

THE ROLE OF ESG IN MODERATING THE RELATIONSHIP OF FINANCIAL PERFORMANCE TO MARKET REACTIONS

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Abstract

This study aims to analyze the role of ESG (Environmental, Social, and Governance) in moderating the relationship between financial performance and market reactions in companies listed on the Indonesia Stock Exchange (IDX). Using a quantitative associative approach, this research analyzes panel data from 57 companies over the 2019–2023 period (285 firm-year observations). Financial performance was measured by Earnings Per Share (EPS), market reaction by year-end closing stock price, and ESG performance using scores from the Bloomberg Terminal. Panel data regression analysis results show that financial performance (EPS) has a positive and significant effect on market reaction. However, contrary to the hypotheses, all three ESG dimensions (Environmental, Social, and Governance) did not show a significant moderating effect on this relationship. These findings indicate that investors in the Indonesian capital market still rely on traditional financial metrics as the primary drivers of investment decisions and have not yet fully integrated sustainability performance considerations into their valuation models. The study's implications highlight the need for better ESG education and increased investor awareness to encourage more sustainable investment practices in emerging markets.

Keywords: Earning Per Share, Stock Price, Environmental Score, Social Score, Governance Score

1. Introduction

The global business landscape is undergoing a profound transformation, characterized by increasing dynamism and complexity. Companies today face mounting pressures that extend beyond traditional financial performance to encompass broader environmental and societal impacts. The transition through Industry 4.0 to 5.0 has fundamentally altered corporate operations and stakeholder engagement paradigms, compelling organizations to reconsider their strategic priorities (European Union Sasana Digital, 2023). While capital markets remain crucial for financing expansion through the trading of long-term securities such as stocks and bonds (Fabozzi & Kolb, 2016), contemporary investors are increasingly evaluating companies through a multidimensional lens that incorporates non-financial considerations alongside conventional financial metrics.

Historically, stock price fluctuations have served as primary indicators of investor sentiment and economic health, predominantly influenced by financial performance indicators such as Earnings Per Share (EPS), Return on Investment (ROI), and Net Profit Margin (NPM) (Fama, 2015; Riani et al., 2023). Substantial empirical evidence supports the positive relationship between strong financial performance and stock prices in emerging markets like Indonesia (Rusdiyanto et al., 2021). Recent research continues to demonstrate the significant influence of EPS on stock price movements (Dinda &

Surepno, 2023; Sutriyadi, 2023; Oktasari & Nurjaya, 2024), confirming the enduring relevance of profitability measures in investment decision-making.

However, the linear relationship between financial performance and market response has become increasingly complex and nuanced. Global crises, particularly the COVID-19 pandemic, have exposed market vulnerabilities to unexpected shocks and highlighted the critical importance of non-financial risk factors (Reinhart, 2020; Huynh, Dao, & Nguyen, 2021; Lo, 2020). These developments have revealed the insufficiency of exclusive focus on financial metrics for ensuring corporate sustainability and resilience. Consequently, sustainability measurement frameworks have evolved from basic Corporate Social Responsibility (CSR) disclosures to comprehensive Environmental, Social, and Governance (ESG) criteria (Almeyda & Darmansyah, 2019; TechTarget, 2024).

