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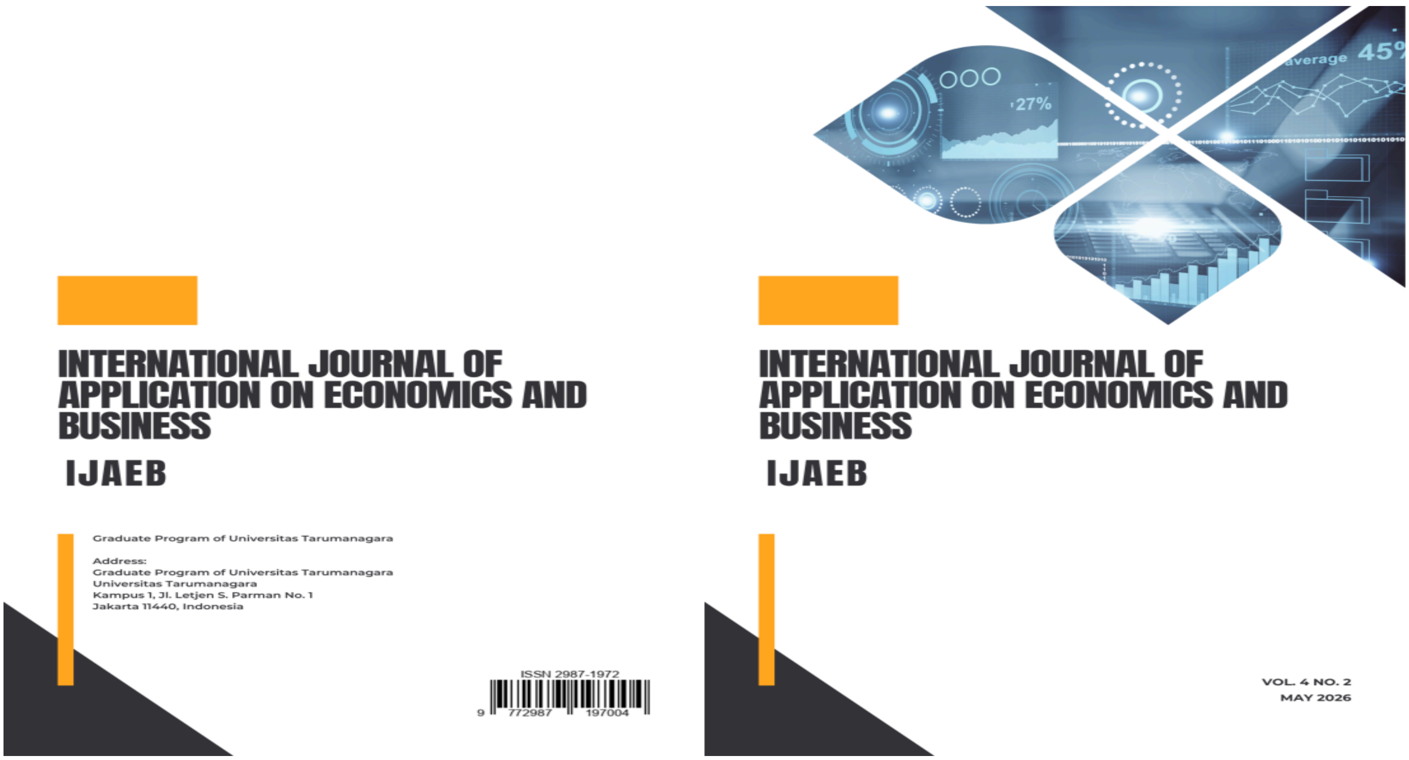

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COGNITIVE FACTORS OF RECOMMENDATION SYSTEMS AND THEIR INFLUENCE IN BUILDING TRUST TO DRIVE CONSUMER PURCHASE INTENTION: A SYSTEMATIC LITERATURE REVIEW (https://journal.untar.ac.id/index.php/ijaeb/article/view/38077)

