Environmental, Social, and Governance Performance and Stock Returns: Empirical Evidence on the Value Relevance of Sustainability Disclosure

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ABSTRACT

This study investigates the relationship between environmental, social, and governance (ESG) performance both at the aggregate level and across its individual pillars and stock returns of firms listed on the Indonesia Stock Exchange over the 2019–2023 period. The research population comprises all publicly traded companies, with a final sample of 3,952 firm-year observations selected using a purposive sampling method. Data were sourced from Refinitiv Eikon and complemented with information from company financial statements. To assess the relationship between ESG performance and market outcomes, multiple linear regression analysis was employed. The empirical findings reveal a negative association between overall ESG performance and stock returns, a pattern that also holds for each of the ESG dimensions individually (environmental, social, and governance).

Keywords: Stock Return; ESG Performance; Signalling Theory

Hubungan Environmental Social and Governance (ESG) Performance Terhadap Return Saham

ABSTRAK

Penelitian ini bertujuan menguji hubungan ESG performance dan masing-masing pilarnya (environmental, social, and governance) terhadap return saham pada perusahaan yang terdaftar di Bursa Efek Indonesia periode 2019–2023. Populasi penelitian adalah seluruh perusahaan publik, dengan sampel 3.952 observasi yang dipilih melalui purposive sampling. Data diperoleh dari Refinitiv Eikon dan laporan keuangan perusahaan. Metode analisis yang digunakan adalah regresi linier berganda. Hasil penelitian menunjukkan bahwa ESG performance serta pilar environmental, social, dan governance berhubungan negatif terhadap return saham.

Kata Kunci: *Return Saham; ESG Performance; Teori Sinyal*

Artikel dapat diakses : https://ojs.unud.ac.id/index.php/Akuntansi/index

INTRODUCTION

Stocks represent financial instruments that confer ownership rights in a company's capital structure (Dewi & Suaryana, 2016; Handini & Astawinetu, 2020). Investors are motivated by various factors, with one of the most fundamental being the expectation of earning returns through equity participation (Setyawati & Irwanto, 2020). These returns are generally anticipated to be proportional to the amount of capital invested (Khan, 2019). Jogiyanto (2016) defines stock returns as the gains received by investors as a result of their equity investment activities. According to signaling theory, investors rely on corporate financial information both positive and negative as cues for making investment decisions. These signals can prompt market reactions that influence asset pricing and overall market dynamics (Estuti & Hendrayanti, 2020). Among these signals, the disclosure of Environmental, Social, and Governance (ESG) performance has gained prominence. ESG reporting provides insights into non-financial corporate activities that may affect investor perception and, consequently, stock returns.

Strong ESG performance is increasingly interpreted by investors as an indicator of corporate quality, resilience, and long-term value creation (Vu et al., 2025). As investment strategies evolve globally, ESG performance has become a critical metric for assessing a firm's sustainability credentials and broader social responsibility (Du & Li, 2024). Investors are no longer focused solely on financial metrics but are placing greater emphasis on non-financial dimensions such as environmental stewardship, social accountability, and governance practices as part of a more holistic investment approach (Shakil, 2022). In Indonesia, this shift is gaining traction, fueled by rising public awareness and regulatory developments aimed at enhancing corporate transparency in ESG disclosures (Kartika et al., 2023).

Stock returns function as a key indicator of how markets respond to corporate disclosures, including ESG-related information, within the broader context of capital market activity (Giantari, 2024). ESG considerations have assumed greater importance in Indonesia, particularly following the government's formal adoption of the United Nations' Sustainable Development Goals (SDGs), which have been integrated into national economic and policy agendas (Kartika et al., 2023). Regulation No. 51/POJK.03/2017 issued by the Financial Services Authority (OJK) exemplifies this commitment, mandating that financial institutions and listed companies incorporate sustainability principles into their operations and reporting. This policy shift has been reflected in capital market performance; for instance, the IDX SRI-KEHATI Index which tracks companies with strong ESG practices has historically delivered competitive long-term returns when compared to broader benchmarks such as the Jakarta Composite Index (JCI) and the LQ45 index.

