

THE EFFECT OF ENVIRONMENTAL PERFORMANCE, LEVERAGE, AND LIQUIDITY ON FINANCIAL PERFORMANCE

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Abstract

This study examines the effect of environmental performance, leverage, and liquidity on the financial performance of energy companies listed on the Indonesia Stock Exchange during the 2019–2024 period. The research was conducted to address the importance of understanding the factors influencing financial performance in the energy sector amid increasing environmental and financial challenges. This study employed a quantitative approach using secondary data obtained from annual reports, sustainability reports, and PROPER decree letters. The sample consisted of 15 energy companies selected through purposive sampling, and the data were analyzed using panel data regression. The findings indicate that environmental performance, leverage, liquidity, and financial performance fluctuated throughout the observation period. Simultaneously, environmental performance, leverage, and liquidity significantly affected financial performance. Partially, environmental performance and leverage showed no significant effect on financial performance, while liquidity had a positive effect on financial performance. These results highlight the importance of effective liquidity management in improving corporate financial performance and provide insights for energy companies in maintaining financial stability and competitiveness in a dynamic business environment.

Keywords: Environmental Performance, Leverage, Liquidity, Financial Performance

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1. Introduction

The financial performance of energy companies has attracted increasing attention in recent years due to the sector's strategic role in supporting economic development and its vulnerability to global economic shocks. As one of Indonesia's key economic sectors, the energy industry contributes approximately 10.5 percent of the national Gross Domestic Product and plays a fundamental role in sustaining industrial production and economic activities (Ministry of Energy and Mineral Resources 2024). Despite its strategic importance, the sector experienced substantial financial pressure during the COVID-19 pandemic. The average Return on Assets (ROA) of Indonesian energy companies declined from 8.2 percent in 2019 to 5.4 percent in 2020, reflecting weaker profitability and lower efficiency in asset utilization. Although financial performance improved during the economic recovery period, several major companies, including PT Alamtri Resources Indonesia Tbk, recorded another decline in profitability following the normalization of commodity prices after 2022 (Pratiwi & Suropto, 2022). These fluctuations indicate that the financial performance of energy companies remains vulnerable to both internal corporate conditions and external economic dynamics (Shofwatun *et al.*, 2021).

Financial performance represents one of the most important indicators used to evaluate a firm's ability to utilize available resources efficiently and generate sustainable profitability. Investors, creditors, and other stakeholders rely on financial performance to assess a firm's financial health, operational efficiency, and long-term viability (Hutabarat, 2020; Shofwatun et al., 2021). Among various profitability measures, Return on Assets (ROA) provides a comprehensive assessment of management effectiveness because it reflects the firm's ability to convert total assets into earnings (Kasmir, 2019). Understanding the factors that determine financial performance therefore remains an important issue for both corporate management and capital market participants, particularly in industries characterized by high operational risk and substantial capital investment, such as the energy sector. Stakeholder Theory provides a useful framework for explaining how corporate decisions influence financial performance. The theory argues that firms achieve sustainable performance by maintaining balanced relationships with stakeholders, including investors, creditors, governments, employees, customers, and local communities (Freeman, 1984). Companies that effectively manage stakeholder expectations are more likely to secure long-term support, improve access to critical resources, and strengthen organizational performance.

Within this perspective, environmental performance reflects corporate responsibility toward society and the natural environment, leverage represents the firm's ability to manage financial obligations to creditors, and liquidity demonstrates its capacity to meet short-term commitments (Fahmi, 2020; Nengsih et al., 2022; Sari et al., 2023). These factors collectively shape stakeholder perceptions and influence the firm's ability to sustain financial performance. Previous studies have identified environmental performance, leverage, and liquidity as important determinants of financial performance. Nevertheless, empirical evidence remains inconclusive. Several studies report that environmental performance improves financial performance because environmentally responsible firms strengthen stakeholder confidence and operational efficiency (Fatahillah & Rahardjo, 2025; Putri & Mayangsari, 2023). Other studies document weaker or insignificant relationships, suggesting that environmental investments may not immediately translate into higher profitability. Similar inconsistencies also appear in studies examining leverage and liquidity, indicating that the effects of financial structure and short-term solvency vary across industries and economic conditions. These inconsistent findings suggest that the determinants of financial performance remain context-dependent and require further empirical investigation.