Desi Arisandi, Dyah Erny Herwindiati, Cokki Cokki
545-555

https://doi.org/10.24912/ijaeb.v4i2.545-555 (https://doi.org/10.24912/ijaeb.v4i2.545-555)

PDF (https://journal.untar.ac.id/index.php/ijaeb/article/view/38077/23361)

DETERMINANTS GREEN MARKETING AND CSR ON GREEN PURCHASE INTENTION THROUGH GREEN BRAND IMAGE AT FORE COFFEE JABODETABEK REGION (https://journal.untar.ac.id/index.php/ijaeb/article/view/38225)

Kayla Lyzandra, Elkunny Dovir Siratan
556-568

https://doi.org/10.24912/ijaeb.v4i2.556-568%20 (https://doi.org/10.24912/ijaeb.v4i2.556-568%20)

PDF (https://journal.untar.ac.id/index.php/ijaeb/article/view/38225/23460)

DRIVING THE PROPENSITY FOR GREEN ENTREPRENEURSHIP (https://journal.untar.ac.id/index.php/ijaeb/article/view/38226)

Kartika Nuringsih, Nuryasman MN, Harry Kristanto
569-580

https://doi.org/10.24912/ijaeb.v4i2.569-580%20 (https://doi.org/10.24912/ijaeb.v4i2.569-580%20)

PDF (https://journal.untar.ac.id/index.php/ijaeb/article/view/38226/23461)

THE INFLUENCE OF CHATBOT QUALITY ON SATISFACTION USE CHATBOT: THE ROLES OF EASE AND USEFULNESS (https://journal.untar.ac.id/index.php/ijaeb/article/view/38227)

Catherine Christiana Tjandra, Haris Maupa, Cokki Cokki
581-594

PDF (https://journal.untar.ac.id/index.php/ijaeb/article/view/38227/23462)

THE EFFECT OF ACTIVITY, PROFITABILITY, LIQUIDITY, AND SALES GROWTH ON THE FINANCIAL DISTRESS OF PROPERTY AND REAL ESTATE COMPANIES

PDF (https://journal.untar.ac.id/index.php/ijaeb/article/view/38232/23467)

A PRELIMINARY EXPLORATION of BLUE ECONOMY DEVELOPMENT and GOVERNANCE MODELS in TAIWAN'S OFFSHOR ISLANDS (https://journal.untar.ac.id/index.php/ijaeb/article/view/38233)

Kan-Chung Huang , Yu-Ting Hung, Chao-Li Tai , Ching-Yun Lee
648-659

https://doi.org/10.24912/ijaeb.v4i2.648-659%20 (https://doi.org/10.24912/ijaeb.v4i2.648-659%20)

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IMPACT OF ESG DISCLOSURE ON STOCK RETURNS IN COMPANIES LISTED ON INDONESIA STOCK EXCHANGE

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ABSTRACT

As the growing concern over climate change and environmental issues, investors increasingly seek investments that not only to accumulate yield of stock returns but also to have a positive contribution harmoniously with the Sustainable Development Goals (SDGs) continuously. In the context within business and financial cores, the SDGs are supported by Environmental, Social, and Governance (ESG) disclosures, emerging to serves as a parameter for evaluating an organization's contribution to environmental and social aspects through good corporate governance. The limited research on the relationship impact between ESG disclosure and stock returns in Indonesia has become the objective which aims the intention to analyze the effect of ESG disclosure on stock returns. This research employs secondary data sample obtained from listed firms on the Indonesia Stock Exchange (IDX) that published ESG scores between year of 2022 until 2024. A total of 228 data observations were analyzed using linear regression method. The research findings reveal a positive and statistically significant between ESG disclosure and stock returns in emerging country, Indonesia. These results support signaling theory, which suggests that the disclosure of non-financial information is able to enhance investor's trust and confidence. Practically, the findings provide valuable higlights strategic importance of integrating ESG transparency into corporate governance management frameworks to improve the quality of ESG disclosure as a means of increasing and intensify investment attractiveness.

