The Effect of ESG Score on Stock Return: Do Financial Performance and Market Performance Moderate?

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ABSTRACT

The rising public attention on environmental and social issues, as well as corporate management strategies in addressing these issues, make ESG practices are crucial to observe. Therefore, this study is intended to examine the effect of ESG Score on Stock Return with Financial and Market Performance as moderating variables. The research method is associative quantitative, conducted on companies listed in ESG Sector Leaders IDX KEHATI Index from 2019 to 2023. There were 18 companies with the number of observations narrowed because there were a number of outlier data, resulting in 44 observations. Panel data were analyzed with Moderated Regression Analysis (MRA). The results of empirical testing show that ESG scores have a significant and positive effect on stock returns. And financial performance proxied through ROA strengthens the correlation of ESG scores and stock returns, while the ROE proxy is unable to moderate the relationship between the two variables. While, market performance (TQ) weakens the correlation between ESG scores and stock returns. In practical terms, this research contributes as a consideration for managers and investors to evaluate ESG adoption as an opportunity to attract sustainable investment.

Keywords: ESG Score; Stock Return; Sustainability; Return on Assets; Tobin's Q

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Pengaruh Skor ESG terhadap Return Saham: Apakah Kinerja Keuangan dan Kinerja Pasar Memoderasi?

ABSTRAK

Meningkatnya perhatian publik terhadap isu lingkungan dan sosial, serta strategi manajemen perusahaan dalam menangani isu-isu tersebut, membuat praktik ESG menjadi sangat penting untuk diobservasi. Sehingga, penelitian ini bertujuan untuk menguji pengaruh ESG Score terhadap Return Saham dengan Kinerja Keuangan dan Kinerja Pasar sebagai variabel moderasi. Metode penelitian adalah kuantitatif asosiatif, dilakukan pada perusahaan yang terdaftar dalam Indeks ESG Sector Leaders IDX KEHATI dari 2019-2023. *Terdapat 18 perusahaan dengan jumlah observasi dipersempit karena terdapat beberapa data outlier, menghasilkan 44 observasi. Data panel dianalisis dengan Moderated Regression Analysis. Hasil pengujian empiris menunjukkan skor ESG berpengaruh signifikan dan positif terhadap return saham. Dan kinerja keuangan yang diproksikan melalui ROA memperkuat korelasi skor ESG dan return saham, sedangkan proksi ROE tidak mampu memoderasi hubungan kedua variabel tersebut. Sementara, kinerja pasar (TQ) justru memperlemah korelasi antara skor ESG dan return saham. Secara praktis, penelitian ini memberikan kontribusi sebagai bahan pertimbangan manajer dan investor untuk mengevaluasi pengadopsian ESG sebagai salah satu peluang menarik investasi berkelanjutan.*

Kata Kunci: Skor ESG; Return Saham; Keberlanjutan; Return on Assets; Tobin's Q

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INTRODUCTION

In this era, environmental, social, and governance issues can be said to be one of the crucial indicators in assessing the performance of a company carried out by stakeholders, especially investors, both existing and potential investors. This is because the ESG factors are part of the company's sustainability measures to deal with issues that are become the center of public attention at this time. Lately, many people have begun to raise concerns about poor air conditions, especially for people who live in urban areas or in industrial areas. The Center for Research on Energy and Clean Air (CREA) revealed that, "Air quality in major cities such as Jabodetabek, Sumatera, and Kalimantan during the second half of 2023 is considered of concern" (Hasan, 2024). In addition to environmental issues, nowadays a lot of individuals also pay attention to a number of corporate social issues for both internal and external stakeholders. The social concerns that are widely highlighted such as the rights of workers which include wages, inclusion, and work safety. Furthermore, there are communities that reflect how the relationship between company and community in making a real contribution to the social life. Moreover, businesses must prioritize consumer data privacy and product safety in order to gain and keep the trust of their customers. Another social concerns that have recently made headlines include the exploitation of workers' rights by companies. However, in evaluating a corporation, stakeholders' fundamental consideration in decisions making is the management structure of the organization

In recent years, sustainability issues have increasingly taken center stage, as companies around the world are increasingly pressured to tackle environmental, social, and governance (ESG) challenges. One issue that companies are now focusing on is the amount of carbon emissions that produce from their business due to its impact on long-term environmental sustainability and climate change (Setiani et al., 2024). Based on Europian Commission data that has been taken from the Katadata Databoks website, in 2022, among other Southeast Asian countries, Indonesia is the largest greenhouse gas emitter with a volume of 1,240.83 million tons, which is equivalent to 2.3% of total greenhouse gas emissions globally.