This study addresses these gaps in several ways. First, it examines environmental performance, leverage, and liquidity simultaneously within a single empirical framework, providing a more comprehensive explanation of financial performance than studies that evaluate these determinants separately. Second, the analysis focuses on energy companies listed on the Indonesia Stock Exchange during the 2019–2024 period, covering the pre-pandemic period, the COVID-19 crisis, and the subsequent economic recovery. This observation period captures substantial changes in the business environment and enables a more comprehensive assessment of financial performance under different economic conditions. The findings are expected to enrich the literature on corporate financial performance while providing practical insights for managers, investors, and policymakers regarding the financial implications of environmental management and corporate financial policies.

Although previous studies have examined the determinants of financial performance, the existing evidence remains fragmented and inconclusive, particularly within industries

characterized by high environmental exposure and capital intensity (Damayanti & Anam, 2025; Hermuningsih et al., 2022; Ramadhania & Sugara, 2025). This limitation restricts the current understanding of how environmental responsibility and corporate financial policies jointly influence firms' financial outcomes under changing economic conditions.

Addressing this issue is important because financial performance not only reflects managerial effectiveness but also determines firms' capacity to maintain competitiveness, attract investment, and sustain long-term business operations. A more comprehensive understanding of these relationships is therefore essential for managers in designing strategic financial policies, for investors in evaluating corporate performance, and for policymakers in promoting sustainable industrial development.

This study contributes to the literature by examining environmental performance, leverage, and liquidity within a unified analytical framework using evidence from Indonesian energy companies over the 2019–2024 period, encompassing the pre-pandemic period, the COVID-19 crisis, and the subsequent economic recovery. This extended observation period captures substantial changes in the business environment and provides a richer empirical setting for understanding the determinants of financial performance. Accordingly, this study examines the effects of environmental performance, leverage, and liquidity on the financial performance of energy companies listed on the Indonesia Stock Exchange.

2. Literature Review and Hypothesis Development

2.1 Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), argues that a firm's long-term success depends on its ability to create value for stakeholders whose resources and support are essential to business continuity. These stakeholders include investors, creditors, employees, customers, governments, suppliers, and local communities. The theory assumes that firms operate within a network of stakeholder relationships in which corporate decisions generate economic, social, and environmental consequences (Chariri & Ghazali, 2007; Wiguna et al., 2023).

Consequently, organizational performance is not determined solely by internal managerial decisions but also by the firm's ability to respond to stakeholder expectations through responsible business practices, transparent governance, and effective resource management. Firms that maintain constructive relationships with stakeholders are more likely to secure continued access to financial resources, strengthen corporate legitimacy, and sustain long-term organizational performance (Dwi & Haq, 2023; Ghazali, 2020).

Stakeholder Theory provides a relevant foundation for explaining the determinants of financial performance examined in this study. Environmental performance reflects the firm's commitment to managing its environmental responsibilities, which can strengthen stakeholder confidence and enhance corporate reputation (Lastiningsih et al., 2020). Leverage represents the firm's ability to manage financial obligations to creditors, while liquidity reflects its capacity to meet short-term commitments and maintain financial flexibility. These factors influence how stakeholders evaluate the firm's credibility, financial stability, and long-term prospects (Brigham & Houston, 2020; Myers, 2001). Firms that effectively respond to stakeholder expectations through responsible environmental management and prudent financial policies are more likely to strengthen stakeholder support, improve operational performance, and achieve superior financial performance (Wiguna et al., 2023).

2.2 Environmental Performance and Financial Performance

Environmental performance reflects a firm's ability to manage the environmental consequences of its operational activities while maintaining compliance with environmental regulations and sustainability principles. As environmental issues become increasingly important in corporate decision-making, stakeholders expect firms not only to generate economic value but also to minimize adverse environmental impacts (De Miguel De Blas, 2021; Dianty & Nurrahim, 2022). Companies that demonstrate stronger environmental performance are more likely to improve resource efficiency, reduce environmental risks, and strengthen their long-term business sustainability. These advantages enable firms to operate more efficiently while reinforcing stakeholders' confidence in the firm's commitment to responsible business practices.

In Indonesia, environmental performance is evaluated through the Program for Pollution Control, Evaluation, and Rating (PROPER) administered by the Ministry of Environment and Forestry (KLHK). PROPER assesses corporate environmental performance by measuring compliance with environmental regulations and recognizing firms that exceed mandatory environmental standards through sustainable environmental management practices (KLHK, 2024).