Keywords: *SDGs, Sustainable Development Goals, ESG Disclosure, Stock Returns, Good Corporate Governance.*

1. INTRODUCTION

Pollution and climate change have become serious global challenges in recent years. Consequently, many countries worldwide agree that sustainable development is essential to mitigate and even overcome these issues. The United Nations (UN) has established the Sustainable Development Goals (SDGs) as a response to growing concerns about sustainability. In this context, sustainable development has been further reinforced and now plays a central role in promoting the realization of the SDGs. Furthermore, strengthening sustainable practices in business and financial markets has continuously supported the achievement of the SDGs through the advancement of green capital and green finance (van Niekerk, 2024). Business organizations involve in the financial markets are also crucial in facilitating the implementation of the SDGs (Ha et al., 2024).

According to Li et al. (2021), sustainable or socially responsible investment refers to an investment draw on systematically unifying and integrating environmental, social, and governance (ESG) factors into comprehensive decision maker process. Research by Suttipun and Yordudom (2022) reveals that investor reactions to ESG-related information are reflected in stock prices. This occurs because investors value transparency, which influences their investment decisions and ultimately drives changes in market prices. In addition, financial efficiency tends to improve as a result of enhanced information disclosure.

Corporate ESG data are typically obtained from financial reports, sustainability reports, company websites, third-party data providers, surveys, and other sources. Firms have increasingly prioritized ESG for at least two main reasons. First, as ESG issues have gained prominence over the past decades, governments have introduced sustainability reporting requirements to encourage stronger ESG performance. Second, ESG has become a global agenda, and enterprises under stronger ESG performance tend to fascinate more investors seeking sustainable investments. Historically, one of the early forms of ESG practice was Corporate Social Responsibility (CSR). Firms with higher CSR engagement often achieve stronger stock returns, better profitability, faster growth, and greater sales turnover compared to firms with weaker CSR performance (Liu et al., 2023).

ESG scores serve as an important benchmark for companies, financial markets, and academics, acting as one of the key indicators for assessing corporate sustainability (Gillan et al., 2021). Globally, investors, asset managers and academics have increasingly emphasized the integration of governance, environmental and social factors into financial programs aimed at achieving sustainable investment efficiency (Suttipun & Yordudom, 2022).

According to Brown et al. (2025), ESG disclosure represents a non-financial signal that can shape market perceptions and stock returns. By influencing investor's trust, ESG disclosure can significantly affect stock performance, although the magnitude of its impact may vary depend on investor perception and industry characteristics.

Stock returns are defined as the relative gains earned by investors from stock ownership. This concept also refers to the profit derived from stock investments over a given period, which reflects price fluctuations during the holding period (Yin et al., 2023). Brown et al. (2025) argued that investors increasingly incorporate sustainability considerations into their decision-making, suggesting that stock returns are influenced not only by financial performance but also by market perceptions of a firm's ESG commitment.

The compulsory of ESG encompasses three primary pillars basis of environmental, social, and governance which are embedded to ascertain sustainability corporate operations. ESG disclosure, therefore, refers to the transparent reporting of activities related to sustainability. Such disclosure fosters investor trust, strengthens the link between transparency and firm value and helps mitigate risks and uncertainties that might otherwise trigger sharp declines in stock prices (Ha et al., 2024).

Furthermore, according to Li et al. (2021), the European Banking Authority acknowledges that environmental, social, and governance (ESG) aspects have the potential to have both beneficial and detrimental effects on the financial performance and solvency of organizations, whether they be corporate or governmental. ESG is regarded as a long-term investment philosophy and a thorough, useful governance strategy that can be used to a variety of entities globally. It is a component of a coordinated framework for sustainable development that balances the benefits of economic, environmental, social, and governance factors.