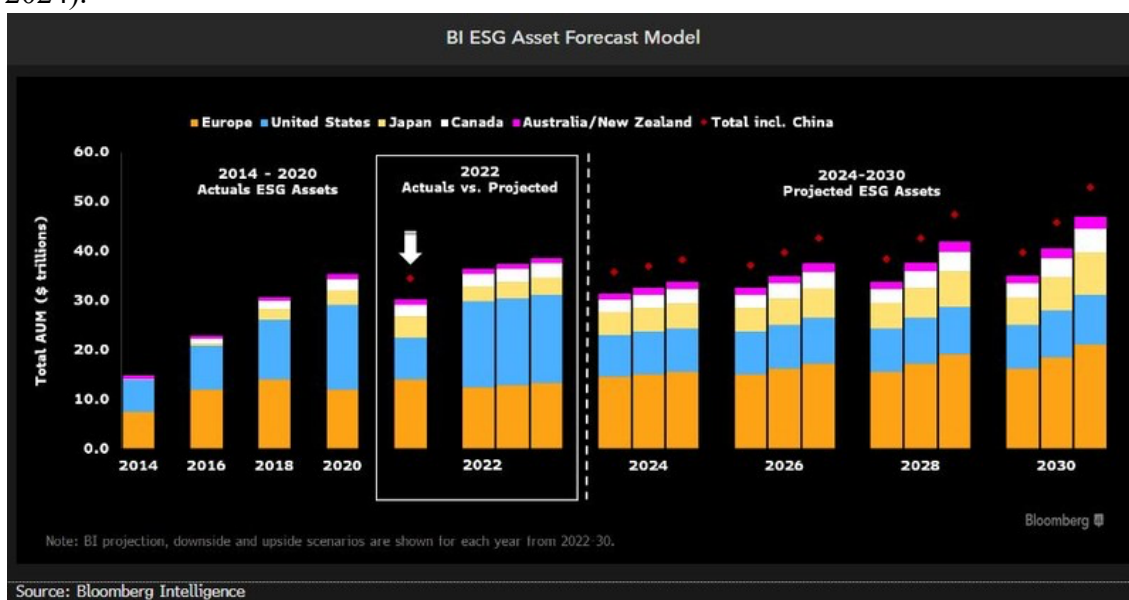


Figure 1. Global ESG Asset Projections
Source: Bloomberg Intelligence (2024)

Global investment trends reflect a significant shift toward sustainable practices, with ESG-based investments experiencing exponential growth. Bloomberg Intelligence (2024) projects that globally managed assets under ESG strategies will exceed \$40 trillion by 2030, up from \$30 trillion in 2022. This growth trajectory is further supported by Grand View Research, which estimates the global ESG investment market will reach \$79.71 trillion by 2030, growing at a Compound Annual Growth Rate (CAGR) of 18.8%. This substantial capital allocation indicates that ESG considerations have transitioned from niche concerns to mainstream investment criteria, fundamentally influencing how markets respond to corporate financial performance.

The integration of ESG factors into investment decision-making reflects a paradigm shift in capital markets. Investors increasingly recognize that companies with robust ESG practices tend to demonstrate greater resilience, innovation capacity, and long-term risk management (Whelan, Atz, Van Holt, & Clark, 2021). Empirical evidence shows that ESG factors contribute to operational efficiency, productivity, risk management, and overall corporate performance (Velte, 2017). Companies with strong ESG credentials often benefit from lower capital costs, improved market access, and more stable profitability (Stamford, 2025), achieved through various mechanisms including risk reduction, cost savings, reputation enhancement, and improved stakeholder relations.

Within this context, ESG performance plays a crucial moderating role in market reactions. While traditional financial performance remains a primary driver of stock prices, ESG performance influences investor perceptions of long-term corporate value (Hu, Zou, & Yin, 2023). Research indicates that companies with superior ESG policies tend to receive more positive market responses to strong financial performance, whereas those with poor ESG practices may not gain comparable market appreciation despite high EPS figures (Lee & Park, 2023). Furthermore, high-ESG stocks have demonstrated better returns and lower volatility during market shocks such as the COVID-19 pandemic, suggesting that sustainability performance provides stability during turbulent periods (Mulyono, 2023).

Conversely, companies failing to meet ESG standards face significant risks, including legal sanctions, reputational damage, and reduced investor confidence (Dziadkowiec & Karolina, 2021). The Indonesian context provides compelling evidence of these consequences, as demonstrated by numerous cases where companies neglecting ESG responsibilities have faced serious environmental, social, and governance challenges (Zahroh & Hersugondo, 2021; Fitrianto, 2012; Wulandari, 2023).

Grounded in Stakeholder Theory (Freeman, 1984), this research recognizes that organizations have responsibilities extending beyond shareholders to include employees, customers, suppliers, governments, communities, and the environment. Within this framework, ESG activities represent sources of opportunity, competitive advantage, and innovation rather than mere costs or charitable actions (Porter & Kramer, 2006; Wu et al., 2021). This theoretical foundation supports the examination of ESG performance as a moderating variable that explains how companies with better ESG policies achieve more positive market responses to financial performance.

