



# The Influence Of Environmental Performance And Corporate Governance On Earnings Quality In Coal Mining Companies Listed On The Indonesia Stock Exchange (IDX)

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## ABSTRACT

This study examines the impact of environmental performance and the implementation of effective corporate governance principles on earnings quality in coal mining companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Research data were collected from sustainability reports, annual reports, and PROPER ratings, and analyzed using WarpPLS 8.0 software. The results indicate that environmental performance does not have a significant relationship with earnings quality. In contrast, the implementation of Good Corporate Governance (GCG) demonstrates a significant positive effect on enhancing earnings quality. These findings underscore the crucial role of corporate governance mechanisms in ensuring the reliability of financial reporting. To achieve more comprehensive and representative results, future research is recommended to employ alternative indicators for measuring environmental performance and to expand the study's sample scope.

## INTRODUCTION

Natural resources play a central role in sustaining the operational continuity of a business entity. Paradoxically, many organizations tend to prioritize maximizing production output and profitability, which often leads to continuous exploitation of natural resources. According to Kholmi and Nafiza (2022), such practices may generate significant consequences for surrounding communities and ecosystems. Therefore, transparent environmental disclosure has become an essential obligation for every company. Through comprehensive reporting, the public and stakeholders are able to collectively monitor the environmental footprint generated by corporate activities. Environmental accounting, commonly referred to as green accounting, serves as a

crucial instrument in enhancing a company's environmental performance while also facilitating oversight of the environmental management initiatives undertaken by the entity (Kholmi & Nafiza, 2022).

A company's success is often reflected in its financial performance. Improved financial outcomes can enhance investor confidence, encouraging capital investment, which in turn strengthens the company's competitive position and overall industry standing (Rahmawati et al., 2021). Financial performance is closely linked to the implementation of Good Corporate Governance (GCG), which essentially encompasses the organizational structures, procedures, and regulatory frameworks that guide interactions among stakeholders and ensure accountability, transparency, and effective management.

One of the primary indicators used to assess a company's performance is earnings quality, as it reflects the extent to which reported earnings represent the firm's actual economic performance and serve as a reliable basis for decision-making by investors, creditors, and other relevant parties. High-quality earnings are expected to demonstrate strong relevance and reliability, thereby minimizing the risk of earnings management practices that may distort financial information. From the perspective of stakeholder theory, a company is obliged to accommodate the interests of various parties, including shareholders, the community, and the environment. Meanwhile, agency theory highlights the potential conflicts of interest between management and owners, which may lead to opportunistic behavior such as earnings manipulation. In practice, business entities that are capable of effectively managing and controlling their environmental aspects tend to gain greater trust from the public and investors, a condition that can support the presentation of more reliable and transparent financial information. To reconcile these perspectives, the implementation of sound corporate governance becomes essential in mitigating conflicts of interest and ensuring that financial statements are prepared and presented with integrity and transparency.

Several studies have documented varying roles of environmental performance and corporate governance in relation to financial performance and earnings quality. Oktadifa & Widajantie (2023) find that environmental performance and green accounting practices contribute to higher profitability, suggesting that corporate attention to environmental issues can enhance annual earnings. Similarly, Pembudi (2022) reports that environmental performance exerts a tangible impact on firms' financial outcomes. In contrast, Daniyati et al. (2023) argue that environmental disclosure does not directly influence earnings quality. However, governance mechanisms—such as institutional ownership and the presence of an audit committee—can strengthen this relationship, thereby improving the accuracy of reported earnings. Furthermore, Nuraini & Andrew (2023) demonstrate that the use of the PROPER rating as a proxy for environmental performance does not significantly affect the profitability of mining companies. In addition, Agustin & Rahayu (2022) show that effective corporate governance mechanisms help constrain earnings management practices, enabling financial statements to more accurately reflect a company's underlying economic performance.

Based on prior studies, environmental issues, corporate governance, and financial performance have received increasing scholarly attention; however, empirical findings remain inconclusive. Most existing research has primarily examined the effect of environmental performance and GCG mechanisms on financial performance indicators such as profitability, firm value, or stock returns. Studies that simultaneously investigate environmental performance and Good Corporate Governance in relation to earnings quality remain relatively limited, particularly within coal mining companies operating in Indonesia. At the same time, this sector is characterized by high environmental risk, stringent regulatory oversight, and a substantial potential for conflicts of interest between management and stakeholders. These conditions may influence managerial behavior in presenting earnings information. The novelty of this research lies in two main aspects. First, it adopts a sector-specific focus on coal mining companies. Second, it integrates two proxies PROPER ratings and the GCG Index (IPCG) within a single

empirical model. This approach enables a more comprehensive analysis by combining environmental performance and corporate governance quality in explaining variations in earnings quality.