Stakeholder Theory argues that firms strengthen organizational performance by responding to stakeholders' expectations through responsible environmental management and transparent corporate practices (Murtaib et al., 2025; Nengsih et al., 2022). Companies with superior environmental performance are more likely to obtain support from investors, customers, regulators, and local communities, creating favorable conditions for sustaining business operations and improving financial outcomes. Strong stakeholder support may also reduce regulatory risk, enhance corporate reputation, and improve operational efficiency, all of which contribute to stronger financial performance. Previous studies consistently report that environmental performance positively influences financial performance (Ramadhani et al., 2022; Setiadi, 2021). Building upon these theoretical and empirical arguments, this study proposes the following hypothesis:

H1: Environmental Performance has a positive effect on Financial Performance

2.3 Leverage and Financial Performance

Leverage reflects a firm's financing strategy in utilizing debt to support operational activities and long-term investment. In the energy sector, debt financing is common because companies require substantial capital to develop infrastructure, acquire fixed assets, and expand production capacity. Although leverage provides additional financial resources that may accelerate business growth, excessive reliance on debt also increases fixed financial obligations in the form of interest and principal repayments.

Stakeholder Theory explains that financial performance depends on a firm's ability to maintain balanced relationships with stakeholders whose resources support business continuity. Creditors represent a key stakeholder because they provide external financing that enables firms to undertake large-scale investment. However, when leverage becomes excessive, management faces greater pressure to prioritize debt repayment over the interests of other stakeholders, including shareholders, employees, suppliers, and local communities. Previous studies consistently report that leverage negatively affects financial performance (Amalia, 2021; Nadila Sari & Peng Wi, 2022). Building upon Stakeholder Theory and the existing

empirical evidence, this study expects that higher leverage reduces financial performance. Therefore, the following hypothesis is proposed:

H2: Leverage has a negative effect on Financial Performance

2.4 Liquidity and Financial Performance

Liquidity reflects a firm's ability to meet its short-term financial obligations using available current assets. Maintaining adequate liquidity is particularly important because it ensures the continuity of business operations and reduces the likelihood of financial distress arising from cash flow constraints. Companies with strong liquidity are better positioned to finance day-to-day operations, settle obligations on time, and respond to unexpected financial needs without disrupting productive activities (Blessing & Sakouvogui, 2023; Rashid, 2018).

This study argues that a firm's financial performance is closely associated with its ability to maintain the confidence of stakeholders by fulfilling financial commitments in a timely manner. Thus, this argument supports with stakeholder perspective. Liquidity demonstrates the firm's capacity to meet its obligations to creditors, suppliers, employees, and other stakeholders whose support is essential for business continuity. Companies that consistently honor these commitments are more likely to strengthen stakeholder confidence, preserve stable business relationships, and secure continued access to financial and operational resources.

Previous studies consistently report that liquidity has a positive effect on financial performance (Fatahillah & Rahardjo, 2025; Rahmawati et al., 2023; Safitriana, 2024; Zahra & Yuniningsih, 2025). Building upon Stakeholder Theory and the existing empirical evidence, this study expects that higher liquidity contributes to stronger financial performance. Therefore, the following hypothesis is proposed:

H3: Liquidity has a positive effect on Financial Performance

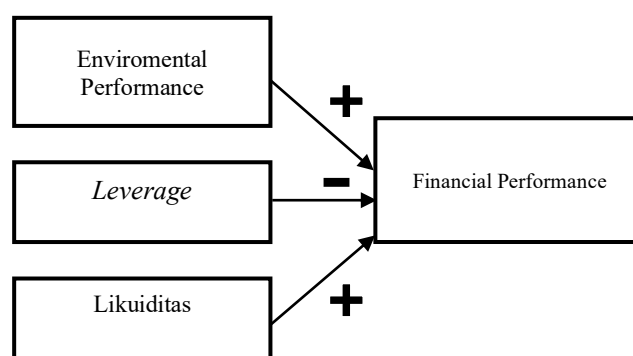


Figure 1. Research Model

3. Methodology

This study employs a quantitative research design to examine the effects of environmental performance, leverage, and liquidity on the financial performance of energy companies listed on the Indonesia Stock Exchange (IDX). The study uses balanced panel data covering the period from 2019 to 2024, allowing the analysis to capture both cross-sectional differences among firms and changes in financial performance over time. Secondary data were collected from audited annual reports available on the official IDX website and the respective corporate websites.