While previous research has examined corporate resilience using factors such as Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) (Kiptoo, Kariuki, & Ocharo, 2021), this study specifically investigates sustainability performance measured through ESG criteria. It explores how the interaction between corporate financial performance and ESG performance influences market reactions, particularly in the context of emerging markets. This approach aligns with emerging evidence that companies with stronger ESG practices demonstrate greater resilience and enhanced profitability, even during crisis periods (Mulyono, 2023).

2. Theoretical Background

2.1 Stakeholder Theory

Stakeholder Theory posits that firms are accountable not only to shareholders but also to a broad set of stakeholders, including employees, customers, regulators, creditors, and society (Freeman, 1984). According to Donaldson and Preston (1995), the theory incorporates three dimensions: descriptive, normative, and instrumental. In this context, ESG practices represent a firm's efforts to meet stakeholder expectations by addressing social and environmental concerns.

Prior studies demonstrate that firms integrating stakeholder interests in their strategy often achieve greater legitimacy, reduced risk, and stronger long-term performance (Driver & Thompson, 2002; Smith, 2003). ESG disclosures enhance transparency, strengthen reputation, and provide stakeholders with relevant information on corporate sustainability practices (Safriani & Utomo, 2020; Cañamero et al., 2020). Therefore, Stakeholder Theory underscores the relevance of ESG as a moderating mechanism that strengthens the relationship between financial performance and market response.

2.2 Signaling Theory

Signaling Theory addresses the problem of information asymmetry between managers and investors (Spence, 1973). Corporate disclosures, whether financial or non-financial, act as signals that help external investors evaluate firm quality and reduce uncertainty. Positive signals, such as higher earnings per share (EPS), are generally associated with stronger investor confidence and upward movements in stock prices (Gumanti, 2009; Firdausy, 2023).

In addition to financial information, ESG disclosures have become increasingly important signals of long-term value creation and effective risk management (Clark et al., 2015; Aouadi & Marsat, 2018). Firms that consistently provide credible ESG reports distinguish themselves as high-quality companies, thereby reinforcing financial signals and generating stronger market responses. Accordingly, signaling theory provides a rationale for considering ESG as a moderating factor in the financial performance–market reaction relationship.

2.3 Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH), introduced by Fama (1970), asserts that security prices fully reflect all available information, and that markets adjust rapidly and unbiasedly to new information. Under the semi-strong form, which is most relevant for this study, stock prices incorporate all publicly available information, including financial reports and sustainability disclosures. Consequently, financial performance and non-financial indicators such as Environmental, Social, and Governance (ESG) performance are expected to be immediately reflected in stock prices.

In efficient markets, ESG performance can shape investor perceptions regarding firm stability and long-term prospects. Firms with strong ESG records are considered more resilient, which translates into positive stock market reactions (Fatemi et al., 2018). Thus, EMH provides the theoretical foundation to explain how financial and ESG information are absorbed into prices and how market reactions emerge.

2.4 Financial Performance

Financial performance reflects a company's ability to generate profits and create value for its stakeholders. Among various financial indicators, Earnings per Share (EPS) is widely used as a primary measure since it represents the portion of profit allocated to each outstanding share. High and consistent EPS signals profitability, stability, and long-term growth prospects (Aspriyadi, 2020; Wang et al., 2020). Prior empirical studies confirm that EPS significantly influences stock prices, as investors often rely on this metric in making investment decisions. However, findings across markets remain inconsistent, suggesting the presence of moderating factors such as ESG performance.

2.5 Market Reaction

Market reaction refers to the adjustment of stock prices in response to new information disclosed by firms. Under the semi-strong form of EMH, stock prices are expected to incorporate both financial and non-financial disclosures, reflecting investor perceptions of firm value (Fama, 1970). A positive financial performance, such as higher EPS, typically triggers favorable investor responses and upward stock price movements. However, reactions can vary depending on contextual factors, including market conditions, industry sector, and the firm's sustainability practices (Moomoo, 2025; Vision Retirement, 2024).

2.6 Environmental Performance

The Environmental dimension of ESG reflects how firms manage environmental impacts through energy efficiency, emission reduction, and sustainability initiatives. Strong environmental performance reduces long-term risk perceptions and enhances investor confidence (Fatemi et al., 2018; Wu, Xiong & Gao, 2021). Accordingly, environmental performance is expected to strengthen the positive effect of financial performance on market reaction, as investors value firms that align profitability with environmental responsibility.

