Profitable companies tend to have sufficient resources to conduct environmental programs, social initiatives, and sustainability reporting activities. Profitability reflects the efficiency of a company in using its assets to generate profits. Previous studies indicate that there is a positive relationship between financial performance and ESG disclosure (Velte, 2017). Companies with stable profitability have greater financial flexibility to support long-term sustainability commitments. In addition, large and profitable firms tend to be more consistent in transforming profits into ESG-related investments and disclosures (Drempetic et al., 2020).

H₁: Profitability positively affects ESG Score

Solvency, which is proxied by the Debt-to-Equity Ratio (DER), reflects the extent to which a company relies on debt financing. High leverage indicates greater financial risk and may reduce a company's flexibility in allocating resources to ESG activities. Companies with high debt levels are generally under pressure from creditors to prioritize financial obligations and debt repayment rather than voluntary expenditures related to environmental and social programs (Brammer et al., 2008; Yuan, 2022). As a result, high solvency risk may negatively affect ESG performance and disclosure quality.

H₂: Solvency negatively affects ESG Score

Liquidity reflects a company's ability to meet its short-term obligations and maintain operational stability. Companies with strong liquidity tend to have better financial resilience, enabling them to support sustainability initiatives and maintain responsible operational practices. Adequate liquidity also provides assurance that operational activities related to employee welfare, environmental protection, and social responsibility can be carried out consistently without significant financial constraints (Ameer et al., 2012). Therefore, companies with higher liquidity are expected to demonstrate stronger ESG performance.

H₃: Liquidity positively affects ESG Score

The mining and industrial sectors have different operational characteristics and ESG risk profiles, which may influence how profitability affects ESG performance. The mining sector faces higher environmental and social risks, causing companies in this sector to use profitability more intensively to maintain legitimacy and social acceptance through ESG practices. Mining companies are considered high-profile industries that receive strong public and regulatory attention regarding environmental impacts (Khan et al., 2016). In contrast, industrial sector companies are generally more focused on operational efficiency, energy management, and production processes. Although both sectors are exposed to ESG pressures, the use of profitability to support sustainability commitments may differ depending on sectoral characteristics and stakeholder expectations. Companies operating in environmentally sensitive industries tend to have stronger incentives to improve ESG performance as a strategy to mitigate reputational and regulatory risks (Garcia et al., 2017).

H4: Sector differences moderate the relationship between profitability and ESG Score