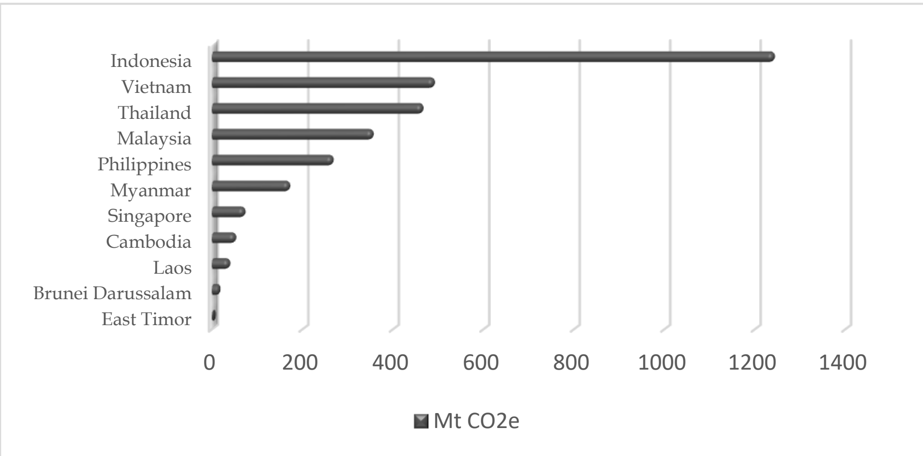

Figure 1. Greenhouse Gas Volume of Southeast Asian Countries

Source: Databoks Katadata, 2022

In 2020, investors were polled by the CFA Institute to determine whether Environmental, Social, and Governance (ESG) elements they frequently consider while deciding which investments to make. Out of 2,800 participants, just 15% stated that they fail to consider ESG factors into account for investment decision. On the other side, most respondents or 85% take ESG into account. Then, 77% of respondents in this group-ranked governance as the most important factor when making investment decisions. Furthermore, 67% of respondents examined social aspects, while 70% considered environmental elements (Inawati & Rahmawati, 2023). This aligns with the findings undertaken by Dwimayanti et al. (2023) that the dimensions of ESG practices have a positive influence on corporate investment decisions.

As the market pays more attention to environmental issues, ESG scores are becoming a concern for investors in conducting fundamental analysis. Investors assume that a company's stock performance increases with its ESG score (Zhang et al., 2022). The same thing was revealed by Dwimayanti et al. (2023), beyond regulatory compliance, a company's genuine adherence to ESG principles can increase attractiveness to investors and improve company performance. Melinda & Wardhani (2020) also concluded that investment by considering high ESG performance will be able to promise financial advantages for business in profitability and company value. In addition, Setiani et al. (2024) also stated that there's a positive influence in the interaction of ESG performance as determined by ESG scores metric on financial performance, this mainly leads to companies that can minimize their carbon emissions. Furthermore, Pramesti et al. (2024) also agreed with this, non-financial information has a positive impact on corporate sustainability and can increase the issuer's share price which can attract investor interest, ESG disclosure can be one of the non-financial information that is discussed. Prabawati & Rahmawati (2022) also revealed that a higher level of disclosure can help companies attract capital and maintain investor confidence in stock market.

In making stock investment decisions, investors will choose stocks that provide a high rate of return (Agustin et al., 2024). Consistent with this, Wardhani et al. (2019) also states that it is normal for an investor to want a high rate of return on his invested capital. According to Suryo & Yasa (2021), stock return is the level of profit obtained by investors from making the investment. In other words, stock return is the excess of the selling price of shares over the purchase price (Silitonga et al., 2019). Based on Nurfadila & Sukmayanti (2020), stock return measurement can be done by comparing the difference between the current year's stock price and the previous year's stock price divided by the previous year's stock price. On the other side, Simorangkir (2019) explains there are two types of stock returns, realized returns and expected returns. Realized return is the return realized and calculated based on historical data, realized return can be a determining factor for expected return and risk in the future. Meanwhile, expected return is the return that investors expect to get in the future. Therefore, to ensure the expected level of return, the value of stock returns can be calculated from historical returns that occurred in the previous time (Nurfadila & Sukmayanti, 2020). On the other hand, Hapsoro et al. (2020) stated that to avoid potential losses in stock investment, investors must be able to predict future stock returns. Hapsoro et al. (2020) also added that the higher the stock return, the better the investment because it can generate profits.

There are many variations in research outcomes based on the conclusions of earlier studies on the interaction of ESG performance and stock returns. In research conducted by Agustin et al. (2024) proved that ESG performance as measured by ESG score has no discernible impact on stock returns, in this case social is the only aspect in ESG performance affect stock returns, other than that, environmental aspects can reduce stock volatility. Consistent with these findings, an investigation by Trisnowati et al. (2022) also found that ESG Score, ROA, and Firm Size have no effect on stock returns. Moreover, in relation to the Environmental aspect, research by Sarvasti & Widoretno (2024) also show a similarity with the results of several previous researchers, which disclosure of carbon emissions and green accounting has no significant impact on stock returns. However, it differs from the study investigated by Yin et al. (2023) on companies listed in China, the results of this investigation prove that the ESG performance has a positive impact on stock returns. This discovery is consistent with the outcomes of a research by Kilic et al. (2022) which clarify that there is a substantial movement scheme between ESG returns and stock returns at different frequencies, time periods, and samples in all countries. Furthermore, Torre et al. (2020) also supported this finding by express that the overall ESG index has a positive and statistically significant impact on returns for businesses operating in the energy and utilities industry. Likewise, studies that were carried out by Novia et al. (2024) found that environmental performance has a positive effect on stock performance partially, whereas social performance and governance have no significant effect. However, ESG performance variables affect the company's stock performance simultaneously. In contrast, Hartikasari et al. (2024) found a negative influence on ESG score and stock volatility.