2.7 Social Performance

The Social aspect of ESG emphasizes how firms interact with employees, customers, communities, and other stakeholders. Strong social performance enhances corporate reputation, reduces volatility, and attracts institutional investors (Albuquerque et al., 2019; Abdelaziz et al., 2024). It also signals corporate responsibility and ethical conduct, which increase trust among investors. Therefore, social performance is expected to reinforce the relationship between financial performance and market reaction by providing a favorable context for interpreting financial results.

2.8 Governance Performance

The Governance dimension reflects transparency, accountability, and management effectiveness in corporate decision-making. Strong governance reduces risks of financial manipulation, improves investor trust, and increases confidence in reported earnings (IFC, 2022; Alduais, 2022). Firms with robust governance structures are more likely to experience positive market responses to financial disclosures, as investors perceive such firms as credible and well-managed. Thus, governance performance is expected to amplify the link between financial performance and market reaction.

2.9 Hypothesis Development

2.9.1 Financial Performance and Market Reaction

The Efficient Market Hypothesis (EMH) posits that capital markets promptly and rationally incorporate available information into stock prices (Fama, 1970). Financial performance, particularly Earnings per Share (EPS), represents one of the most widely recognized indicators of corporate profitability and value creation for stakeholders. According to Signaling Theory, firms use financial indicators such as EPS to signal their stability and growth prospects to the market (Spence, 1973). Concurrently, Stakeholder Theory emphasizes that firm value is generated not only for shareholders but also for broader stakeholders, implying that financial performance should positively influence investor decisions (Freeman, 1984).

Empirical studies consistently demonstrate a positive association between EPS and stock prices in both developed and emerging markets (Aspriyadi, 2020; Wang et al., 2020; Sutriyadi, 2023). However, other studies have reported insignificant results, suggesting contextual factors such as industry heterogeneity, macroeconomic conditions, or non-financial disclosures may alter market responses (Apriani & Situngkir, 2021). Despite these inconsistencies, the prevailing evidence supports a positive influence of EPS on market reaction. Therefore, the first hypothesis is formulated as follows: *H1. Financial performance (EPS) has a positive and significant effect on market reaction.*

2.9.2 The Moderating Role of Environmental Performance

The environmental dimension of ESG reflects how companies manage their ecological footprint, including energy efficiency, emissions reduction, waste management, and sustainability initiatives. Stakeholder Theory suggests that strong environmental practices enhance corporate legitimacy, whereas Signaling Theory implies that disclosing credible environmental performance sends a positive signal of risk management and long-term orientation to investors (Clark et al., 2015).

Evidence supports that firms with strong environmental initiatives tend to reduce long-term risk perceptions, which in turn strengthens investor responsiveness to financial signals such as EPS (Fatemi et al., 2018; Gao et al., 2019). Wu et al. (2021) further show that ESG certification significantly enhances stock price efficiency, highlighting that markets value environmental commitment. In the context of EMH, this suggests that investors incorporate environmental information into their valuation, amplifying the effect of financial performance on market reaction. Accordingly, the following hypothesis is proposed: *H2. Environmental performance moderates the relationship between financial performance (EPS) and market reaction, such that the positive relationship is stronger for firms with higher environmental performance.*

2.9.3 The Moderating Role of Social Performance

The social dimension covers employee relations, workplace safety, community engagement, and human rights. From the Stakeholder Theory perspective, strong social performance fosters trust and loyalty among employees, customers, and communities, reducing business uncertainty. Signaling Theory indicates that social disclosures act as signals of ethical conduct, corporate stability, and reputational capital, all of which are relevant to investor decision-making (Khan et al., 2018; Albuquerque et al., 2019).

Empirical research shows that social performance can mitigate the likelihood of extreme stock price fluctuations (Abdelaziz et al., 2024) and attract more institutional investors (Dorfleitner & Zhang, 2024). Analysts also incorporate corporate social information into stock recommendations, influencing investor sentiment and price formation (Luo et al., 2015). Taken together, these findings suggest that social performance enhances market perception of financial signals such as EPS. Thus, the following hypothesis is developed: *H3. Social performance moderates the relationship between financial performance (EPS) and market reaction, such that the positive relationship is stronger for firms with higher social performance.*

2.9.4 The Moderating Role of Governance Performance

The governance dimension emphasizes transparency, accountability, and board effectiveness. According to Signaling Theory, strong governance structures enhance the credibility of financial information, thereby reducing information asymmetry between managers and investors. Within the EMH framework, disclosures of robust governance practices are expected to be rapidly incorporated into stock prices, reinforcing the reliability of reported EPS.