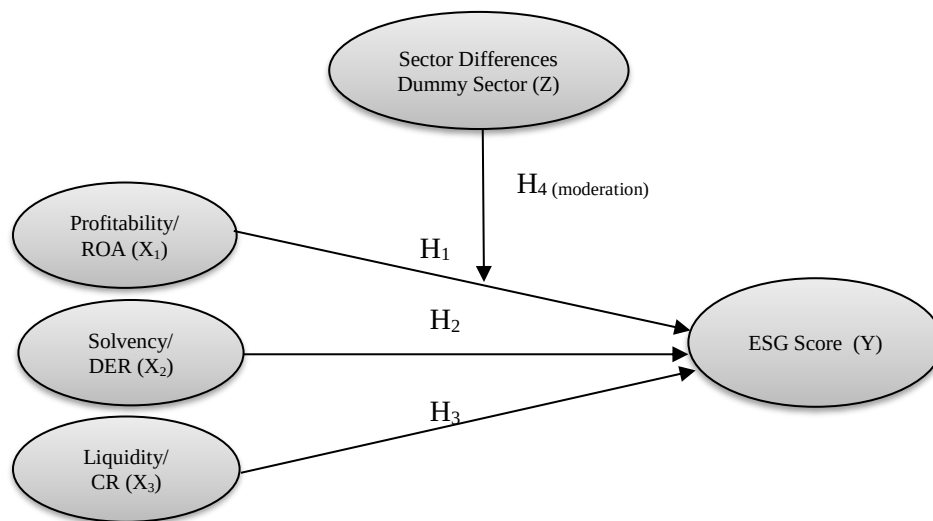


Figure 1. Conceptual framework

C. RESEARCH METHOD

This study uses a quantitative approach with panel data analysis to examine the relationship between financial performance variables and ESG Score during the COVID-19 pandemic period. The population of this study consists of industrial and mining sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2021 period. The sampling technique used was purposive sampling based on the availability and completeness of ESG Score data and financial statement data during the observation period. Based on these criteria, 10 companies were selected as research samples, consisting of 7 industrial sector companies and 3 mining sector companies. The ESG Score data were obtained from publicly available ESG database disclosures and company sustainability reports, while financial data such as Return on Assets (ROA), Debt to Equity Ratio (DER), and Current Ratio (CR) were collected from annual financial statements published through the Indonesia Stock Exchange and company annual reports. The limited number of samples reflects the limited availability of ESG Score disclosures among Indonesian listed companies during the pandemic period.

The dependent variable in this study is ESG Score (Y), while the independent variables consist of profitability proxied by Return on Assets (ROA), solvency proxied by Debt to Equity Ratio (DER), and liquidity proxied by Current Ratio (CR). In addition, this study uses a sector dummy variable and interaction variable to identify differences in the relationship between profitability and ESG Score across sectors. The dummy variable is coded 1 for industrial sector companies and 0 for mining sector companies. The interaction variable is measured using the multiplication between ROA and the sector dummy variable (ROA $\times$ Dummy).

Table 1. Operational Definition of Variables

Variable	Proxy	Definition	Source
ESG Score	ESG	Company ESG performance score	Sustainability reports / ESG database
Profitability	ROA	Net income divided by total assets	Financial statements
Solvency	DER	Total debt divided by total equity	Financial statements
Variable	Proxy	Definition	Source
ESG Score	ESG	Company ESG performance score	Sustainability reports / ESG database
Profitability	ROA	Net income divided by total assets	Financial statements
Solvency	DER	Total debt divided by total equity	Financial statements

The data analysis technique uses panel data regression with the Random Effect Model (REM) as the selected estimation model. The analysis was conducted using EViews econometric software. The main regression model used in this study is formulated as follows:

$$ESG_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 CR_{it} + \varepsilon_{it}$$

To examine sectoral differences in the profitability–ESG relationship, an interaction model was also estimated as follows:

$$ESG_{it} = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 CR_{it} + \beta_4 DUMMY_{it} + \beta_5 (ROA \times DUMMY)_{it} + \varepsilon_{it}$$

Considering the relatively small number of observations, namely 10 companies over a two-year period, the results of this study should be interpreted carefully. The limited observations may increase sensitivity to extreme values and reduce the generalizability of the findings. Therefore, this study does not seek to provide definitive conclusions, but rather to identify indications and relationship patterns between financial performance and ESG Score during the COVID-19 crisis period.

D. RESULTS AND DISCUSSION

1. Descriptive Statistic Analysis

Before conducting panel data regression analysis, descriptive statistics were used to provide an overview of the characteristics of the research variables. Since this study only used 10 companies during the 2020-2021 period, descriptive statistics are important to identify data distribution patterns and the possibility of extreme values (outliers) that may influence the regression results

Table 2 . Descriptive Statistics

Variabel	Minimum	Maximum	Mean	Std. Deviation
ESG Score	18.20	82.50	49.66	19.31
ROA	-5.12	18.74	6.48	5.71
DER	0.21	3.95	1.67	1.08
CR	0.58	4.87	2.11	1.19

Source: Primary data, processed by the authors.

Based on the descriptive statistics results, ESG Score shows relatively high variation, with values ranging from 18.20 to 82.50 and a standard deviation of 19.31. This condition indicates differences in ESG implementation among companies during the COVID-19 period. Profitability (ROA) also demonstrates considerable variation, including negative values, which may indicate that several companies experienced financial pressure during the pandemic period. Meanwhile, DER and CR reflect differences in capital structure and liquidity conditions across companies. The relatively large gap between minimum and maximum values suggests the possibility of outliers or extreme observations in several variables. Considering the limited number of observations, these extreme values may influence the stability of the regression coefficients and significance levels. Therefore, the regression results in this study should be interpreted carefully and are limited to identifying tendencies or indications of relationships rather than drawing broad general conclusions.