Information on environmental performance was obtained from the Program for Pollution Control, Evaluation, and Rating (PROPER) published annually by the Ministry of Environment and Forestry (KLHK). The observation period was selected to capture the dynamics of corporate financial performance before, during, and after the COVID-19 pandemic, providing a broader empirical context for evaluating the relationships among the research variables.

The study focuses on energy companies listed on the Indonesia Stock Exchange. Sample selection was conducted using purposive sampling to ensure that only firms meeting the research requirements were included in the analysis. Companies were required to publish complete annual reports, disclose all information necessary to measure the research variables, and participate in the PROPER environmental assessment during the observation period. Based on these criteria, the final sample consists of 15 energy companies, resulting in a balanced panel dataset for empirical analysis.

The hypotheses were tested using panel data regression analysis because the dataset combines cross-sectional observations across firms with time-series observations over multiple years, allowing the model to capture both firm-specific characteristics and temporal dynamics. Panel data regression also improves estimation efficiency by utilizing greater variability in the data and controlling for unobservable heterogeneity across firms. The empirical analysis was conducted in two stages. First, model selection tests, including the Chow test, Hausman test, and Lagrange Multiplier test, were performed to determine the most appropriate panel data specification. Second, the selected regression model was estimated to examine the effects of environmental performance, leverage, and liquidity on financial performance. The regression model is specified as follows:

$$FP = \alpha + \beta_1 EP_{i,t} + \beta_2 LEV_{i,t} + \beta_3 LIQ_{i,t} + \varepsilon$$

Denotes:

- FP = Financial performance of company (i) in year (t)
- EP = Environmental performance of company (i) in year (t)
- LEV = Leverage of company (i) in year (t)
- LIQ = Liquidity company (i) in year (t)
- ε = error terms

Variable Definition

Independent Variable

Environmental Performance (EP) refers to the extent to which a company effectively manages its environmental responsibilities and minimises the environmental impacts of its business operations. It reflects the company's commitment to sustainable practices, including reducing emissions, improving resource efficiency, managing waste, and complying with environmental regulations. In this study, environmental performance serves as the independent variable that is expected to influence the company's financial performance.

Leverage (LEV) refers to the proportion of a company's assets financed through debt. It reflects the company's capital structure and financial risk. A higher leverage ratio indicates greater reliance on external financing, which may increase financial obligations but also provide opportunities for business expansion. In this study, leverage is included to control for the effect of capital structure on financial performance.

Liquidity (LIQ) refers to a company's ability to meet its short-term financial obligations using its current assets. A company with higher liquidity has greater financial flexibility and is generally better positioned to support its operational activities and respond to unexpected financial needs. In this study, liquidity is included to control for the influence of a firm's short-term financial strength on financial performance.

Dependent Variable

Financial Performance (FP) refers to a company's ability to generate profits and create value from its business operations. It reflects the efficiency and effectiveness of management in utilising company resources to achieve financial objectives. Strong financial performance indicates that the company successfully manages its assets, liabilities, and operational activities to maximise profitability and shareholder value. In this study, financial performance serves as the dependent variable that is influenced by environmental performance while controlling for leverage and liquidity.

4. Results and Discussion

4.1 Statistics Descriptive

The first step is to conduct a descriptive statistical test. Based on descriptive statistical testing, Environmental Performance (X_1) has an average value of 3.93, a median value of 4.00, the lowest value of 3.00 and the highest value of 5.00 with a standard deviation of 0.75.

Table 1. Descriptive Statistics

	Min	Max	Mean	Median	Std.Dev
FP	-0.098	0.616	0.130	0.078	0.150
EP	3.000	5.000	3.933	4.000	0.746
LEV	0.163	24.84	1.505	0.869	2.784
LIQ	0.269	5.357	1.756	1.564	1.013

Notes: FP indicates Financial Performance, EP indicates Environmental Performance, LEV indicates leverage, and LIQ indicates Liquidity; Sources: Eviews 12 Output

Leverage (X_2) shows an average value of 1.50, a median value of 0.87, the lowest value of 0.16 and the highest value of 24.85 with a standard deviation of 2.79. Liquidity (X_3) shows an average value of 1.76, a median value of 1.56, the lowest value of 0.27 and the highest value of 5.36 with a standard deviation of 1.01. Financial Performance (Y) shows an average value of 0.13, a median value of 0.08, the lowest value of -0.09 and the highest value of 0.62 with a standard deviation of 0.15.