Based on the findings of the several studies mentioned above, it can be said that there are still discrepancies from earlier research related to the effect of ESG Score on Stock Return. In addition, most previous studies also used research subjects in the form of companies listed on the Stock Exchange with certain sectors, as well as on several indices such as Sri-Kehati, IDX ESG Leaders, Eurostoxx 50, and MSCI ESG Global, and other indices. Furthermore, some of the studies above measure the ESG by using company ESG scores obtained from CSRHub, Sustainalytics, Bloomberg, and Thomson Reuters. Hence, this study was carried out to fill the gaps in several earlier investigations concerning the effect of ESG on stock returns by using a different research subject from previous studies, namely the ESG Sector Leaders IDX KEHATI launched by the Indonesia Stock Exchange on December 20, 2021. Researchers are eager to use this subject due to the lack of research conducted on companies in the index. In addition, by observing its fluctuations of stock performance in the last few periods. In addition to being novel from a subject perspective, this study is innovative in its use of market and financial performance as moderating variables, which sets it apart from earlier research that primarily used these variables as dependent or independent variables.

This research is intended to present empirical evidence related to the effect of ESG scores on stock returns, as well as to test whether financial performance and market performance can moderate the relationship between the two variables. The enactment of Presidential Regulation No. 59/2017 on the Implementation of Achieving the Sustainable Development Goals has made it necessary for many business actors who are also involved in the government's efforts to be able to control risks on environmental, social, and corporate governance aspects. Therefore, this study contributes to know the extent of which companies in Indonesia have implemented aspects of sustainability by looking at the company's control efforts reflected in the resulting of ESG score. Other than that, in the theoretical aspect, this study can justify Stakeholder Theory and Signaling Theory. In practical terms, this research contributes as a consideration for managers and investors to assess ESG implementation as an opportunity to attract sustainable investment.

According to Freeman (1984), companies operate not only to fulfill the objectives of the company, but company management must also be able to think of ways to provide welfare to its stakeholders (Xaviera & Rahman, 2023). Stakeholder theory's primary goal is to support business management in maximizing the value generation of operations and reducing potential losses for stakeholders (Hapsoro et al., 2020). In stakeholder theory, the disclosure of ESG scores is an company step to gain support from its stakeholders, in the sense that stakeholders who are interested in environmental issues tend to consider it as a company's effort to sustain and as a step by the company to improve its performance (Aydoğmuş et al., 2022; Nareswari et al., 2023). Chung et al. (2024) assume that investors prefer those who prepare relevant information (e.g. ESG information) to make investment decisions on stocks with a preference for social responsibility. Hence, ESG disclosure can also be a signal to investors that the business is concerned about the community welfare in which it operates in addition to increasing shareholder wealth (Prayogo et al., 2023; Sun et al., 2024). Wang et al. (2024) also argued that ESG practices have a positive impact on attracting high-quality investment, improving production efficiency, and supply chain allocation. By using the foundation of stakeholder and signaling theory, it can be assumed that the disclosure of ESG scores can have a positive effect on stock returns. This statement is also supported by results from Kilic et al. (2022); Torre et al. (2020); and Yin et al. (2023) which states that ESG performance has a positive effect on stock returns. The same thing was also found by Engelhardt et al. (2021) and Liu et al. (2023), there is a positive interaction between ESG performance and stock returns during Covid 19 outbreak. In addition, an empirical investigation in the period of global financial crisis conducted by Bouslah et al. (2018) shows the businesses that perform well on ESG metrics have higher stock returns and reduced volatility in their stock prices during crisis period. The statements above provide an understanding that disclosure of ESG performance can affect the return on investment that has made, this also involves disclosure of ESG scores. Thus, based on the previous description of a few findings, it is assumed:
H1: ESG score has a positive effect on stock returns

In signaling theory, company management will generally try to convey a signal to investors about the company's future prospects (Nurfadila & Sukmayanti, 2020). These efforts are intended to reduce information asymmetry to help them understand the company's prospects (Simorangkir, 2019). This is in line with the argument by Putra & Budastra (2024), financial performance information may be interpreted as a signal from the company to its stakeholders, then transformed it as a factor that influences decisions regarding to the value of the organization. Therefore, evaluating a company's financial performance is one of the actions stakeholders can take to assess its potential, along with examining other elements like non-financial performance in the form of CSR reporting, ESG, and others that can support the company's sustainability opportunities. In general, financial performance metrics can be used as one of the indicators that strengthen stakeholders' decision regarding company performance and projections for the future, how the company continues to achieve its goals and targets that support the long-term sustainability of the company. As Orlitzky et al. (2003) argue that financial performance is considered as financial visibility to reach its economic goals (Velte, 2020). So, it should come as no surprise that stakeholders particularly investors employ financial analysis to estimate future returns. This statement is also supported by Suryo & Yasa (2021), financial ratio analysis is the part of fundamental analysis carried out by investors to predict the company's stock price. The explanation above can also be demonstrated by Hapsoro et al. (2020); Nurfadila & Sukmayanti (2020); and Simorangkir (2019) that financial performance has a significant effect on stock returns. Thus, Rahelliamelinda & Handoko (2024) considers to combine profitability and ESG performance as a basis for investment decision making. According to the several statements, it concluded that financial performance can be used as an indicator that can strengthen the assessment of a company. This result is also proven empirically through a few study, the research conducted by Arofah & Khomsiyah (2023) shows a result that financial performance proxied by ROA strengthens ESG performance on firm value. Pramesti et al. (2024) also agreed about this statement that financial performance strengthens the correlation between ESG disclosure and intellectual capital to firm value. Additionally, Perkasa & Simatupang (2025) obtained the same result as any researched before that financial performance strengthens the moderation between environmental and social to company value. According to Sumarno et al. (2023), firm value is the result of investor perceptions that are often associated with stock prices. Sumarno et al. (2023) also added that investors often struggle to detect ESG factors, thus they need looking at firms with better financial performance when making investment decisions. Referring to these elucidations, the hypothesis will be developed as follows:

H2: Financial performance moderates the effect of ESG score on stock returns.