Figure 1. Historical Performance of IDX SRI-KEHATI, JCI, and LQ45 Index (December 2013 – December 2023)

Source: Indonesia Stock Exchange (2022)

As of December 2023, historical performance data show that the IDX SRI-KEHATI index recorded a cumulative return of 87.15% since 2013, outperforming both the Jakarta Composite Index (JCI) at 70.16% and the LQ45 index at 36.48% (Indonesia Stock Exchange, 2022). These figures suggest that ESG-oriented investments not only contribute to environmental and social outcomes but also offer competitive long-term financial returns. Firms that consistently apply ESG principles and are positively assessed by the market tend to attract greater investor interest, positively affecting their stock valuation (Qodary & Tambun, 2021). Larger firms, with more sophisticated governance structures and greater resource availability, are generally better positioned to manage ESG-related challenges (Li et al., 2022). In contrast, high leverage signals greater financial risk exposure, including risks tied to ESG non-compliance (Dewi & Suaryana, 2016). Meanwhile, profitability reflects a firm's ability to generate earnings and is commonly regarded as an indicator of its long-term sustainability (Jihadi et al., 2021). These firm-level characteristics firm size, leverage, and profitability are incorporated as control variables to isolate the relationship between ESG performance and stock returns more robustly.

ESG performance is increasingly interpreted as a signal of managerial competence and a firm's capacity for long-term risk management (Avramov et al., 2022; Engelhardt et al., 2021). ESG-related news, including sustainability disclosures and corporate initiatives, offers informative cues to investors that may influence stock returns (Vu et al., 2024). Gunawan & Priska (2018) argue that ESG disclosures influence investor transactions in the capital market, which may positively affect returns when such information is interpreted as value-enhancing. Investors tend to associate higher ESG scores with superior firm performance and stock market valuation (Agustin & Suryati, 2022; Li et al., 2022).

Extant literature on the relationship between ESG performance and stock returns has yielded mixed results. For instance, Luo (2022) found a significant positive association between ESG scores and returns in the UK from 2003 to 2020. Similarly, Torre et al. (2020) documented a positive relationship between ESG indices and stock performance among firms listed on the Eurostoxx50 Index. Chen et al. (2022) reported that firms with strong ESG performance in the aviation sector were better able to withstand crises, generating higher returns. In the Indonesian context, Giantari (2024) showed that companies listed in the SRI-KEHATI Index

ROSSALINA, N. L. A. M., SUKARTHA, P. D. Y., & RASMINI, N. K.
ENVIRONMENTAL, SOCIAL, AND...

E-JURNAL
AKUNTANSI

demonstrated stronger stock performance due to the integration of ESG principles. Several studies further support the view that ESG integration within investment portfolios can lead to enhanced stock returns (Li et al., 2022; Luo, 2022).

Conversely, other studies have reported negative or insignificant relationships. Ruan & Liu (2021) found a significant negative correlation between ESG scores and returns for companies listed on China's A-share market. Aditama (2022) argued that in Indonesia, ESG considerations have not yet become a strategic corporate priority, limiting their influence on returns. Similarly, Demers et al. (2021) and Halbritter & Dorfleitner (2015) found no significant relationship between ESG values and stock market performance. These empirical inconsistencies underscore the evolving nature of ESG practices and the necessity for further investigation, particularly in emerging markets where sustainable investing is still gaining traction.

This study seeks to address this gap by examining the relationship between ESG performance and stock returns in the Indonesian capital market, where ESG investment remains nascent and regulatory frameworks are still developing. The study contributes to the limited domestic literature by testing both the aggregate ESG score and the disaggregated effects of the three ESG pillars, environmental, social, and governance across diverse industry sectors. In doing so, it offers a more granular understanding of how each component of ESG performance may influence stock market outcomes in a developing market context.