Empirical evidence confirms that governance quality enhances the financial–market performance linkage. Austmann (2022) documents that ESG disclosures positively affect firm financial outcomes, particularly in firms with governance-oriented investors. Similarly, the International Finance Corporation (2022) highlights that good governance improves efficiency, mitigates risks, and secures better access to capital. Moreover, Alduais (2022) finds that governance quality influences analyst recommendations and

forecast accuracy, ultimately affecting market responses. Accordingly, the following hypothesis is formulated: *H4. Governance performance moderates the relationship between financial performance (EPS) and market reaction, such that the positive relationship is stronger for firms with higher governance performance.*

3. Methods

3.1 Research Design

This study employs a quantitative associative research design to examine the relationship between financial performance, ESG (Environmental, Social, and Governance) performance, and market reactions within the Indonesian capital market.

The research utilizes a panel data approach, combining cross-sectional data from multiple companies with time-series data from a five-year period (2019–2023). This design allows for controlling unobserved heterogeneity and capturing dynamic changes over time. Secondary data was collected from two primary sources:

- 1) Bloomberg Terminal: For ESG performance scores (Environmental, Social, and Governance dimensions) for each company.
- 2) Indonesia Stock Exchange (IDX): For annual financial reports, including Earnings Per Share (EPS) and year-end closing stock prices.

The study used purposive sampling with the following criteria:

Table 1. Sample Selection Criteria

No.	Sample Selection Criteria	Violation of Criteria	Number of Firms
1	Companies listed on the Indonesia Stock Exchange (IDX) that published an ESG Score in the Bloomberg database for the period 2019-2023	0	164
2	Companies that published an ESG Score in the Bloomberg database for 5 consecutive years (2019-2023)	(80)	84
3	Companies with fully accessible financial reports for the 2019-2023 research period	0	84
4	Companies that reported a profit for 5 consecutive years (2019-2023)	(27)	57
	Final Sample Size		57
	Research Period (Years)		5
	Total Firm-Year Observations (57 firms × 5 years)		285

Source: Processed research data (2025)

3.2 Variable Measurement

All variables were measured using quantitative metrics derived from secondary data sources.

Table 2. Variable Measurement

Variable	Measurement Proxy	Scale	Data Source
Market Reaction (Y)	Year-end closing stock price (in IDR)	Ratio	IDX
Financial Performance (X)	Earnings Per Share (EPS) = Net Income / Average Outstanding Shares	Ratio	Company Annual Reports
ESG Performance (Z):			
Environmental Score (Za)	Bloomberg ESG Disclosure Score (0-100) based on 47 indicators (e.g.,	Ratio	Bloomberg Terminal

Variable	Measurement Proxy	Scale	Data Source
	carbon emissions, energy efficiency, waste management)		
Social Score (Zb)	Bloomberg ESG Disclosure Score (0-100) based on 22 indicators (e.g., labor practices, community relations, human rights)	Ratio	Bloomberg Terminal
Governance Score (Zc)	Bloomberg ESG Disclosure Score (0-100) based on 24 indicators (e.g., board structure, transparency, shareholder rights)	Ratio	Bloomberg Terminal

3.3 Data Analysis

Data analysis was conducted using EViews 12 econometric software and followed a comprehensive multi-stage procedure to ensure methodological rigor and robustness. The analysis commenced with descriptive statistics to summarize the central tendency, dispersion, and distribution of all variables. Subsequently, the optimal estimation method for the panel data was determined through a series of specification tests. The Chow test was employed to select between the Common Effect Model (CEM) and the Fixed Effect Model (FEM), the Hausman test to discriminate between the Fixed Effect and Random Effect Model (REM), and the Lagrange Multiplier test to compare the Random Effect and Common Effect models. This systematic approach ensured the most appropriate and efficient model was chosen for hypothesis testing.