In this study, market performance may also be referred to as company value since any action that might affect the firm's added value (image), particularly from the perspective of external parties, can be considered as an activity to increase

company value. High company value tends to provide more benefits to its stakeholders. Dwimayanti et al. (2023) have the same opinion about maximizing shareholder wealth requires a rise in the company's value. Stakeholder theory holds that businesses must be able to benefit their stakeholders, and this is undoubtedly consistent with that idea if it is observed. Furthermore, the investigation of Sumarno et al. (2023) stated that company value remains as a crucial element for investors in choosing some investments because stock prices will rise by following a high firm's value, but also investors should not ignore the company's other goals, that can be said to be improving community welfare and preserving the environment. Buallay (2019) express that a company with superior performance if it discloses financial and non-financial resources, companies may get a competitive edge by using these resources to build their expertise and capabilities (Mohammad & Wasiuzzaman, 2021). Pramesti et al. (2024) also emphasized that non-financial information such as ESG has a positive impact on corporate sustainability and can increase the issuer's stock price so that it can attract investor interest. Accepting this argument, Cohen (2023) explains the condition of shareholders who realize that allocating funds to mitigate social and environmental issues may enhance their stock's value and public perception. Empirical evidence is shown by Qodary & Tambun (2021) regarding company value moderates the effect of ESG and retention ratio on stock returns. Meanwhile, Janah & Handayani (2020) revealed that company value can moderate environmental information disclosure on financial performance with a substantive style, but not for financial performance with a symbolic style. As explained by Pramesti et al. (2024) previously, investors use financial performance as a key metric to forecast the company's future prospects. Along with forecasting the return on the company's shares (Hapsoro et al., 2020). In addition, study by Kumala & Ahya (2020) demonstrates that stock returns are influenced by company valuation. So, the hypothesis that can be formulated as follows:
H3: Market performance moderates the effect of ESG score on stock returns.

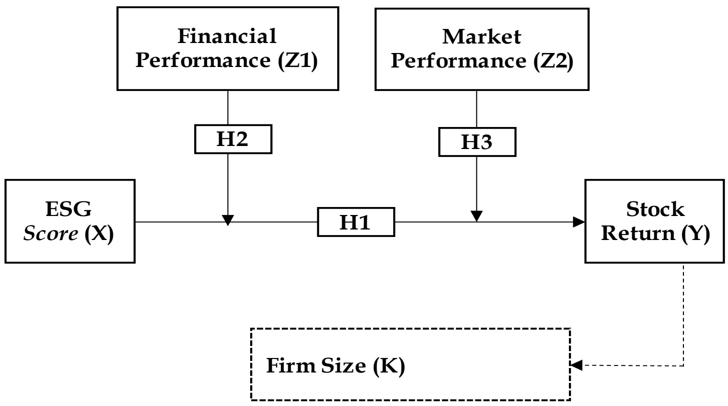

Figure 2. Research Framework
Source: Data Processed, 2025

RESEARCH METHODS

This study uses an associative quantitative approach to explain how ESG scores affect stock returns with financial and market performance as moderating variables. The study was carried out on company that were included in the ESG Sectors Leader IDX KEHATI index from 2019 to 2023 with a total population of 95 companies. The rising quantity of indices launched by the Indonesia Stock Exchange to accommodate investor preferences in the ESG field requires a more in-depth analysis to find out which index is right for investors to invest in based on the level of return they have predicted from the performance of companies in the index. Based on the Fact Sheet of the ESG Sector Leaders IDX KEHATI index as of the end of 2024, it can be seen that the cumulative performance of the index appears positive (+25.14%), but for over time performance it is experiencing instability which can be caused by several factors such as stock market fluctuations, changes in stock composition, liquidity and company size as well as environmental, social and corporate governance issues. Especially by looking at the placement of ESG issues in corporate strategy. In addition, the proportion of companies that don't reveal their ESG scores in full term is one of the problems that investors will face in conducting comparative tests of company performance. So, because of these issues, an analysis is needed to determine whether investment in this index stock is good for investors to do. And this is also the reason why ESG Sector Leader IDX KEHATI is taken as the object of observation apart from its novelty as a sustainability index.

Based on purposive sampling technique, here are presented sample selection criteria as follows:

Table 1. Research Sample

No	Description	Total
1.	Companies that are consistently listed in the ESG Sector Leaders IDX KEHATI Index	24
2.	Companies that did not disclose consecutive ESG scores from 2019 to 2023 on LSEG Data & Analytics	(2)
3.	Companies that did not disclose their full ESG score from 2019 to 2023 on LSEG Data & Analytics	(4)
4.	Companies that are used as research objects	18
5.	Research period	5
Number of observations		90
Number of outliers		(46)
Number of observations after data transformation		44

Source: Research Data, 2025

The small sample in this study is due to the fact that there are not many companies in the ESG Sector Leaders IDX KEHATI index that disclose the complete ESG score from 2019 to 2023 in the LSEG Data & Analytics platform, this may occur because the company has not disclosed ESG performance with global standards. Observations in this study were also narrowed due to the presence of outlier data in the data which caused problems in testing normality and multicollinearity. Thus, elimination of such data is necessary to make regression testing appropriate to answer the hypothesis.