Grounded in signaling theory, this study conceptualizes ESG disclosure as a strategic tool for conveying positive information to investors regarding management quality, operational efficiency, and long-term sustainability. A high ESG score is viewed as a credible signal of reduced risk and superior future performance. Previous research supports this proposition, indicating that firms with robust ESG performance often enjoy better stock returns (Ashwin et al., 2016; Engelhardt et al., 2021; Lins et al., 2017; Yin et al., 2023). Giese et al. (2019) and Asimakopoulos et al. (2023) further emphasize that strong ESG practices are associated with lower financial risk and improved access to capital, reinforcing the relevance of signaling theory in this context. Based on this theoretical framework and supporting empirical evidence, the following hypothesis is proposed:

H_1: ESG performance is positively associated with stock returns.

Environmental performance captures a firm's efforts to minimize its ecological footprint through activities such as energy efficiency, emissions reduction, and waste management. These initiatives are perceived by investors as signals of long-term operational efficiency and environmental responsibility. Empirical studies by Yadav et al. (2016) and Ma et al. (2024) report a positive relationship between environmental performance and stock returns. Khan et al. (2015) emphasize the importance of this relationship, particularly in environmentally sensitive industries. Annisawanti et al. (2024) further suggest that environmentally responsible strategies enhance corporate reputation and foster investor loyalty. Based on these theoretical and empirical insights, the second hypothesis is formulated:

H_2a: Environmental performance is positively associated with stock returns.

Social performance refers to a company's initiatives in fostering strong relationships with employees, communities, and broader stakeholder groups. This

includes respect for human rights, employee welfare, and community development. Effective social engagement signals a firm's commitment to ethical conduct and stakeholder well-being. Cheng et al. (2014) found that social performance contributes significantly to shareholder value. Similarly, Feng et al. (2022), in a study of 684 publicly listed Chinese firms, demonstrated a positive association between CSR programs and stock returns. Hafidzi & Qomariah (2022) observed a direct positive effect of social responsibility on stock performance in the Indonesian context. Collectively, these findings support the notion that social responsibility enhances corporate reputation and valuation. Accordingly, the following hypothesis is proposed:

H_2b: Social performance is positively associated with stock returns.

From the perspective of signaling theory, high-quality firms are motivated to differentiate themselves by issuing credible signals to the market (Kurniati, 2019). These signals must be both observable and interpretable by investors to be effective (Ryu et al., 2017). Sound corporate governance practices serve as such a signal, reflecting transparency, accountability, and effective management. Empirical evidence supports this view. Fuenzalida et al. (2013) reported that firms with strong governance structures deliver higher returns, particularly during periods of market stress. Jiao (2011) and Rani et al. (2013) also highlight the role of governance in enhancing investor confidence and sustaining stock price stability. Building on signaling theory and prior empirical findings, the final hypothesis is formulated:

H_2c: Governance performance is positively associated with stock returns.
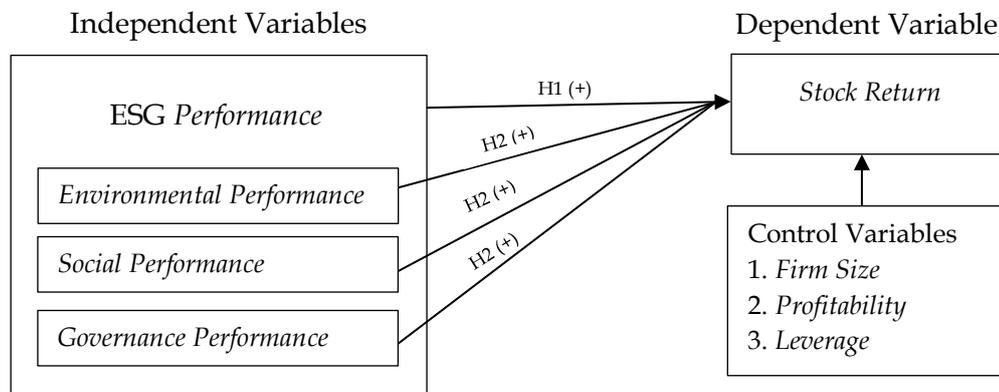
Figure 2. Research Model

Source: Research Data, 2025

Figure 2 illustrates the relationship between ESG performance and each of its respective pillars on stock returns.