Greenhouse gas emissions, energy use and efficiency, air pollution, recycling methods, wastewater treatment (liquid, solid, and hazardous), innovations in environmentally friendly goods and services, ecosystem dependence, and biodiversity are all examples of the environmental component of ESG. Social considerations include poverty reduction, supply chain management, nondiscrimination, diversity and equal opportunity, freedom of association, workplace and consumer health and safety, child labor, forced labor, and training and education. Accountability, corporate principles and codes of ethics, CEO pay, anti-corruption and anti-bribery measures, board diversity, stakeholder involvement, shareholder rights, and financial reporting transparency are all examples of governance factors (Li et al., 2021).

The extent of practising ESG and disclosure varies across firms, depending on business environments and macroeconomic dynamics. Similarly, the degree to which investors incorporate ESG information into stock valuations differs across industries. Prior studies examining the core implication between ESG disclosure and stock prices focused on industries which were sensitive to environmental issues, such as mining and extraction, oil and gas, chemicals, electric utilities and steel and construction. Companies in such industries often face greater environmental litigation and regulatory risks. As a result, they are subject to more stringent oversight and frequently report higher ESG scores, reflecting a stronger link between ESG disclosure, stock price dynamics and environmental impacts (Ha et al., 2024).

Empirical findings further reinforce this perspective. Torre et al. (2020) found that ESG scores positively and significantly affect stock returns among companies listed on the Euro Stoxx 50 Index, indicating that ESG disclosure enhances stock performance statistically while the adjusted R square is slightly 1-2% means not robust enough to explain the variation of stock returns. Another variable such as macro economics, market risk, investor behaviour will have the capability to explain more robust about stock returns. Similarly, Yin et al. (2023), examining enlisted frims on the Shanghai and Shenzhen Stock Exchanges from the period phase of 2011 to 2020, reported that ESG disclosure, as a measure of ESG performance, exerts a positive and significant influence leverage on stock returns. Companies with higher ESG Score indicate with a significant higher stock return. They also found that the impact of ESG performance towards firm ownership was significant for privately owned companies but not thus companies owned by the state and geographically the effect was significant for companies operating in eastern regions but not in others.

However, contrary evidence has also emerged. Gavrilakis and Floros (2023), analyzing Euro Stoxx 50 firms of 6 countries in Europe, found that corporate ESG commitments did not exert a significant impression on financial performance. Investor in Europe market has yet to value ESG as an important driven for stock returns and prefer the fundamental valuation instead. ESG Score is more about the importance of reporting standard instead of financial performance. This mixed evidence suggests that while ESG disclosure often strengthens market trust and enhances stock returns, its actual impact may be contingent upon contextual factors such as industry sensitivity, ownership structure, or regional characteristics.

Despite this growing interest of research, studies on the correlation in the midst of ESG disclosure and stock returns remain limited in emerging markets, particularly in Indonesia. While developed markets have demonstrated varying clouts of ESG disclosure on stock performance, the Indonesian context with its unique regulatory environment, corporate governance practices, and investor behaviour has yet to be sufficiently explored. Addressing this gap is crucial, as it can provide both theoretical contributions to the ESG literature and practical engtanglements for firms, investors and policymakers while enhancing sustainable investment practices.

Prior studies, such as Torre et al. (2020) and Yin et al. (2023), have demonstrated that ESG Disclosure exerts a positive and significant impact weight on stock returns. Consistent with these findings, the following hypothesis is proposed:

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Ha: ESG Disclosure positively and significantly influences Stock Returns.

2. RESEARCH METHOD

This study uses a quantitative methodology to look into the effect of ESG Disclosure on Stock Returns. Purposive sampling technique is performed to delve the suitable sample with criteria included among companies listed on the Indonesia Stock Exchange (IDX). Selection criteria consist of companies which has publication of ESG Score on IDX, financial statements reporting presented in IDR currency, fiscal year ending on 31 December and publication year during 2022 until year of 2024. A total of 76 firms were chosen from the suitable criteria of 80 companies which published ESG Score on IDX, yielding 228 firms for observations. Linear regression analysis was conducted using SPSS version 25.