Referring to the background outlined above, this study aims to examine the role of environmental performance and Good Corporate Governance (GCG) in determining earnings quality in mining companies, particularly those operating in the coal subsector. It also seeks to develop a broader understanding of the relationship between environmental performance, corporate governance practices, and reported earnings within the context of Indonesia's coal industry, while providing empirical evidence to support well-informed and sustainability-oriented decision-making. Consistent with the prior literature, this research tests two primary hypotheses: (1) environmental performance has a significant effect on earnings quality, and (2) the implementation of Good Corporate Governance has a significant effect on earnings quality.

## **LITERATURE REVIEW**

### **Agency theory**

According to agency theory, as outlined by Jensen and Meckling (1976), conflicts between management and shareholders who act as principals arise from differences in objectives and information asymmetry. Such misalignment can lead managers to engage in earnings manipulation for personal gain, which ultimately undermines the quality of reported earnings. To curb these opportunistic behaviors and strengthen transparency in financial reporting, corporate governance mechanisms such as institutional ownership, independent commissioners, and active audit committees are essential (Dechow et al., 1995; Beasley, 1996). Agency theory fundamentally focuses on the relationship between principals and agents, highlighting the responsibilities of agents in managing the firm effectively (Sucipto & Zulfa, 2021). When owners do not exert direct control over day-to-day operations, auditors serve a critical role in verifying that financial statements prepared by management faithfully represent the owners' interests (Khair et al., 2023).

### **Legitimacy theory**

Legitimacy theory posits that a company's survival depends not only on profit generation but also on its alignment with societal values, norms, and expectations (Suchman, 1995; Brown & Deegan, 1998). In this context, environmental performance and corporate social responsibility act as instruments for securing public recognition and legitimacy. Enhanced legitimacy strengthens a company's reputation and can positively influence investor trust as well as the reliability and quality of its financial reporting, including reported earnings.

Companies cultivate social legitimacy through strong environmental performance, including effective waste management, pollution control, and transparent disclosure practices. In the context of financial reporting, such normative pressures encourage firms to present earnings information that is more credible and accurate, as society increasingly demands higher levels of transparency and accountability. As a result, beyond securing legitimacy, companies are also able to enhance their image in the eyes of stakeholders and the broader community. Legitimacy theory further emphasizes that organizations must consider prevailing social values and maintain alignment with societal expectations in conducting their operations in order to gain recognition and acceptance from their environment. This alignment is essential for sustaining corporate continuity (Kaltsum, 2021).

### **Stakeholder theory**

Stakeholder theory views the firm as an entity whose sustainability depends on its ability to manage interactions involving all stakeholders, both internal and external to the organization. According to R. Edward Freeman (1984), responsibility for achieving corporate objectives does

not rest solely with shareholders, but also with all parties who may affect or be affected by the company's activities. Latifah et al. (2021) emphasize that corporate continuity is shaped by management's capacity to balance stakeholder interests through effective governance and transparent information disclosure. Furthermore, Hadi & Mangoting (2022) argue that this theory underscores a company's accountability for the economic, social, and environmental impacts of its business operations, thereby encouraging improvements in governance quality and reporting transparency.

### **Environmental Performance**

Environmental performance represents the results of a company's efforts to preserve environmental quality and manage the impacts of its operational activities (Putri & Fitriah, 2023). It reflects the effectiveness of a firm in controlling and reducing operational environmental impacts through adherence to regulations and the implementation of proactive environmental management practices (Rohmatika & Arbin, 2024).

Evaluating environmental performance as part of corporate social responsibility motivates companies to report such activities in their annual and sustainability reports (Ardyaningsih & Oktarina, 2022). Since 2002, the Ministry of Environment has implemented the PROPER program to assess corporate environmental management. Using a color-coded system gold, green, blue, red, and black PROPER reflects a company's compliance and achievements, serving as an official benchmark for environmental performance recognized by the government.