RESEARCH METHODOLOGY

This study examines the relationship between ESG performance and stock returns in companies listed on the Indonesia Stock Exchange (IDX). The sample was selected using a purposive sampling method for the period of 2019–2023, yielding a total of 3,952 firm-year observations. Secondary data were collected using a non-participant observation method from the Refinitiv Eikon database and the official

IDX website. All analyses were conducted using Stata software. The results of the sample selection process for this study are presented in Table 1.

Table 1. Research Sample

Kriteria	2023	2022	2021	2020	2019	Total
Companies listed on the IDX for the period 2019–2023.	973	914	911	896	861	4,555
Companies in the financial sector listed on the IDX for the period	(105)	(106)	(106)	(94)	(91)	(502)
Companies that did not publish annual reports and/or audited financial statements for the period 2019–2023.	(35)	(20)	(19)	(11)	(16)	(101)
Total Observations						3952

Source: Research Data, 2025

According to Jogiyanto (2016), a stock return can be calculated by comparing the difference between the stock price of the previous period and the current period. The calculation for stock return uses the following formula:

$$Stock\ return = \frac{Price\ per\ Share_{it} - Price\ per\ Share_{it-1}}{Price\ per\ Share_{it-1}} \times 100 \dots\dots\dots\dots\dots(1)$$

where:

$Price\ per\ Share_{it}$ = Year-end closing stock price

$Price\ per\ Share_{it-1}$ = Previous year's closing stock price

The measurement of ESG performance and the indicators for each of its pillars (environmental score, social score, and governance score) were obtained from the Refinitiv Eikon Datastream (2020). These scores are expressed on a percentage scale from 0 to 100. The range of ESG scores from Refinitiv is summarized in Table 2.

Table 2. ESG Score Ranges according to Refinitiv Eikon

Score Range	Description
0 – 25	Represents low ESG performance and very limited public disclosure of ESG information.
>25 – 50	Represents satisfactory ESG performance and a moderate level of ESG reporting.
>50 – 75	Represents good ESG performance with an above-average level of information disclosure.
>75 – 100	Represents excellent ESG performance accompanied by a high degree of transparency in ESG reporting.

Source: Refinitiv Eikon Datastream, 2020

The control variables in this study include firm size, profitability, and leverage. Firm size reflects the scale of a company based on total assets and is measured using the natural logarithm of total assets (Shakil, 2021). Profitability, proxied by Return on Assets (ROA), represents a firm's ability to generate net income over a given period and is calculated as net income divided by total assets (Ahmed et al., 2023; Suryani & Suaryana, 2024). Leverage captures the extent to which a company relies on debt financing for its operations and is measured by the ratio of total debt to total assets (Shakil, 2021). These control variables are included to isolate the specific effects of ESG performance on stock returns.

The data analysis process begins with descriptive statistical analysis to summarize the characteristics of the study variables. Model selection is conducted

using a combination of the Chow test, the Hausman test, and the Lagrange Multiplier test to determine the most appropriate regression specification. Once the model is selected, classical assumption testing is performed, including tests for multicollinearity, autocorrelation, and heteroscedasticity, to ensure the validity of the regression estimates. The main analysis is conducted using multiple linear regression, which includes the F-test to assess model fit, the coefficient of determination (R^2) to evaluate explanatory power, and t-tests to examine the significance of individual coefficients. All statistical analyses are performed using Stata software, version 16.

To comprehensively address the research objectives, this study employs a multi-model regression framework. Gujarati & Porter (2012) caution against including both a composite variable and its individual components in the same regression model, as doing so can produce multicollinearity, inflated standard errors, and unreliable estimates. In line with this guidance, and consistent with prior research (Cek & Eyupoglu, 2020; Melinda & Wardhani, 2020; Nugraha, 2025), the study applies four distinct regression models. Each model is designed to test one of the specified research hypotheses, enabling a more precise evaluation of the relationship between ESG performance both aggregate and disaggregated and stock returns.

$$RS_{it} = \alpha_0 + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \epsilon_{it} \dots\dots\dots(2)$$
$$RS_{it} = \alpha_0 + \beta_1 Env_{it} + \beta_2 Size_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \epsilon_{it}\dots\dots\dots(3)$$
$$RS_{it} = \alpha_0 + \beta_1 Soc_{it} + \beta_2 Size_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \epsilon_{it}\dots\dots\dots(4)$$
$$RS_{it} = \alpha_0 + \beta_1 Gov_{it} + \beta_2 Size_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \epsilon_{it}\dots\dots\dots(5)$$

where:

α	= Constant (Intercept)
$\beta_1..\beta_5$	= Regression coefficients
RS_{it}	= Stock Return
ESG_{it}	= ESG performance
ENV_{it}	= Environmental Performance
SOC_{it}	= Social Performance
GOV_{it}	= Governance Performance
$Size_{it}$	= Firm Size
ROA_{it}	= Profitability
LEV_{it}	= Leverage
ϵ_{it}	= Error

RESULTS AND DISCUSSION

This study utilizes panel data from firms listed on the Indonesia Stock Exchange over the 2019–2023 period. The data were processed and summarized through descriptive statistical analysis to provide an overview of the key variables. The stock return variable exhibits an average of 6.1% with a standard deviation of 57.7%, indicating considerable dispersion in performance across firms ranging from sharp declines to substantial gains. The environmental, social, and governance (ESG) pillar scores also show wide standard deviations relative to their means, suggesting uneven implementation of ESG practices among the sampled firms.

Among the control variables, firm size measured as the natural logarithm of total assets has a mean of 27.92, with values ranging from 17.98 to 33.79, reflecting substantial variation in firm scale. Profitability, proxied by return on assets (ROA), averages 4.1% with a notably high standard deviation of 18.60%. The wide range of values, from –224.4% to 468.2%, underscores the disparity in financial performance, where some firms recorded considerable losses while others achieved exceptionally high returns. Leverage, measured as the ratio of total debt to total assets, averages 50.4%, with broad variability indicating diverse capital structures across firms. The full descriptive statistics for all variables are presented in Table 3.

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Stock Return	3,952	0.061	0.577	-0.815	3.233
ESGcomb	3,952	3.462	13.487	0	88.858
Envscore	3,952	3.137	12.76	0	88.92
Socscore	3,952	3.772	14.693	0	96.757
Govscore	3,952	3.333	13.516	0	94.058
Firmsize	3,952	27.924	2.027	17.983	33.79
ROA	3,952	0.041	0.186	-2.244	4.682
LEV	3,952	0.504	0.432	0.004	4.756

Source: Research Data, 2025

The model selection process, based on the Chow test (Prob > F = 0.9990), the Hausman test (Prob > Chi² > 0.05), and the Lagrange Multiplier test (Prob > chibar² = 1.000), indicates no significant differences in individual effects or random variance. Accordingly, the Common Effect Model (CEM) is identified as the most appropriate panel data regression specification for this study.

Multicollinearity diagnostics, assessed using the Variance Inflation Factor (VIF), reveal values below 1.25 for all independent variables, with mean VIF scores ranging from 1.14 to 1.16 across the models. These results suggest no multicollinearity concerns. Furthermore, the Wooldridge test for autocorrelation produces Prob > F values between 0.2647 and 0.2728, exceeding the 0.05 significance level, thus indicating the absence of autocorrelation in the data.

However, the Breusch–Pagan test detects heteroscedasticity, with Prob > Chi² values ranging from 0.0094 to 0.0147. To address this violation of the homoscedasticity assumption and ensure robust inference, the regression models were estimated using robust standard errors. The results of the multiple linear regression analysis, adjusted for heteroscedasticity, are reported in Table 4.

Table 4. Multiple Linear Regression Test

Dependent Variables	Hypothesis Direction (+/-)	Stock Return			
		(1)	(2)	(3)	(4)
ESG	+	-0.001** (0.041)			
ENV	+		-0.002** (0.033)		
SOC	+			-0.001** (0.034)	
GOV	+				-0.001** (0.049)
Control					
Firmsize		0.003 (0.618)	0.003 (0.612)	0.003 (0.590)	0.002 (0.698)
ROA		0.321*** (0.001)	0.322*** (0.001)	0.321*** (0.001)	0.321*** (0.001)
LEV		0.004 (0.991)	0.004 (1.000)	0.004 (0.988)	0.004 (0.988)
Konstanta		-0.023	-0.023	-0.029	-0.006
Statistik Model					
N Observasi		3.952	3.952	3.952	3.952
Prob > F		0.004	0.004	0.003	0.003
R-squared		0.011	0.011	0.011	0.011