ESG Disclosure serving as the independent variable, represents a non financial indicator encompassing sustainability, social, environmental and governance dimensions (Ha et al., 2024). In measuring sustainability impact and morally considerations in investment decision making, an important part of assessing how well ESG practices are being implemented in businesses is ESG evaluation. As a result, by working with independent ESG rating agencies and enabling ESG assessments for listed companies, the Indonesia Stock Exchange (IDX) has continuously shown its dedication to promoting long term sustainable investment and bolstering ESG practices in the Indonesian capital market. Currently, the IDX collaborates with Morningstar Sustainalytics to undertake ESG evaluations, and it exclusively shares the assessments carried out by this independent rating agency. This institutional collaboration assures that the ESG scores made available through the IDX are based on internationally established techniques, thereby boosting the credibility and comparability of ESG information for investors and scholars. The independent variable parameter in this study was derived from IDX's ESG score (Bursa Efek Indonesia, 2025).

The dependent variable in this study is Stock Returns, defined as the income received by shareholders either in the form of dividends or capital gains. To measure stock returns, the observation window was set at 15 days, stock closing price namely seven days prior to and seven days following the publication of the annual financial statements. This timeframe was chosen to capture the market reaction to the disclosure of annual financial reports accoringly (Fauzi & Mukhibad, 2024). The formula applied as follow:

$$R = \frac{P_n - P_{n-1}}{P_{n-1}}$$

Pn = closing stock price seven days after the publication of the annual financial statements.
Pn−1 = closing stock price seven days before the publication of the annual financial statements.
In this study, the measurement of stock returns employs the average closing stock prices over the seven-day period before and the seven-day period after the publication of the annual financial statements.
Regression model to be build in this research for verifying the relationship effect between ESG Disclosure on stock returns as follow**:** Stock Returns = α + β x ESG Disclosure + ε

3. RESULTS AND DISCUSSIONS

Table 1. Descriptive Statistic
Source: SPSS Version of 25

Model	Minimum	Maximum	Mean	Std. Deviation	N
Stock_Returns	1.44	2.41	1.9966	0.08837	228
ESG_Disclosure	7.11	53.1	28.0682	9.99801	228

Table 1 demonstrating the descriptive statistics of the research variables, namely Stock Returns and ESG Disclosure, based on 228 firm-year observations. The stock returns variable shows a minimum value of 1.44 and a maximum of 2.41, with a mean of 1.9966 and a standard deviation of 0.08837. This indicates that the distribution of stock returns among the sampled firms is relatively concentrated around the mean, reflecting low variability. Meanwhile, the ESG Disclosure variable ranges from 7.11 to 53.10, with an average score of 28.0682 and a standard deviation of 9.99801. The higher standard deviation of ESG Disclosure compared to Stock Returns suggests greater variation in the extent of ESG reporting practices among the firms observed. Overall, the descriptive statistics demonstrate that while stock returns are relatively stable across the sample, ESG disclosure practices exhibit a wider dispersion, highlighting differences in sustainability transparency across listed companies.

Table 2. Durbin-Watson Test
Source: SPSS Version of 25

Model		Sig	Durbin Watson
1	(Constant)		
	ESG Disclosure	0.044	1.979

a. Dependent Variable: Stock_Returns
b. Predictors: (Constant), ESG Disclosure

Table 2 reports the results of the autocorrelation diagnostics. The Durbin–Watson statistic is 1.979, which falls within the acceptable range of 1.5 to 2.5 confirming that the regression residuals are free from autocorrelation. Overall, these diagnostic results demonstrate that the regression model meets the classical linear regression assumptions and is therefore suitable for further hypothesis testing accordingly. Consequently, the regression analysis can be reliably employed to check out the effect of ESG disclosure on stock returns.