4.2 Regression Data Analysis

Before estimating the empirical model, this study determined the most appropriate panel data specification to ensure that the estimated coefficients accurately represent the characteristics of the dataset. The model selection process involved the Chow, Hausman, and Lagrange Multiplier tests. The results consistently indicate that the Random Effects Model is the most appropriate specification for this study after considering both cross-sectional heterogeneity and the statistical properties of the panel data. The selected model therefore provides the empirical basis for examining the effects of environmental performance, leverage, and liquidity on financial performance.

Following the model selection process, several diagnostic tests were performed to evaluate the adequacy of the regression model. The multicollinearity test indicates that all centered Variance Inflation Factor (VIF) values range from 1.04 to 1.16, well below the commonly accepted threshold of 10, confirming the absence of multicollinearity among the independent variables. The heteroscedasticity test also reports probability values exceeding 0.05 for all explanatory variables, indicating that the variance of the residuals remains constant across observations. Although the Jarque–Bera test reports a probability value of 0.0000, suggesting that the residuals are not normally distributed, this issue is not considered substantial because the analysis is based on 90 firm-year observations. According to the Central Limit Theorem, parameter estimates remain reliable and asymptotically normally distributed when the sample size is sufficiently large. Overall, these diagnostic results confirm that the selected regression model is appropriate for hypothesis testing and provides reliable estimates of the relationships examined in this study.

Table 2. Regression Results

	Coef.	Std. Error	T-statistics	Prob
C	0.078	0.11	0.72	-
EP	-0.00	0.03	-0.19	-
LEV	-0.01	0.01	-1.33	-
LIQ	0.05	0.02	2.40	***

Notes: FP indicates Financial Performance, EP indicates Environmental Performance, LEV indicates leverage, and LIQ indicates Liquidity. (***) represent significant in 1%, (**) represent significant in 5%, (*) represent significant in 10%.

The regression results indicate that environmental performance has a regression coefficient of -0.00 with a t-statistic of -0.19 , indicating that the estimated relationship is statistically insignificant. Therefore, **H1 is not supported**. These findings suggest that environmental performance does not have a significant relationship with the financial performance of energy companies during the observation period. This result implies that improvements in environmental performance alone are not immediately translated into higher corporate profitability. The economic benefits associated with environmental initiatives may require a longer period to materialize, while the costs of implementing environmental programs are incurred in the short term, limiting their immediate contribution to financial performance (Noegroho & Susilowati, 2024; Rahmawati et al., 2023).

Leverage reports a regression coefficient of -0.01 with a t-statistic of -1.33 , indicating that the relationship between leverage and financial performance is not statistically significant. Accordingly, **H2 is not supported**. Although the estimated coefficient is negative, the findings suggest that variations in leverage do not materially influence the financial performance of the sampled firms. This result indicates that energy companies are generally able to manage debt financing without significantly affecting their profitability. Given the capital-intensive nature of the energy industry, debt financing may represent a normal component of corporate financial strategy rather than a source of financial inefficiency (Agustina et al., 2022; Fadholi et al., 2025; Khoirunisa, 2020).

Liquidity exhibits a positive regression coefficient of 0.05 with a t-statistic of 2.40 , indicating a statistically significant positive relationship with financial performance. Therefore, **H3 is supported**. This finding demonstrates that firms with stronger liquidity tend to achieve higher financial performance. Adequate liquidity enables companies to meet short-term obligations, maintain operational continuity, and respond more effectively to business

opportunities and unexpected financial pressures. Consequently, stronger liquidity enhances financial flexibility and supports more efficient operational activities, ultimately contributing to improved corporate profitability (Fatahillah & Rahardjo, 2025; Rahmawati et al., 2023; Safitriana, 2024).

4.3 Discussion

The Relationship of Environmental Performance and Financial Performance

The findings indicate that environmental performance does not significantly influence the financial performance of energy companies during the observation period. This result suggests that improvements in environmental performance are not immediately translated into higher profitability. One plausible explanation is that environmental initiatives generally require substantial investment and generate benefits over an extended period rather than in the short term.

During the 2019–2024 period, the financial performance of Indonesian energy companies was strongly influenced by external factors, particularly the economic disruption caused by the COVID-19 pandemic and the subsequent volatility of global energy commodity prices. All companies consistently obtained PROPER ratings of Blue or higher, indicating that they had complied with the environmental management standards established by the Ministry of Environment and Forestry (KLHK, 2024). This finding reflects a relatively homogeneous level of environmental performance across the sample, resulting in limited variation to distinguish firms with superior environmental practices from those that merely satisfy regulatory requirements.