Source: Research Data, 2025

Each model column tests a specific main variable. Model (1) is for the composite ESG performance score (ESGcomb), Model (2) is for the environmental performance pillar score (Envscore), Model (3) is for the social performance pillar score (Socscore), and Model (4) is for the governance performance pillar score (Govscore). The regression equations formed from the analysis results in Table 4 are as follows.

$$RS_{it} = -0.023 - 0.001\ ESG_{it} + 0.003\ Size_{it} + 0.321\ ROA_{it} + 0.004\ LEV_{it} + \epsilon_{it}$$
$$RS_{it} = -0.023 - 0.002\ ENV_{it} + 0.003\ Size_{it} + 0.322\ ROA_{it} + 0.004\ LEV_{it} + \epsilon_{it}$$
$$RS_{it} = -0.029 - 0.001\ SOC_{it} + 0.003\ Size_{it} + 0.321\ ROA_{it} + 0.004\ LEV_{it} + \epsilon_{it}$$
$$RS_{it} = -0.006 - 0.001\ GOV_{it} + 0.002\ Size_{it} + 0.321\ ROA_{it} + 0.004\ LEV_{it} + \epsilon_{it}$$

The results of the multiple linear regression analysis indicate that the constant term is negative across all four models: –0.023 in models (1) and (2), –0.029 in model (3), and –0.006 in model (4). The ESG composite score in model (1) has a coefficient of –0.001 and a p-value of 0.041, suggesting that a one-unit increase in ESG score is associated with a 0.1% decline in stock returns. A similar pattern is observed across the individual ESG dimensions. The environmental pillar in model (2) shows a coefficient of –0.002 (p = 0.033), the social pillar in model (3) has a coefficient of –0.001 (p = 0.034), and the governance pillar in model (4) also exhibits a coefficient of –0.001 (p = 0.049). All coefficients are negative and statistically significant at the 5% level (p < 0.05), indicating that higher ESG performance whether aggregated or disaggregated correlates with lower stock returns.

Among the control variables, firm size displays a positive but statistically insignificant relationship with stock returns, indicating that company scale does not materially influence return levels in this sample. Profitability, proxied by return on assets, consistently shows a positive and highly significant association across all models at the 1% level, reaffirming its role in driving investor valuation. In contrast, leverage exhibits a positive but insignificant relationship, suggesting that the capital structure, as measured by debt ratios, does not explain variations in stock returns within the sample.

The overall model significance is supported by the F-test, with Prob > F values of 0.004, 0.004, 0.003, and 0.003 for models (1) through (4), respectively all below the 5% significance level indicating that the explanatory variables jointly influence stock returns. However, the R^2 value across all models stands at 0.011, implying that only 1.1% of the variation in stock returns is explained by ESG performance and the control variables. This low explanatory power suggests that external factors such as market sentiment, macroeconomic conditions, or sector-specific shocks play a more dominant role in influencing stock returns (Kalam, 2020).

The regression results for model (1) reveal a statistically significant negative relationship between ESG performance and stock returns (β = –0.001; p = 0.041), leading to the rejection of Hypothesis 1 (H_1). In the context of Signaling Theory, the market's interpretation of ESG disclosures plays a critical role. While ESG is intended to signal management quality and long-term orientation, in markets that prioritize short-term financial performance, such signals may be perceived as costly rather than value-enhancing (Friske et al., 2023). ESG initiatives often require upfront investment and resource reallocation, which may dampen short-term profitability (DesJardine et al., 2021). Consequently, investors may interpret high ESG scores as indicators of deferred financial gains and increased cost burdens. These findings align with studies in emerging markets (Aditama, 2022; Ruan & Liu, 2021), which highlight that ESG considerations have yet to become a priority in investment decisions. In this view, ESG signals are often perceived as high-cost allocations lacking immediate financial payoff, reducing their attractiveness to return-oriented investors.