The data required for this investigation is secondary data sourced from the company's financial statements and annual reports. The report is acquired by accessing the website www.idx.co.id or the company's official website. ESG score data and stock prices were obtained through LSEG Data & Analytics and the website www.finance.yahoo.com.

This study is supported by a number of variables, the detail presented as follows:

Table 2. Research Variables

No	Variable Name	Indicator	Measurement	Reference
1.	Dependent:			
	- Stock Return	Stock price	$R_t = \frac{P_t - P_{t-1}}{P_{t-1}}$	Hapsoro et al. (2020)
2.	Independent:			
	- ESG *Score*	ESG Score data is sourced from the LSEG Data & Analytics Database with a range of 0-100		LSEG Data & Analytics (2023)
3.	Moderation:			
	- Financial Performance	Return on Assets	$\frac{EAT}{Total\ Asset}$	Putri et al. (2022)
		Return on Equity	$\frac{EAT}{Total\ Equity}$	Nurfadila & Sukmayanti (2020)
	- Market Performance	Tobin's Q	$\frac{Market\ cap + Liabilities}{Total\ Asset}$	Sany et al. (2024)
4.	Control:			
	- *Firm Size*	Natural logarithm of total asset	$Ln\ (Total\ Asset)$	Pramesti et al. (2024)

Source: Research Data, 2025

This study employed the panel data regression analysis approach as its data analysis method. The regression testing process will begin by conducting descriptive statistical tests and continuing by determining which model will be used to conduct these statistical tests, while the model to be selected consists of the Random Effect Model, Fixed Effect Model, and Common Effect Model. Then, the determination of the model is carried out with a number of tests such as the Chow test, Hausman test, and Lagrange Multiplier test. The next test is the classical assumption test which consists of normality, multicollinearity and heteroscedasticity tests. Furthermore, hypothesis testing is carried out using the Moderated Regression Analysis (MRA) model. This research model is formulated as follows:

$Rt = \alpha + \beta_1 ESG + \beta_2 FS + \beta_3 ESG*ROA + \beta_4 ESG*ROE + \beta_5 ESG*TQ + \varepsilon$ ……………….....(1)

Where:

α = Constant
β_1, β_2, etc. = Regression Coefficient
Rt = Stock Return
ESG = Environmental, Social, Governance

FS = Firm Size
ROA, ROE, TQ = Return on Assets, Return on Equity, Tobin's Q
ESG*ROA = The interaction of ESG and ROA
ESG*ROE = The interaction of ESG and ROE
ESG*TQ = The interaction of ESG and TQ
ε = Error

RESULTS AND DISCUSSION

This study aims to investigate the effect of ESG score on stock returns with financial and market performance as moderating variables. The independent factor in this study is ESG score, which is measured through a combined ESG score on a scale of 0-100 published by LSEG Data & Analytics, previously known as Refinitiv Eikon. According to this study, the dependent variable is stock return. Next, this study also uses moderating variables in the form of financial performance proxied by ROA and ROE, as well as market performance proxied by Tobin's Q value. Furthermore, to see the trigger of other factors that can affect stock returns, this study considered control variable on firm size. The results of this investigation are shown in the following.

The statistical characteristics of the sample for each variable in this study consist of mean, standard deviation, minimum and maximum value. As can be shown from Table 3, the average value (mean) of stock return is 2.54%, which implies that the average value of stock returns from 18 sample companies used for observation can be said to be not too large. Then, from the average value of all companies observed, the highest value of stock return is 130.36% which is obtained from PT Aneka Tambang Tbk in 2020. Meanwhile, the lowest value of -44.08% was acquired from the stock return of PT Unilever Indonesia in 2021. Furthermore, standard deviation value for the stock return variable is 24.83%, this value is greater than the average value, this indicates that the data is more varied or not concentrated around the mean. In other words, this value indicates the stock return variable has a high level of volatility because the range is quite large from the average value. According to Wardhani et al. (2019), fluctuations in stock returns from year to year are caused by the instability of the price and performance of the Composite Stock Price Index. This was also driven by the Covid-19 pandemic crisis period which let to significant changes in the company's share price (Liu et al., 2023).