Consequently, environmental performance functions primarily as an indicator of regulatory compliance rather than a source of competitive differentiation capable of improving financial performance. In contrast, profitability fluctuated considerably throughout the observation period due to changing business conditions, suggesting that operational and market-related factors exerted a stronger influence on financial performance than environmental ratings. These findings are consistent with Stakeholder Theory, which argues that corporate sustainability depends on the firm's ability to maintain the support of multiple stakeholder groups. However, the theory does not imply that every stakeholder-oriented activity produces immediate financial benefits. In the context of Indonesian energy companies, environmental performance appears to strengthen corporate legitimacy and demonstrate accountability to regulators and society rather than directly improving short-term financial outcomes.

Investors may continue to place greater emphasis on conventional financial indicators, such as profitability, operational efficiency, and growth prospects, when evaluating corporate performance (Yusnida, 2025). Consequently, environmental performance alone is insufficient to generate measurable improvements in financial performance within the observed period. This finding extends the existing literature by suggesting that the financial benefits of environmental responsibility are likely to depend on the broader economic environment, industry characteristics, and the extent to which environmental initiatives create strategic value beyond regulatory compliance. These findings are consistent with previous studies conducted by (Noegroho dan Susilowati, 2024; Rahmawati et al., 2023; Ramadhania dan Sugara, 2025; Yusnida, 2025) which also report that environmental performance does not significantly affect financial performance.

The Relationship of Leverage and Financial Performance

The findings indicate that leverage does not have a significant relationship with the financial performance of energy companies during the observation period. This result suggests that variations in corporate debt levels are not sufficient to explain differences in profitability among the sampled firms. On the other hand, leverage enables firms to finance capital-intensive investments, expand production capacity, and support long-term business growth (Ghazali, 2020). Higher debt increases fixed financial obligations through interest and principal repayments. When these opposing effects remain relatively balanced, the overall impact of leverage on financial performance becomes insignificant. This condition is particularly relevant in the energy sector, where external financing constitutes an integral component of long-term investment strategies rather than an indication of financial weakness.

Because leverage is widely adopted, differences in capital structure become less capable of distinguishing firms with stronger financial performance from those with weaker performance. During the observation period, profitability was influenced more substantially by fluctuations in energy commodity prices, changes in market demand, and macroeconomic conditions than by differences in financing structure. These circumstances explain why reductions in leverage were not consistently accompanied by improvements in Return on Assets, indicating that financial performance was driven primarily by operational and external market conditions rather than by debt utilization alone.

Stakeholder Theory provides a relevant explanation for these findings by emphasizing that financial performance depends on a firm's ability to maintain balanced relationships with stakeholders who provide essential resources for business continuity. Creditors represent one of the firm's primary stakeholders because they supply the external capital required to support investment and operational activities (Amalia, 2021; Fahmi, 2020). If companies are able to fulfill their financial obligations and maintain stakeholder confidence, the use of debt does not necessarily impair financial performance. In other words, leverage becomes a financing mechanism rather than a determinant of profitability when it is managed prudently and aligned with the firm's operational capacity. This finding suggests that the effectiveness of leverage depends not merely on the amount of debt employed but on management's ability to utilize borrowed funds efficiently to generate economic returns. These results are consistent with the findings by (Agustina et al., 2022; Fadholi et al., 2025; Khoirunisa, 2020), which also report that leverage does not significantly affect financial performance.

The Relationship of Liquidity and Financial Performance

The findings demonstrate that liquidity has a positive and significant relationship with financial performance, indicating that firms with stronger short-term financial capacity tend to achieve higher profitability. This result suggests that adequate liquidity enables companies to maintain uninterrupted business operations while responding more effectively to operational and financial uncertainties (Zahra & Yuniningsih, 2025). Firms with sufficient current assets are better positioned to finance working capital requirements, meet short-term obligations, and support day-to-day business activities without relying excessively on external financing. As a result, financial flexibility improves, operational disruptions are minimized, and management can allocate resources more efficiently to activities that generate higher returns. These conditions ultimately contribute to stronger financial performance (Safitriana, 2024).