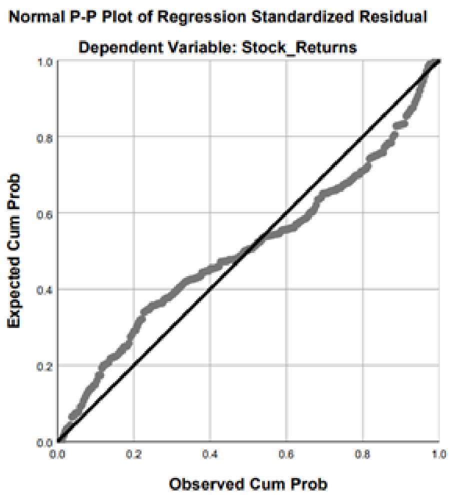

Figure 1. Normality Test
Source: SPSS Version of 25

Figure 1 illustrates the Normal P–P Plot of Regression Standardized Residuals for the dependent variable Stock_Returns. The data points are closely aligned with the diagonal reference line, indicating that the standardized residuals follow an approximately normal distribution. This visual evidence suggests that the normality assumption of the regression model is satisfied. Compliance with this assumption is essential to ensure the validity of statistical inference in the regression model, particularly in hypothesis testing and parameter estimation. Therefore, the regression analysis in this study is considered robust with respect to the normality criterion.

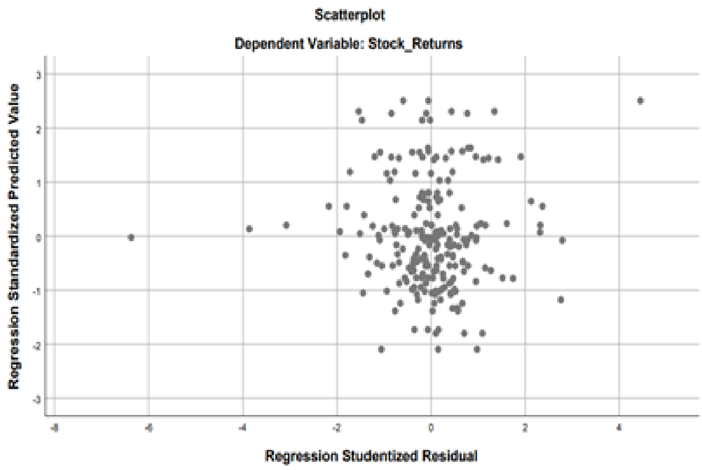

Figure 2. Heteroscedasticity Test
Source: SPSS Version of 25

Figure 2 presents the scatterplot of standardized residuals against the standardized forseen values for the dependent variable Stock_Returns. The distribution of the residuals appears to be randomly scattered above and below the zero line without forming a specific pattern, such as a funnel shape or systematic curve. This randomness indicates that the variance of the residuals is constant across the range of predicted values, suggesting the absence of heteroscedasticity. In other words, the homoscedasticity assumption of the regression model is satisfied. Meeting this contentiton is crucial for ascertain that the standard errors of the coefficients are unbiased, thereby supporting the validity of hypothesis testing in this study

Table 3. F Test Anova[a]
Source: SPSS Version of 25

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	0.032	1	0.032	4.099	0.044[b]
	Residual	1.741	226	0.008		
	Total	1.773	227			

a. Dependent Variable: Stock_Returns

b. Predictors: (Constant), ESG Disclosure

The outcome of the ANOVA (F test) in Table 3 show that the regression model is statistically significant, with F = 4.099 and a significance value (Sig) of 0.044. Since the significance level is less than 0.05, the regression model is considered valid and significant. This finding indicates that the independent variable, ESG Disclosure, has a significant effect on Stock Returns as dependent variable. Therefore, the regression model is appropriate for explaining the relationship between ESG Disclosure and Stock Returns.