Legitimacy theory posits that companies require social approval to sustain their ongoing operations. Such recognition is obtained when corporate activities including environmental management practices are aligned with prevailing social norms, values, and regulatory expectations. Accordingly, firms that demonstrate strong environmental performance, for instance by achieving high ratings in the Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup (PROPER), are more likely to be perceived as responsible and deserving of continued operation. This recognition not only reinforces corporate legitimacy but also strengthens public trust and enhances the company's overall reputation.

Research by Nadias & Sari (2024) reveals that environmental performance has a significant impact on earnings management among companies included in the SRI-KEHATI Index. Their findings indicate that stronger environmental performance is associated with lower levels of earnings management, which in turn leads to higher earnings quality. Furthermore, Daniyati et al. (2023) suggest that environmental disclosure can enhance earnings quality when supported by effective corporate governance mechanisms, underscoring the importance of robust internal oversight. In addition, Sululing et al. (2024) report that improvements in environmental performance contribute positively to corporate profitability.

Research conducted by Holly et al. (2023) indicates that environmental performance makes a significant positive contribution to a company's financial performance. Empirical support for the influence of ESG disclosure on financial outcomes is also provided by Silaban (2025), who finds a significant relationship between the level of ESG practice disclosure and corporate profitability. Companies that demonstrate greater concern for environmental responsibility and governance tend to gain broader public acceptance, strengthen investor confidence, and ultimately achieve stronger financial performance. Consistent findings are reported by Oktadifa & Widajantie (2023), who show that the implementation of green accounting and a strong focus on environmental performance have a tangible impact on increasing corporate profits. These results suggest that business entities with a strong environmental commitment are better positioned to sustain earnings growth over time.

H1: Environmental Performance has a positive effect on the Earnings Quality of coal mining sub sector companies.

### **Good Corporate Governance**

According to Effendi (2016), Good Corporate Governance (GCG) functions as a corporate management system designed to ensure transparency, accountability, and responsibility toward the interests of various stakeholders. Through the implementation of principles such as fairness, independence, and accountability, GCG aims to promote ethical and sustainable corporate management practices. In this study, Good Corporate Governance (GCG) is measured through an analysis of companies' annual reports. This approach is adopted because GCG represents a multidimensional construct that requires more than a single measurement instrument. Specifically, the assessment is conducted using the Corporate Governance Disclosure Index (IPCG), which is developed through content analysis of annual reports. The index evaluates performance based on the core GCG principles, namely transparency, accountability, responsibility, independence, and fairness. The assessment framework refers to the Corporate Governance Guidelines for Public Companies issued by the Bursa Efek Indonesia as well as Financial Services Authority Regulation No. 21/POJK.04/2015 issued by the Otoritas Jasa Keuangan. Research conducted by Martinus & Kusumawati (2021) reveals that corporate governance mechanisms, particularly the role of the audit committee, have a significant influence on the credibility of earnings reporting. These findings affirm that effective internal oversight enhances the reliability of a company's financial information. In line with this, Agustin & Rahayu (2022) demonstrate that effective corporate governance practices contribute to constraining earnings management, thereby ensuring that reported earnings more accurately reflect the company's underlying economic reality.

Within a company's internal structure, conflicts of interest may arise between management, which is responsible for day-to-day operations, and capital owners who provide financial resources. Differences in objectives between these parties create the potential for earnings manipulation, which can undermine the accuracy and reliability of reported earnings in financial statements. To address this issue, companies implement Good Corporate Governance (GCG) mechanisms, such as oversight by the board of commissioners, the establishment of an audit committee, and the presence of institutional ownership structures. The adoption of these mechanisms aims to enhance transparency, reduce information asymmetry between internal and external parties, and ensure that managerial decisions are aligned with the interests of shareholders and other stakeholders.

H2 : Good Corporate Governance (GCG) has a positive effect on the Earnings Quality of coal mining sub-sector companies.

### **Earning Quality**

Earnings quality refers to the extent to which a company's profits objectively reflect its true economic condition without any accounting manipulation. It indicates how accurately reported earnings represent the firm's actual financial performance. This quality can be evaluated by comparing reported net income with the company's real economic earnings (Agustin & Rahayu, 2022). Accurate earnings are essential for financial statement users, as they influence investment, lending, and other stakeholder decisions regarding the company's performance and future prospects (Herninta & Ginting, 2020).