2. Panel Data Model Selection

This chow test was carried out for the first time to determine the right model to perform data analysis between the Common Effect Model (CEM) or the Fixed Effect Model (FEM).

Table 3 . Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	20.516804	(9,7)	0.0003
Cross-section Chi-square	66.195341	9	0.0000

Source: Primary data, processed by the authors.

Based on Table 3, the probability value of the Cross-section Chi-square test is 0.0000, which is smaller than the significance level of 0.05. Therefore, the Fixed Effect Model (FEM) was initially considered more appropriate than the Common Effect Model. This result indicates that each company may have different intercept characteristics. Such differences are reasonable because mining and industrial companies tend to have different operational characteristics, environmental risks, and ESG policies. Furthermore, the Hausman Test was performed to determine the appropriate model between the Fixed Effect Model and the Random Effect Model

Table 4 . Hausman Test

Test Summary	Chi-Sq. statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.109119	3	0.0685

Source: Primary data, processed by the authors.

Based on Table 4, the probability value of 0.0685 is greater than 0.05, indicating that the Random Effect Model (REM) is statistically more efficient for this study. This result suggests that differences among companies may be treated as random effects that are not systematically correlated with the independent variables included in the model.

Table 5 . Lagrange Multiplier Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	4.526694	0.016421	4.543115
	(0.0334)	(0.8980)	(0.0331)
Honda	2.127603	-0.128143	1.413831
	(0.0167)	(0.5510)	(0.0787)

Table 5 (continued)

	Test Hypothesis		
	Cross-section	Time	Both
King-Wu	2.127603 (0.0167)	-0.128143 (0.5510)	0.551240 (0.2907)
Standardized Honda	2.697002 (0.0035)	0.819883 (0.2061)	-0.945348 (0.8278)
Standardized King-Wu	2.697002 (0.0035)	0.819883 (0.2061)	-1.147891 (0.8745)
Gourieroux, et al.	--	--	4.526694 (0.0427)

Source: Primary data, processed by the authors.

To strengthen the model selection, the Lagrange Multiplier (LM) Test was also conducted. Based on the Breusch-Pagan probability value of 0.0331, which is smaller than 0.05, the Random Effect Model was considered more appropriate than the Common Effect Model.

Based on the Chow Test, Hausman Test, and Lagrange Multiplier Test, the Random Effect Model (REM) was selected as the final regression model used in this study. Although several independent variables did not show statistically significant results, the REM was still considered the most suitable model according to the characteristics of the panel data used in this research.

The insignificant findings may indicate that during the 2020-2021 period, financial factors were not the primary determinants of ESG scores in the mining and industrial sectors. However, considering the limited number of observations, these findings should be interpreted cautiously.

Table 6 . Random Effect Model Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	27.99576	10.82282	2.586734	0.0199
X1	0.856657	0.463690	1.847477	0.0833
X2	2.809866	5.732760	0.490142	0.6307
X3	4.170499	2.113422	1.973340	0.0660
Effects Specification				
			S.D.	Rho
Cross-section random			12.94692	0.9164
Idiosyncratic random			3.909996	0.0836
Weighted Statistics				
R-squared	0.271454	Mean dependent var		10.37104
Adjusted R-squared	0.134852	S.D. dependent var		4.712675
S.E. of regression	4.383417	Sum squared resid		307.4296
F-statistic	1.987183	Durbin-Watson stat		1.809383
Prob(F-statistic)	0.156549			
Unweighted Statistics				
R-squared	0.478541	Mean dependent var		49.66050
Sum squared resid	3694.489	Durbin-Watson stat		0.150564

Source: Primary data, processed by the authors.

Based on the REM regression results, the constant variable (C) has a probability value of 0.0199, which is smaller than 0.05. This result indicates that the constant is statistically significant. If all independent variables are assumed to be constant, the average ESG Score is approximately 27.99.

The profitability variable (ROA/X₁) has a probability value of 0.0833, which is greater than 0.05 but still close to the 10% significance level. This result may indicate a

positive tendency between profitability and ESG Score, although the statistical evidence is not sufficiently strong at the 5% significance level.