Table 3. Descriptive Statistics

Variables	N	Mean	Std. Dev.	Max.	Min.
Stock Return	90	0.025	0.248	1.304	-0.441
ESG Score	90	65.987	13.576	88.790	29.410
Firm Size	90	32.600	1.515	35.315	30.444
ROA	90	0.066	0.071	0.358	0.001
ROE	90	0.200	0.295	1.451	0.009
Tobin's Q	90	2.022	2.578	16.263	0.765

Source: Research Data, 2025

Based on the results of descriptive statistical testing above, the average ESG score of observation is 65.99. This value indicates that the companies sampled in the study have relatively adequate above-average transparency in ESG performance. From all observations, the highest ESG score value was 88.79

generated by PT Vale Indonesia Tbk in 2023. Meanwhile, the lowest ESG score was 29.41 obtained by PT Indofood CBP Sukses Makmur Tbk in 2021. The low ESG score indicates the business has a moderate degree of transparency and good comparable ESG performance. The next statistical measure is standard deviation. The resulting value in table 3 above is 13.58. It interpreted that the ESG score among sample is still centered on the average value, the ESG score value does not deviate much so that the distribution can be said to be evenly distributed. The reason for the achievement of a high ESG score by PT Vale Indonesia Tbk is cited in the 2023 sustainability report, the company has proven to be successful in realizing a reduction in the intensity of greenhouse gas emissions, increasing environmental protection by carrying out land reclamation, and supporting biodiversity. On the other hand, in the social aspect, the company has succeeded in completing the development of the Community Development and Empowerment Program Master Plan with social programs such as education, health, economic independence, and others, and the company also continues to improve employee’s Occupational Safety and Health efforts. Meanwhile, in the governance aspect, the company divested its shares with the intention of creating collaboration and strengthening the company's management.

The average of firm size is 32.60, this figure describes that the average size of firms in this research is quite large, as seen by their total assets. Therefore, in terms of size, PT Bank Mandiri (Persero) Tbk is the biggest firm with the value of 35.36, high total assets of IDR 2,174.22 trillion causing the company to obtain a high size compared to other companies. On the other hand, the minimum value of 30.44 was obtained by PT Unilever Indonesia Tbk with total assets in 2023 of IDR 16,664.09 billion. Then, referring to descriptive statistical testing results, it can be seen that the standard deviation value is 1.52, so it indicates the companies sampled in this study have a relatively uniform size or there are no companies with sizes that differ greatly from the average value.

Referring to table 3, the average of Return on Assets is 6.62%, the standard deviation is 7.11%, with a range of values from 0.07% to 35.80%. According to Kasmir (2019), the general standard industry for return on assets is at least 30%. Therefore, the maximum value of the observation results of the sample companies shows that the company is in a safe condition to obtain net income with its resources. The next financial performance measurement ratio is ROE, the average of Return on Equity is 20.04%, standard deviation 29.53%, with highest and lowest values of 145.09% and 0.88% respectively. The industry standard for ROE is a minimum of 40% (Kasmir, 2019). Thus, the ROE value obtained by PT Unilever Indonesia Tbk in 2020 indicates that the company has the ability to generate high returns on the capital that has been invested by investors.

In this study, Tobin's Q ratio is used to measure the market performance of the company. The average value generated is 2.02, standard deviation 2.58, with a range of values from 0.77 to 16.26. The average Tobin's Q value generated is more than one, it means that the observed companies have a relatively high value. A high Tobin's Q value indicates the market is quite optimistic about the company's growth prospects (Xaviera & Rahman, 2023).

Table 4. Results of Regression Model Selection

Test	F-*value*	*Chi-sq. Statistic*	P-*value*	Selected Model
Chow (*Cross-Section* F)	1.529	-	0.175	*Common Effect Model*
Hausman (*Cross-section random*)	-	7.156	0.209	*Random Effect Model*
LM (*Breusch-Pagan*)	0.558	-	0.455	*Common Effect Model*

Source: Research Data, 2025

The significant level as basis for decision making is 5% or 0.05. Referring to table 4, it can be seen that the selected model is the Common Effect Model (CEM). Based on the findings of the Chow and Lagrange Multiplier tests, which collectively demonstrate the outcomes of choosing the common effect model as the regression model. The model selection is carried out using the reference probability value (P-value). In the table above, the p-value generated from the Chow, Hausman, and Lagrange Multiplier tests is more than $\alpha = 0.05$, so that in the Chow test and Hausman test H_0 is approved and H_1 is denied. Thus, this study decided the Common Effect Model (CEM) as the acceptable model to conduct statistical regression analysis.

After conducting a model selection test, the next step of this research is a classic assumption test such as normality, multicollinearity, and heteroscedasticity tests. The results show that there is a normality problem generated by the data, so to overcome this problem, data transformation is carried out using the logarithm technique.

The Moderated Regression Analysis (MRA) model is used to measure the effect of ESG score on stock returns with moderation of financial performance and market performance variables. The following is the MRA model after data transformation.

$$\text{Log(Rt)} = \alpha + \beta_1\text{log(ESG)} + \beta_2\text{log(FS)} + \beta_3\text{log(ESG*ROA)} + \beta_4\text{log(ESG*ROE)} + \beta_5\text{log(ESG*TQ)} + \varepsilon \quad (2)$$

The regression test results above show the F-statistic value is 2.865921> F-table, the value of prob (F-statistic) is 0.027221. This study uses the F-test as a model accuracy test, so the regression model that has been formed is appropriate to explain the hypothesis of this study. The next statistical measure is the coefficient of determination or R^2. Referring to the result, it shows the R^2 is 0.273834. It means, the dependent variable can be described by 27.38% of the independent variables, with the remaining portion being explained by components excluded from the model being studied. Additionally, the standard deviation of dependent variable shown in the table is greater than the standard error value, this means the regression model can be said to be valid as an explanatory model of the dependent variable.