According to PSAK No. 1, earnings are essential for financial statement users to evaluate a company's ability to manage economic resources and anticipate future cash flows (IAI, 2009). In addition to reflecting current performance, earnings provide key insights into a company's resilience and growth potential. Earnings quality indicates how reliably profit information portrays the company's financial condition and performance. High-quality earnings demonstrate a firm's effectiveness in sustaining operations and generating cash from core activities, which can be assessed by comparing operating cash flows with net income (Agustin, 2022). Reliable and relevant earnings information enables investors to evaluate management effectiveness over a specific period (Prawira et al., 2022).

## METHODS

### Type of Research and Research Population (Objects of Study)

This study employs a quantitative method grounded in the positivist paradigm. Its objective is to analyze a specific population or sample by utilizing research instruments as the primary means of data collection (Sugiyono, 2017:8). The data obtained are subsequently processed and examined using statistical techniques to test the proposed research hypotheses. The population comprises all coal mining companies listed on the Bursa Efek Indonesia during the 2020–2024 period. The sample is selected through purposive sampling to ensure alignment with the research objectives and the availability of complete and relevant data.

This study utilizes secondary data that are readily available to complement information derived from the literature, prior studies, and reference books (Hasan, 2002). The data include financial statements, annual reports, sustainability reports, PROPER ratings as an indicator of environmental performance, and other documents relevant to corporate activities. The primary sources of data are obtained from the official website of the Bursa Efek Indonesia ([www.idx.co.id](http://www.idx.co.id)) and the respective companies' official portals. In addition, the researcher reviews scholarly journals and credible academic sources to strengthen the theoretical framework and analysis, thereby enhancing the accuracy and rigor of the research findings.

**Table 1. Criteria and Number of Companies Included in the Sample**

| N<br>O           | Criteria                                                                                                   | Tot<br>al |
|------------------|------------------------------------------------------------------------------------------------------------|-----------|
| 1                | Listed in the mining sector on the Indonesia Stock Exchange (IDX).                                         | 65        |
| 2                | Companies classified under the coal sub-sector on the Indonesia Stock Exchange.                            | 35        |
| 3                | Published complete annual reports for the 2020–2024 period.                                                | 26        |
| 4                | Published complete annual financial statements for the 2020–2024 period.                                   | 26        |
| 5                | Received a PROPER rating from the Ministry of Environment and Forestry (KLHK) during the 2020–2024 period. | 16        |
| Sample × 5 Years |                                                                                                            | 80        |

Source: Processed by the researcher, 2026.

### Variables and Operational Definitions

#### Dependent Variable

In this study, the dependent variable is earnings quality, which indicates how effectively profit information helps stakeholders assess a company's performance and financial condition. High earnings quality reflects the firm's ability to sustain operations while maintaining stable cash flows. It is evaluated by comparing net income with operating cash flows, highlighting the degree to which reported earnings correspond to the company's actual cash generation.

The formula is as follows:

$$EQ = \frac{\text{Operating cash flow}}{\text{Net income}} \times 100\%$$

#### Independent variable

This study employs environmental performance and Good Corporate Governance as the independent variables.

##### Environmental Performance

This variable represents the extent to which a company carries out environmentally responsible and sustainable operational activities. The assessment is based on Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup (PROPER), an initiative established by the Kementerian Lingkungan Hidup dan Kehutanan to promote transparency and encourage corporate compliance while improving the quality of environmental

management. PROPER applies a five-tier color rating system, in which the highest rank (gold) is assigned a score of 5 and the lowest rank (black) is assigned a score of 1. These scores are subsequently utilized as a quantitative indicator to evaluate a company's environmental performance in this study.

#### Good Corporate Governance

Good Corporate Governance (GCG) refers to a system of control and oversight designed to ensure that business activities are conducted in a transparent, accountable manner and in accordance with social and environmental standards. From the perspective of legitimacy theory, GCG assists companies in securing public support by aligning their performance with prevailing social and environmental norms (Kurniawan & Astuti, 2021). Meanwhile, stakeholder theory emphasizes that the implementation of GCG enables companies to address stakeholder expectations through the disclosure of social, economic, and environmental responsibilities (Saraswati et al., 2024). In the mining industry, the application of GCG is particularly essential, as this sector is highly exposed to environmental and social risks. Prior research indicates that higher levels of GCG disclosure are associated with improved earnings quality, primarily due to stronger managerial oversight and more effective monitoring mechanisms (Suryati, 2020).