The solvency variable (DER/X_2) has a probability value of 0.6307, indicating that no statistically significant relationship was found between DER and ESG Score.

Meanwhile, the liquidity variable (CR/X_3) has a probability value of 0.0660, which is also above the 5% significance level but relatively close to the 10% significance threshold. This result may indicate that liquidity tends to have a positive association with ESG Score, although the statistical evidence remains limited.

Table 7 . F (Simultan) REM Test Result

	Weighted Statistics		
R-squared	0.271454	Mean dependent var	10.37104
Adjusted R-squared	0.134852	S.D. dependent var	4.712675
S.E. of regression	4.383417	Sum squared resid	307.4296
F-statistic	1.987183	Durbin-Watson stat	1.809383
Prob(F-statistic)	0.156549		

Source: Primary data, processed by the authors.

The F-test was conducted to examine whether all independent variables simultaneously influence the dependent variable. Based on Table 7, the F-statistic value is 1.987183 with a probability value of 0.156549, which is greater than 0.05. This result indicates that profitability, solvency, and liquidity simultaneously do not show a statistically significant effect on ESG Score during the 2020-2021 period.

Table 8 . Results of Output Analysis of REM Determination Coefficient

	Weighted Statistics		
R-squared	0.271454	Mean dependent var	10.37104
Adjusted R-squared	0.134852	S.D. dependent var	4.712675
S.E. of regression	4.383417	Sum squared resid	307.4296
F-statistic	1.987183	Durbin-Watson stat	1.809383
Prob(F-statistic)	0.156549		

Source: Primary data, processed by the authors.

The Adjusted R-squared value of 0.1348 indicates that the independent variables collectively explain approximately 13.48% of the variation in ESG Score, while the remaining 86.52% may be influenced by other factors outside the model, such as government regulations, market pressures, environmental policies, or company characteristics. The R-squared value of 0.2714 indicates that the independent variables explain approximately 27.14% of the variation in ESG Score. Meanwhile, the Adjusted R-squared value of 0.1348 suggests that, after adjusting for the number of variables used in the model, profitability, solvency, and liquidity collectively explain approximately 13.48% of the variation in ESG Score. This relatively low explanatory power indicates that ESG Score may be influenced by various external and qualitative factors that are not captured by financial ratios alone. Therefore, the results should be interpreted carefully, particularly considering the limited sample size used in this study.

Table 9 . Panel Least Squares Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-17.40075	25.09127	-0.693498	0.4993
X1	2.421141	5.620738	0.430752	0.6732
X2	22.25315	13.22538	1.682610	0.1146
X3	10.22763	3.545791	2.884443	0.0120
DUMMY	17.43331	22.70853	0.767699	0.4554

Table 9 (continued)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INTERAKSI	-2.836639	5.488402	-0.516842	0.6133
R-squared	0.607664	Mean dependent var		49.66050
Adjusted R-squared	0.467544	S.D. dependent var		19.31037
S.E. of regression	14.09070	Akaike info criterion		8.372232
Sum squared resid	2779.669	Schwarz criterion		8.670952
Log likelihood	-77.72232	Hannan-Quinn criter.		8.430545
F-statistic	4.336735	Durbin-Watson stat		0.677211
Prob(F-statistic)	0.013580			

Source: Primary data, processed by the authors.

In this model, sectoral differences were analyzed using the DUMMY and INTERACTION variables. The DUMMY variable produced a coefficient value of 17.433. Although statistically insignificant (Prob. 0.4554), this positive coefficient may indicate a tendency for industrial companies to have higher ESG Scores than mining companies. However, because the result is not statistically significant, this finding cannot be interpreted as strong evidence of sectoral differences.

The INTERACTION variable produced a coefficient value of -2.836 with a probability value of 0.6133. Although the coefficient suggests a possible difference in the direction of the relationship between sectors, the interaction effect is statistically insignificant. Therefore, the study has not found sufficient statistical evidence to confirm that the relationship between profitability and ESG Score differs significantly between mining and industrial companies.