Table 5. Regression Test Results with CEM

Variables	Coef.	Std. Error	t-Stat.	Prob.	Desc.
C	-0.031	19.238	-0.002	0.999	-
Log_ESG	2.787	0.922	3.022	0.005	Accepted
Log_FS	-2.646	5.738	-0.461	0.647	Rejected
Log_ESG*ROA	1.025	0.413	2.483	0.018	Accepted
Log_ESG*ROE	-0.247	0.394	-0.627	0.534	Rejected
Log_ESG*TQ	-1.085	0.498	-2.177	0.036	Accepted

Dependent Variable: Stock Return (Rt)
*Significant at α = 5%

F-statistic	2.866
Prob (F-statistic)	0.027
R-*squared*	0.274
Adjusted R-squared	0.178
S.E. Regression	0.995
S.D. Var. Dependent	1.097

Source: Research Data, 2025

The regression output above shows that the first hypothesis (H1) is approved. This finding explains that the adaptation of the ESG concept in a company can have a positive influence on the level of return that will be obtained by investors. Company managers who are aware of how to treat stakeholders appropriately will see an ESG implementation as an effort to offer stakeholders value-added, especially investors. This is coherent with the idea of stakeholder theory, which holds that the business may continue to exist if it is able to provide satisfaction to stakeholders. A prudent business would constantly look for a compromise on stakeholder issues, avoiding prejudice or favoring the interests of one side, so that stakeholders will be more likely to support this course of action. Study conducted by Prabawati & Rahmawati (2022) state that many companies have adopted stakeholder-oriented strategies and maximized social value for corporate sustainability. The implementation of the ESG concept can also support signaling theory, this idea will be seen as a positive signal by stakeholders who keep an eye on the business's long-term performance. In this case, the company will not simply focus on increasing profits, but the corporation will also need to consider how to solve its environmental, social, and internal governance issues in order to gain social legitimacy. Businesses that successfully integrate these three elements into their operations will have long-term prospects. Thus, investors who have sustainable preferences will consider ESG implementation in companies as a high offering opportunity in the future by seeing the increasing number of people who are starting to concern about environmental and social issues, especially workers' rights. Consequently, this may have an impact on future stock returns. The output of this investigation are consistent with prior research undertaken by Engelhardt et al. (2021); Kilic et al. (2022); Liu et al. (2023); Torre et al. (2020); and Yin et al. (2023) who states that ESG performance has a positive effect on stock returns. Bouslah et al. (2018) also presented similar results that businesses who have well-performed in ESG have greater stock returns. On the other hand, this study does not support the results presented by Agustin et al. (2024) and Trisnowati et al. (2022) who reveal that ESG has no discernible impact on stock returns.

Referring to the results of second hypothesis (H2) shows that financial performance proxied by Return on Assets (ROA) moderates the effect of ESG score on stock returns, which characterized by a significant variable p-value at 0.0176 < α =5%, in this case ROA has a moderating role by strengthening the correlation of ESG score and stock returns. Meanwhile, financial performance proxied through Return on Equity (ROE) did not succeed in moderating the effect of ESG score on stock returns. According to Simorangkir (2019), the level of operating efficiency of a company can be measured through ROA. In this study, ROA has a role as a quasi-moderating variable. This outcome supports the idea of stakeholder theory which declares that the company must be able to provide stakeholders advantages. A high ROA illustrates that the company has succeeded in making a profit, which will certainly have a positive influence on stakeholders, especially investors. In the study of Fajriah & Jumady (2022) argue that the more profitable a business is, the more valuable it is. Future stock returns will be impacted by the firm's offerings, which can be influenced by high company value. The findings of this study are consistent with a study by Arofah & Khomsiyah (2023) who found that financial performance proxied by ROA strengthens ESG performance on firm value. Besides, Pramesti et al. (2024) also reveals that financial performance proxied through ROA is able to moderate by strengthening the relationship between ESG disclosure and company value. The same thing was found by Perkasa & Simatupang (2025) that financial performance strengthens the moderation between environmental and social to company value. Furthermore, Putra & Budastra (2024) also showed that financial performance measurements, such profitability, have a role in mediating the relationship between ESG and corporate value. Even though, this finding does not indicate a direct impact on stock returns. But in this case, company value can be a reflection of the company's performance represented by the stock price which has a role as a reference the investors perception (Sumarno et al., 2023).

ROE is categorized as a homologous moderating variable which is incapable to moderate the effect of ESG scores on stock returns. Stakeholder theory cannot be supported by the findings of this investigation because ROE cannot be used as a companion indicator to support the expected level of return. Moreover, this result is also inconsistent with the findings of Putra & Budastra (2024) which found that financial performance metrics might act as a mediator in the link between ESG and company value. This investigation also shows a contrary finding with Hapsoro et al. (2020) who claims that return on equity has a positive and significant effect on stock returns. Furthermore, according to Wardhani et al. (2019), this condition could have resulted from company profits being used for long-term business expansion, and not allocated to shareholders. Wardhani et al. (2019) added that companies tend to prioritize their own interests by using these returns rather than the welfare of shareholders who are less prioritized. In addition, this can also be caused by the different paths between the two components, where companies are concerned with long-term large investments for sustainability, thus suppressing short-term profits.