The formula is as follows:

$$IPCG = \frac{\text{The number of items disclosed}}{\text{total items}} \times 100\%$$

#### Hypothesis Testing Method

The research hypotheses are analyzed using multiple linear regression with the following model equation:

$$EQ = \alpha + \beta_1 EP + \beta_2 GCGI + \varepsilon$$

Description :

EQ = Earning Quality

EP = *Environmental Performance*

GCGI = *Good Corporate Governance Index (IPCG)*

$\alpha$  = Constant

$\beta_1, \beta_2$  = regression coefficient

$\varepsilon$  = error

## RESULTS

#### Model Fit Test

The model fit test, also known as a goodness of fit test, is conducted to assess how well the model corresponds to the data used. In WarpPLS 8.0, the model fit can be evaluated using the output from the general results.

**Table 2. Model Fit Test Results**

| Model fit and quality indices  | Indeks | P-Value | criteria | Description |
|--------------------------------|--------|---------|----------|-------------|
| Average path coefficient (APC) | 0.388  | 0.001   | P<0.05   | Significant |
| Average R-squared (ARS)        | 0.440  | 0.001   | P<0.05   | Significant |
| Average Adjusted R-squared     | 0.426  | 0.001   | P<0.05   | Significant |

|                                                        |       |                                                           |  |                      |
|--------------------------------------------------------|-------|-----------------------------------------------------------|--|----------------------|
| (AARS)                                                 |       |                                                           |  |                      |
| Average Block VIF (AVIF)                               | 1.001 | $\leq 5$ ideal $\leq 3,3$                                 |  | No multicollinearity |
| Average Full Collinearity VIF (AFVIF)                  | 1.179 | $\leq 5$ ideal $\leq 3,3$                                 |  | No multicollinearity |
| Tenenhaus Gof (GoF)                                    | 0.664 | Small $\geq 0,1$ , medium $\geq 0,25$ , large $\geq 0,36$ |  | Large                |
| Simpson's Paradox Ratio (SPR)                          | 1.000 | $\geq 0.7$ (ideal = 1)                                    |  | Excellent            |
| R-squared Contribution Ratio (RSCR)                    | 1.000 | $\geq 0.9$ (ideal = 1)                                    |  | Excellent            |
| Statistical Suppression Ratio (SSR)                    | 1.000 | $\geq 0.7$                                                |  | Excellent            |
| Nonlinear Bivariate Causality Direction Ratio (NLBCDR) | 0.500 | $\geq 0.7$                                                |  | Unqualified          |

Source : WarPLS 8.0, Processed by the researcher, 2026.

The data analysis shows that the Average Path Coefficient (APC) is 0.388 with a p-value less than 0.001. This indicates that the relationships between variables in the model are significant at the 5% confidence level ( $p < 0.05$ ), meaning that the inter-construct relationships can be considered statistically strong and reliable. Moreover, the model demonstrates good explanatory power, as reflected by an Average R-squared (ARS) of 0.440 ( $p < 0.001$ ) and an Average Adjusted R-squared (AARS) of 0.426 ( $p < 0.001$ ). In other words, the independent variables collectively explain approximately 44.0% of the variation in the dependent variable, and after adjusting for the number of predictors, the explanatory proportion remains at 42.6%. These findings reinforce that the model used possesses solid predictive capability without any indication of overfitting.

In terms of multicollinearity, the Average Block VIF (AVIF) of 1.001 and the Average Full Collinearity VIF (AFVIF) of 1.179 are well below the recommended maximum threshold ( $\leq 5$ ) and the ideal value ( $\leq 3.3$ ). This confirms the absence of multicollinearity issues at both the measurement block and overall model levels, ensuring reliable interpretation of path coefficients. Additionally, the Tenenhaus Goodness of Fit (GoF) score of 0.664 exceeds the large-effect criterion ( $\geq 0.36$ ), indicating an excellent model fit. Overall, both the measurement and structural models adequately capture the empirical data with a high degree of accuracy.