Table 4. t Test
Source: SPSS Version of 25

		Unstandardized Coefficients		Standardized Coefficients			Colinearity Statistics	
Model		B	Std Error	Beta	T	Sig	Tolerance	VIF
1	(Constant)	1.963	0.017		113.124	0		
	ESG Disclosure	0.001	0.001	0.133	2.025	0.044	1	1

a. Dependent Variable: Stock_Returns

Table 4 presents the coefficients analysis. The coefficient for ESG Disclosure is B = 0.001, with a t-value of 2.025 and a significance grade of 0.044. Given that the significance grade is below 0.05, it can be concluded that ESG Disclosure has a positive and significant effect on Stock Returns. This implies that higher ESG disclosure levels are associated with higher stock returns received by investors. The standardized coefficient (Beta = 0.133) further shows that ESG Disclosure contributes 13.3% to the variation in stock returns.

Table 5. Adjusted R Square Test
Source: SPSS Version of 25

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Rsquare Change	F Changes	df1	df2	Sig F Change	Durbin Watson
1	0.133	0.018	0.013	0.08777	0.018	4.099	1	226	0.044	1.979

a. Predictors: (Constant), ESG Disclosure
b. Dependent Variable: Stock_Returns

The regression model summary in Table 5 indicates that the correlation coefficient is R = 0.133, suggesting a positive but weak liaison between ESG Disclosure and Stock Returns. The R Square value of 0.018 reveals that ESG Disclosure explains only 1.8% of the variance in stock returns, while the remaining 98.2% is defined by other factors which has yet to be included in this study. The Adjusted R Square of 0.013 affirm the model's relatively low explanatory power, yet it remains consistent.

The F Change value of 4.099 with a significance level of 0.044 (<0.05) confirms thus the regression model is statistically significant, asserting that ESG Disclosure has a meaningful contribution to stock returns.

These findings confirm that ESG Disclosure demonstrate positive and significantly impact on stock returns. The results consistently support signaling theory, which posits thus non-financial information disclosure particularly regarding environmental, social, and governance practices enhances investor confidence and positively influences market performance. Although the explanatory power of ESG Disclosure remains limited, its statistical significance emphasizes how crucial sustainability practices in generating shareholder value.

4. CONCLUSIONS AND SUGGESTIONS

This study verified how ESG disclosure affected stock returns for firms that were listed between 2022 and 2024 on the Indonesia Stock Exchange. The results show that stock returns are positively and statistically significantly impacted by ESG disclosure as confirmed by the regression analysis (F = 4.099; t = 2.025; sig < 0.05). Although the explanatory power of

ESG Disclosure is relatively low ($R^2 = 0.018$), the results support signaling theory, indicating that non-financial disclosure, particularly ESG-related information, enhances investor confidence and contributes to stock market performance as previous research result from Torre et. al (2020) and Yin et al. (2023).

The findings of this stydy provide several important implications. First, companies should strengthen their ESG disclosure practices to improve transparency, build investor trust, and potentially enhance stock performance. Second, regulators and stock exchange authorities may consider establishing stricter guidelines and incentives to encourage comprehensive ESG reporting across industries. Third, investors should pay attention on the going concern of a business which investment is worth to carried for towards the long run and sustainable future. Fourth, academically empower the needs of sustainability among business practice and ESG practicioner to become a heritance.

Finally, limitations in this study regarding the data source for observation in Indonesia emerging market is depending on the ESG Score provided by IDX while to have the segregate data for each component of Environmental, Social and Governance has yet to exist otherwise it could become the essential dependent variable to observed. Further enrichment for future research should expanded the model by incorporating additional financial and non-financial variables, such as market capitalization, price to book value, industrial behaviour as well as extending the observation period, to better capture the determinants of stock returns in the context of sustainable finance and also segmented the industrial basis according to the nature of business.

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