The regression test above shows that the third hypothesis (H3) is supported. In this case, Tobin's Q can be regarded as quasi moderation. Tobin's Q moderation weakens the interaction of ESG score and stock returns. Therefore, this result may support signaling theory, where companies that have low valuations makes the disclosure of high ESG scores can be a positive signal to investors. In this situation, investors will interpret that the company is attempting to improve the strategy of environmental, social, and governance. Igbinovia & Agbadua (2023) also provide an argument that adequate disclosure of ESG information can help companies to gain an advantage because they are less vulnerable to revenue volatility and easier to access funding. Different conditions will be experienced by companies that have high valuations. These companies will be considered to have well-performed, especially with mature ESG practices. Thus, the increase in ESG value is no longer a new signal for investors, as a result, stock returns do not experience significant changes due to this phenomenon. However, the outcome of this research is inconsistent with the result of Qodary & Tambun (2021), which found that business valuation strengthens the correlation between ESG and stock returns. Likewise, study conducted by Ardiyansyah & Paramita (2020) and Kumala & Ahya (2020) explain that firm value has a positive effect on stock returns.

There are several implications in this study such as theoretical, practical, and regulatory. In the theoretical aspect, the concept of Stakeholder Theory explains the vision of a company that is not only oriented towards achieving profits, but also companies must be able to think about other factors to gain support from stakeholders. The practice of ESG performance can be used as an opportunity to get stakeholder support. A high ESG score accompanied by credible and transparent performance evidence will usually increase stakeholder confidence in the company's ethical operations. Good ESG implementation in a company can be the best investment that can generate high returns in the future. A high ESG score will usually tend to generate a positive response from investors because they consider that the company is one step ahead in prioritizing ESG issues, but not a few investors also consider that the disclosure is an act of corporate greenwashing.

In a practical perspective, these findings contribute to assist managers in making considerations to design a more comprehensive ESG strategy. Good ESG performance results can open opportunities for companies to obtain sustainability investment support from stakeholders who are aware of ESG issues. In addition to increase opportunities for access to funding, managers can also start thinking about the ESG concept as an early anticipation of the company's handling costs that may be incurred by the business in the future because of the effects of its operations. Besides, ESG practices within the scope of the company can also provide benefits for both internal and external stakeholders. For internal stakeholders such as employees, the application of ESG provides guarantees to employees or workers for a more conducive work environment, as well as certainty of fulfillment of rights to employees. Meanwhile, for external stakeholders such as investors, good ESG performance can be one of the considerations for investing in the company, that certainly accompanied by evidence of accountable performance reports. Other than that, this can also benefit for community with the role of companies that pay more attention to the environmental impact of potential hazards of their operational activities on the community.

In the regulatory aspect, this research supports each company's implementation of Government Regulation No. 47 of 2012 on Social and Environmental Responsibility of Limited Liability Companies (Presiden RI, 2012). In addition to succeed the government's efforts, further consideration is needed from regulators to develop incentive policies for companies that have good ESG performance as contained in Article 9 of OJK Regulation No. 51/POJK.03/2017 on the accomplishment of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (OJK, 2017).

CONCLUSION

This study is intended to investigate the effect of ESG score on stock returns with financial performance and market performance as moderating variables in companies listed in the ESG Sector Leaders IDX KEHATI index from 2019 to 2023. In this study, 44 observations are utilized to evaluate the hypothesis. Based on the results of regression test show that ESG scores have a significant and positive effect on stock returns with financial performance proxied through Return on Assets (ROA) successfully moderating by strengthening the relationship between ESG scores and stock returns and market performance as determined by Tobin's Q moderating by weakening the correlation of the two variables. On the other hand, Return on Equity (ROE) as a proxy for financial performance does not successfully moderate the effect of ESG scores on stock returns. These results indicate that the implementation of more comprehensive ESG practices will be increasingly needed to obtain sustainable investment, this does not preclude the possibility of increasing company returns in the future.

This investigation has a major limitation in the number of samples, where the sample used can be said to be relatively small (18 companies), which affects the number of observations studied. The reason of the limited sample size is that there just a few companies disclose assessment elements to measure ESG scores that have been standardized globally, so it makes many companies appear to have no ESG scores on the market data platform provided by LSEG Data & Analytics. Besides, a number of businesses are disqualified from this study since they do not fit the data's features, as it only takes into account the usage of balanced data to make observations. In addition, the presence of a number of outlier data makes the number of observations in this study small, so this is also the part of limitations of this study.

The next researchers are expected to increase the quantity of samples by looking at companies in other sectors or indices because the ESG Sector Leaders IDX KEHATI index is still relatively new and limited, and extend the research time span to expand the range of observations. Besides, future researchers can also consider adding other proxies in financial performance and market performance that have a capability to support the correlation between ESG scores and stock returns such as Net Profit Margin (NPM), Market to Book Value (MBV), and Earnings Per Share (EPS) as well as other variables such as earnings management, financial distress, institutional ownership, and so on. In addition, researchers can also add other factors to see the effect of ESG on various business elements such as investment decision making, funding, abnormal returns, and others. No less important, in order to prevent numerous businesses from being eliminated because of time series discrepancies, future researchers may also think about doing observations using unbalanced data. Additionally, future researchers can consider research in the ESG field by taking the form of ESG Risk Rating provided by Sustainalytics. On the other side, investors are advised to be more careful in assessing a company based on its ESG performance to guard against potential greenwashing that could be carried out by the company, for this reason investors are required to make a concrete assessment of each action taken by the company and assess other factors that can support to get corporate sustainability information.

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