Regarding other quality ratios, Simpson's Paradox Ratio (SPR), R-squared Contribution Ratio (RSCR), and Statistical Suppression Ratio (SSR) all recorded values of 1.000. These results surpass the recommended minimum thresholds, indicating the model is free from Simpson's

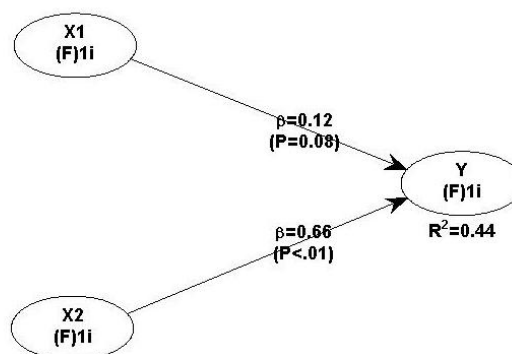
paradox, variable contributions to R-squared are consistent, and no suppression effects interfere with the interpretation of relationships among variables.

The obtained NLBCDR value of 0.500 indicates that the nonlinear relationships specified in the model do not yet demonstrate a fully consistent causal direction. Nevertheless, this condition does not automatically render the model invalid. In WarpPLS analysis, model adequacy is primarily determined by the statistical significance of the relationships among variables and the absence of serious multicollinearity issues. As long as the relationships between constructs are statistically significant and the VIF values remain within acceptable limits, the model can still be employed to test the proposed hypotheses. Therefore, an NLBCDR value that does not reach the recommended benchmark should be viewed as a limitation in capturing nonlinear causal patterns, implying that its interpretation must be undertaken with greater caution (Ned Kock, 2015; 2023).

### Hypothesis Testing

In this study, hypothesis testing was conducted to evaluate the strength and significance of the relationships between variables in the structural model. A hypothesis is considered accepted if the p-value is  $\leq 0.05$ , and rejected if the p-value exceeds 0.05. The magnitude and direction of each variable's effect are determined using path coefficients, which provide a quantitative indication of the strength of the relationships being examined.

**Figure 1. Research results model**



Source : WarPLS 8.0, Processed by the researcher, 2026.

### DISCUSSION

Based on the test results, the effect of Environmental Performance on earnings quality is recorded with a path coefficient of 0.120, while the p-value is 0.076. Since this value exceeds the 0.05 significance threshold, it can be concluded that environmental performance does not contribute significantly to earnings quality from a statistical perspective. Therefore, the findings of this study do not support the initial hypothesis, which assumed a positive influence of Environmental Performance on earnings quality.

The study's findings indicate that the environmental activities undertaken by the company do not have a direct impact on improving earnings quality. From the perspective of Legitimacy Theory and Stakeholder Theory, good environmental performance is expected to enhance the company's social legitimacy while strengthening support from stakeholders. Such support is anticipated to boost the company's reputation and ensure operational continuity, which in turn could potentially improve the quality of financial information. However, the results of this study

suggest that these benefits have not been directly reflected in earnings quality during the observation period. The insignificant effect of environmental performance on earnings quality can be explained by several factors. First, the economic impact of environmental activities is generally long-term, whereas earnings quality is measured within an annual reporting period that is more influenced by short-term operational factors and market dynamics. Second, in the coal mining industry, variables such as commodity price fluctuations, production costs, and the application of accounting policies play a more dominant role in determining earnings compared to environmental performance.

The study conducted by Daniyati et al. (2022) revealed that environmental information disclosure in mining companies in Indonesia does not affect earnings quality, although corporate governance has the potential to strengthen this relationship. Similar findings were reported by Nuraini and Andrew (2023), who stated that environmental performance, proxied by the PROPER rating, does not have a significant impact on company profitability. These results indicate that companies tend to treat environmental activities primarily as a means of regulatory compliance and image building, rather than as an integral part of accounting policies. Therefore, environmental activities serve more as tools for legitimacy and sustainability rather than as a primary driver of financial information quality. This finding aligns with the research by Firmansyah et al. (2024) in the Indonesian manufacturing sector, which showed that environmental performance and the level of environmental information disclosure do not significantly influence company profitability. This is because environmental management practices are often driven by regulatory compliance or social responsibility obligations, so their economic impact is not directly reflected in earnings reports. Furthermore, in certain industries, operational factors such as production efficiency, cost control, and market price fluctuations have been shown to play a more dominant role in determining earnings compared to environmental aspects.