The positive association between liquidity and financial performance is particularly relevant in the energy sector, where companies operate in a capital-intensive environment characterized by substantial working capital requirements and exposure to fluctuations in commodity prices. Maintaining adequate liquidity allows firms to absorb temporary cash flow pressures, sustain production activities, and preserve operational continuity during periods of market uncertainty (Sari et al., 2023). Moreover, companies with stronger liquidity are less dependent on short-term borrowing to finance routine operations, reducing financing costs and improving their capacity to capitalize on investment opportunities. These advantages strengthen the firm's ability to generate profits even when external business conditions become less favorable.

Stakeholder Theory provides a relevant explanation for these findings by emphasizing that financial performance depends on a firm's ability to maintain the confidence of stakeholders whose resources support business continuity. Liquidity reflects the firm's capacity to fulfill its financial commitments to creditors, suppliers, employees, and other business partners in a timely manner (Brigham & Houston, 2020). Consistent fulfillment of these obligations strengthens stakeholder confidence, preserves long-term business relationships, and improves access to financial and operational resources. This supportive business environment enables firms to operate more efficiently and sustain profitability over time. The findings therefore suggest that liquidity represents not only a measure of short-term solvency but also an important indicator of corporate financial resilience and effective stakeholder management. These results are consistent with previous studies conducted by (Fatahillah dan Rahardjo, 2025; Rahmawati *et al.*, 2023; Safitriana, 2024; Zahra dan Yuniningsih, 2025), which also document a positive relationship between liquidity and financial performance.

4.4 Theoretical and Practical Implication

This study provides several theoretical implications for the literature on corporate financial performance from the perspective of Stakeholder Theory. The findings suggest that stakeholder-oriented activities do not uniformly translate into immediate improvements in financial performance. Environmental performance, although essential for strengthening corporate legitimacy and fulfilling regulatory expectations, does not necessarily generate short-term financial benefits. Similarly, leverage does not significantly influence financial performance when debt financing is managed within an appropriate level that supports operational activities without imposing excessive financial pressure (Agustina et al., 2022). In contrast, liquidity emerges as a significant determinant of financial performance because it directly reflects a firm's ability to maintain operational continuity and fulfill its commitments to key stakeholders.

These findings extend the application of Stakeholder Theory by demonstrating that stakeholders assign different economic values to corporate actions, implying that the financial consequences of stakeholder management depend on the nature of the firm's strategic decisions and the surrounding business environment (Gibson, 2000). The findings also offer important practical implications for corporate managers, investors, and policymakers. For corporate management, maintaining adequate liquidity should remain a strategic priority because financial flexibility enables firms to sustain operational stability and improve profitability, particularly in the highly capital-intensive energy industry. Environmental initiatives should continue to be implemented as part of long-term corporate sustainability strategies rather than solely as instruments for improving short-term financial performance. On the other

hand, debt financing should be managed prudently to preserve financial flexibility while supporting long-term investment (De Miguel De Blas, 2021).

For investors, the findings suggest that liquidity provides a more immediate indicator of corporate financial strength than environmental performance or capital structure. Meanwhile, regulators should continue encouraging improvements in environmental performance through mechanisms such as PROPER, while simultaneously promoting policies that strengthen corporate financial resilience to support the long-term sustainability and competitiveness of the energy sector (Nengsih et al., 2022).

5. Conclusion

This study examines the effects of environmental performance, leverage, and liquidity on the financial performance of energy companies listed on the Indonesia Stock Exchange during the 2019–2024 period. The empirical findings demonstrate that, although the three variables jointly explain variations in financial performance, only liquidity exhibits a significant positive relationship when examined individually. In contrast, environmental performance and leverage do not significantly influence financial performance. These findings suggest that, within the Indonesian energy sector, financial performance is more closely associated with a firm's ability to maintain short-term financial flexibility than with its environmental performance or financing structure. The results further indicate that the economic benefits of environmental responsibility may require a longer period to materialize, whereas the financial implications of leverage depend largely on how debt is managed rather than on the amount of debt employed.

Several limitations should be acknowledged when interpreting the findings of this study. First, the analysis is confined to companies in the Indonesian energy sector, whose capital structure, environmental exposure, and operational characteristics differ substantially from those of other industries. Second, the study examines financial performance using a limited set of explanatory variables, which may not fully capture the complexity of factors influencing corporate profitability. Future studies are therefore encouraged to include additional firm-specific, governance, and market-related variables while extending the sample to different industries and longer observation periods to improve the robustness and generalizability of the findings.

Declaration of Conflicting Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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