Model (2) shows that environmental performance is negatively associated with stock returns (β = –0.002; p = 0.033), resulting in the rejection of Hypothesis 2a (H_{2a}). This result echoes the findings of Pandey et al. (2024) and Benlemlih et al. (2018), who reported that environmental initiatives often do not translate into immediate financial benefits. Environmental activities typically require substantial capital outlays, such as investments in emission control, waste management, or green technology (Brogi & Lagasio, 2019). From a signaling perspective, superior environmental performance communicates a significant commitment of resources to sustainability. However, in markets driven by short-term metrics, such signals may be interpreted as a trade-off against near-term profitability (Huang, 2022; Melinda & Wardhani, 2020).

The social performance pillar also demonstrates a negative relationship with stock returns (β = –0.001; p = 0.034), leading to the rejection of Hypothesis 2b ($H_{2\beta}$). This suggests that investors do not perceive social responsibility expenditures such as community development programs, employee benefits, or

philanthropic contributions as value-enhancing in the short run. These results corroborate findings by Feng et al. (2022) and Nugraha (2025), who reported limited investor response to social initiatives. In the Indonesian context, investor focus remains predominantly on immediate financial returns. As such, social performance signals may be interpreted as discretionary spending rather than strategic investments. When not linked to tangible short-term outcomes, such activities are viewed as cost burdens, limiting their effectiveness in enhancing market valuation (Kristiani & Werastuti, 2020; Rusmana & Puspitasari, 2021).

Finally, model (4) finds that governance performance is negatively associated with stock returns (β = –0.001; p = 0.049), resulting in the rejection of Hypothesis 2c (H_2c). This counterintuitive result may be explained through the pricing-in mechanism, whereby positive governance signals are already reflected in the stock price due to efficient market processing (Kulal et al., 2023). From the risk–return tradeoff perspective, enhanced governance lowers firm risk, but the associated decline in risk may also reduce the expected return (Bannier et al., 2023). Supporting evidence from Low et al. (2011) and Ryu et al. (2017) suggests that, particularly in highly competitive industries, better governance can restrict managerial flexibility, potentially leading to lower stock performance. This study reinforces the notion that governance enhancements are not uniformly rewarded by the market and may, under certain conditions, be associated with lower stock returns due to their risk-mitigating but return-constraining nature.

CONCLUSION
Based on the analysis conducted, this study concludes that ESG performance and each of its individual pillars, namely environmental, social, and governance performance is negatively and significantly associated with stock returns for companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Interpreted through the lens of signaling theory, these findings suggest that the Indonesian capital market perceives ESG-related disclosures primarily as "costly signals." In particular, higher environmental and social performance is viewed as indicative of increased expenditure or diverted resources, thereby exerting downward pressure on short-term profitability and, consequently, on stock returns. Conversely, strong governance performance appears to be interpreted as a "risk-reducing signal." While this may enhance investor confidence and stability, it may also lead to a lower risk premium, thus resulting in reduced returns. Collectively, the findings reinforce empirical evidence suggesting that enhancements in ESG performance particularly in emerging markets are not consistently rewarded by the market with higher stock returns, especially in the short term.

This study is not without limitations, which present avenues for future research. The relatively low R-squared values across the models indicate that ESG and the selected control variables account for only a small proportion of the variation in stock returns. This underscores the role of other external influences, such as investor sentiment, industry dynamics, and broader macroeconomic conditions, in shaping market performance (Kalam, 2020; Mirayanti & Wirama, 2017). Moreover, the study period coincides with the COVID-19 pandemic and its aftermath, a context marked by extraordinary volatility and structural shifts in

investor behavior. As such, the generalizability of these findings to more stable periods should be approached with caution. The study also does not differentiate firms based on industry classifications, despite the fact that ESG materiality and sensitivity vary significantly across sectors. Failing to control for industry-specific dynamics may obscure heterogeneous effects that are sector-dependent. Finally, the regression model did not incorporate additional control variables such as dummy variables for the pandemic period which may have limited the ability to capture the full extent of volatility during crisis years. Addressing these limitations in future research could yield a more nuanced understanding of how ESG performance influences market outcomes in varying institutional and temporal contexts.

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