Based on the test results, it was found that Good Corporate Governance (GCG) has a significant positive contribution to improving earnings quality. This is reflected in a path coefficient of 0.657 and a p-value of 0.001, which is far below the established significance threshold of 0.05. These results indicate that the better the implementation of corporate governance principles, the higher the reliability and credibility of the reported earnings. Therefore, the effective application of GCG is proven to play a direct role in enhancing the quality of earnings information, while also supporting the hypothesis formulated in this study.

This study provides further evidence that corporate governance significantly influences earnings quality. Consistent with Martinus and Kusumawati (2021), effective oversight particularly through audit committees is essential for enhancing the credibility of financial statements. Putri and Imron (2022) also found that Good Corporate Governance (GCG) positively and significantly impacts earnings quality. Specifically, governance mechanisms such as managerial ownership, institutional ownership, and the proportion of independent commissioners contribute to improving the reliability of reported earnings. Similarly, Lisa J. C. Polimpung (2020) demonstrated in consumer goods companies listed on the Indonesia Stock Exchange (2016–2018) that GCG strengthens earnings quality. Overall, elements like institutional and managerial ownership, independent commissioners, and audit committees enhance transparency while limiting opportunistic managerial practices.

Agustin and Rahayu (2022) also argued that the implementation of Good Corporate Governance (GCG) can curb managerial opportunistic behavior, thereby making reported earnings more accurately reflect the company's actual economic condition. This finding is consistent with agency theory, which explains the potential conflict of interest between management as agents and shareholders as principals. By utilizing governance instruments such as independent boards of commissioners, audit committees, and institutional ownership, GCG can maintain the integrity of financial reporting while restraining unhealthy managerial practices. This outcome can be interpreted through the lens of agency theory, which states that differences

in interests between management and owners necessitate a robust monitoring system. Effective governance plays a role in limiting managerial opportunism, ensuring that reported earnings are reliable. In addition, the stakeholder theory perspective emphasizes that maintaining stakeholder trust through transparent practices is a crucial factor that ultimately promotes the production of high-quality earnings information

## CONCLUSION

This study examines the influence of environmental performance and Good Corporate Governance (GCG) on earnings quality in coal mining companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. Analysis using WarpPLS 8.0 indicates that GCG significantly enhances earnings quality, whereas environmental performance does not have a meaningful impact. These findings support agency theory, which emphasizes the importance of monitoring mechanisms and transparency to limit managerial opportunistic behavior and improve the reliability of earnings information. Conversely, environmental activities, measured through the PROPER program, appear to function more as efforts for regulatory compliance and public legitimacy rather than as a direct driver of accounting information quality.

Overall, this study demonstrates that, in Indonesia's coal mining industry, strengthening corporate governance (GCG) is more critical than environmental performance in determining earnings quality. From a theoretical perspective, a combination of agency and stakeholder theories can explain why the quality of financial reporting is more directly influenced by internal monitoring mechanisms. In contrast, environmental performance is more related to responding to external expectations. These findings provide practical insight into the importance of corporate governance reforms, particularly in industries with high environmental exposure and reputational risk.

## SUGGESTION

The main limitation of this study is the use of single proxies (PROPER for environmental performance and IPCG for GCG) and the sample scope, which is limited to coal companies with complete data from 2020 to 2024. These limitations may affect the generalizability of the findings. A broader measurement of stakeholder pressures and social legitimacy may not yet be fully captured from the perspectives of stakeholder and legitimacy theories. Therefore, future research is recommended to: (1) expand the sample to include factors such as institutional ownership, carbon emissions disclosure, or board characteristics; (2) extend the sample to other mining sectors or a longer period; and (3) examine moderating variables such as stakeholder pressure or corporate reputation to better understand the complex dynamics between social legitimacy, corporate governance, and earnings quality.

## RESEARCH TRANSPARENCY AND ETHICS STATEMENTS

### 1. Author Contributions:

**MA:** Conceptualization, Methodology

**MIP:** Data Collection , Supervision.

**EU:** Data Analysis, Writing – Original Draft , Supervision

**ARL:** Review and Editing , Supervision

**S:** Visualization , Supervision

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**3. Conflict of Interest:**

No conflict of interest: The authors declare that they have no conflict of interest related to the research and publication of this article.

**4. Research Ethics:**

5. The study did not involve any intervention, biological specimens, vulnerable groups, or sensitive personal data. Participation was voluntary, and the confidentiality of the respondents was maintained.

**6. Use of Artificial Intelligence (AI):**

No Use of AI. The authors declare that generative AI was not used in the preparation of this article.

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