3. Discussion

Sector Comparative Analysis - Mining Sector with (Reference / Dummy = 0)

In the mining sector, profitability (X_1) has a coefficient value of 2.421. This result may indicate a tendency that higher profitability is associated with higher ESG Scores in mining companies. In addition, liquidity (X_3) shows a coefficient value of 10.227 with a probability value of 0.0120, indicating that liquidity has a statistically significant positive relationship with ESG Score.

This finding may suggest that mining companies with stronger liquidity conditions tend to maintain sustainability programs more effectively during the pandemic period.

Sector Comparative Analysis - Industrial Sector (Dummy = 1)

In the industrial sector, the influence of profitability is obtained by combining the main coefficient and the interaction coefficient, resulting in a value of -0.415. This result may indicate a different tendency compared to the mining sector, where increases in profitability are not necessarily followed by higher ESG Scores.

However, because the interaction effect is statistically insignificant, this difference should be interpreted cautiously and only as an indication of a possible directional tendency rather than as strong statistical evidence of sectoral differences.

Overall, liquidity (X_3) appears to be the variable most closely associated with ESG Score in this study. This finding may indicate that companies with stronger short-term financial capacity tended to maintain sustainability-related activities more effectively during the COVID-19 period. Nevertheless, given the limited number of observations, further studies with larger samples are needed to confirm these findings.

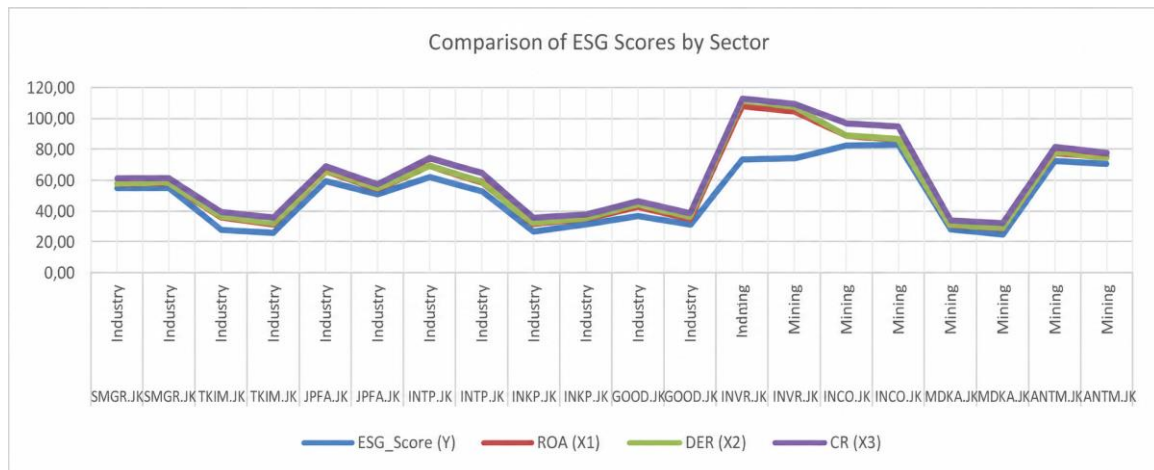


Figure 2 . Comparison of ESG Scores Chart by Sector
Source: Data Process

E. CONCLUSION

This study has not found sufficient statistical evidence that profitability (ROA), solvency (DER), and liquidity (CR) significantly affect ESG Score simultaneously in mining and industrial sector companies during the 2020-2021 period. Partially, ROA and CR showed positive relationship tendencies with ESG Score, but these effects were not statistically significant at the 5% level. Meanwhile, DER also did not show a significant relationship with ESG Score. The interaction analysis between profitability and sector indicated a possible difference in relationship direction between mining and industrial companies. However, because the interaction effect was statistically insignificant, the study has not found strong evidence of sectoral differences in the relationship between profitability and ESG Score. Overall, the findings suggest that ESG performance during the pandemic period may have been influenced more by external and non-financial factors than by financial performance alone. Considering the limited number of observations, these results should be interpreted cautiously and cannot yet be broadly generalized.

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