Prior to regression analysis, the dataset was subjected to classical assumption tests to validate the reliability of the inferential results. This included the Jarque-Bera test for normality of residuals, examination of the correlation matrix (with a threshold of <0.90) to detect multicollinearity, the Glejser test to identify heteroscedasticity, and the Durbin-Watson test to check for autocorrelation. The core analysis involved panel data regression executed in two stages. First, a baseline model estimated the direct effect of financial performance (X), measured by Earnings Per Share (EPS), on market reactions (Y), measured by stock price. Second, to test the hypothesized moderating effects, a Moderated Regression Analysis (MRA) was performed by incorporating the ESG variables (Za, Zb, Zc) and their interaction terms with EPS ($X \times Za$, $X \times Zb$, $X \times Zc$) into the model, expressed as:

$$Y = \alpha + \beta_1 X + \beta_2 Za + \beta_3 Zb + \beta_4 Zc + \beta_5 (X \times Za) + \beta_6 (X \times Zb) + \beta_7 (X \times Zc) + \varepsilon.$$

Finally, hypothesis testing was conducted. The overall significance of the model was assessed using the F-test, while the t-test evaluated the significance of individual coefficients. The coefficient of determination (R^2) measured the model's explanatory power. The nature of any significant moderating effects was interpreted based on the sign and significance of the interaction terms (β_5 , β_6 , β_7) following the established typology by Solimun (2011), categorizing effects as pure, quasi, predictor, or homoligiser moderation. This integrated analytical strategy ensured a rigorous examination of both the direct and moderating relationships within the proposed theoretical framework.

4. Results and Discussion

4.1 Descriptive Statistics

Descriptive statistics were calculated for all variables to provide an overview of the data characteristics. The final sample consisted of 57 companies with 285 firm-year observations over the period 2019–2023. The results are summarized in Table 1.

Table 3. Descriptive Statistics

Variable	Mean	Median	Std. Dev.	Minimum	Maximum
Stock Price (Y)	7.591	7.565	1.314	3.912	10.878
EPS (X)	3.583	2.874	3.131	-10.820	8.645
Environmental (Za)	29.949	28.480	18.675	0.480	78.070
Social (Zb)	32.623	31.240	11.607	9.980	63.150
Governance (Zc)	72.887	73.110	10.892	38.620	98.620

Source: Processed data from EViews 12 (2025)

The standard deviation values for all variables are lower than their respective means, indicating relatively homogeneous data distribution. Stock prices show moderate variability, while EPS exhibits higher volatility, as evidenced by its wider range between minimum and maximum values. The ESG scores demonstrate substantial variation across companies, particularly in environmental performance.

4.2 Panel Data Model Selection

Three panel data regression models were tested to determine the most appropriate estimation method. The Chow test and Hausman test results consistently indicated that the Fixed Effects Model (FEM) was the most suitable approach for both the baseline and moderation models.

Table 4. Panel Data Model Selection Results

Test Type	Comparison	Prob. Value	Selected Model
Chow Test	CEM vs. FEM	0.0000	FEM
Hausman Test	FEM vs. REM	0.0023	FEM

Source: Processed data from EViews 12 (2025)

The FEM was selected as it effectively controls for unobserved time-invariant characteristics across companies, providing more efficient and consistent estimators for our analysis.

4.3 Classical Assumption Tests

Table 5. Classical Assumption Tests Result

Test	Method / Indicator	Result	Conclusion
Normality Test	Jarque-Bera = 104.492, $p = 0.000$	Non-normal distribution	Acceptable due to CLT ($n = 285 > 30$)
Multicollinearity Test	Correlation coefficients < 0.90	No correlation above threshold	No multicollinearity issue
Heteroscedasticity Test	Glejser Test ($p < 0.05$)	Heteroscedasticity detected	Robust SE (White cross-section) applied
Autocorrelation Test	Durbin-Watson = 1.437 ($-2 < DW < 2$)	Within acceptable range	No autocorrelation issue

Table 5 presents the results of the classical assumption tests conducted prior to regression analysis. The Jarque-Bera statistic indicated that the data were not normally distributed ($JB = 104.492$, $p = 0.000$). However, as the sample size is sufficiently large ($n = 285$), the normality assumption can be relaxed according to the Central Limit Theorem, which ensures that estimators asymptotically approach normal distribution. The

multicollinearity test confirmed that all correlation coefficients between independent variables were below the 0.90 threshold, suggesting no multicollinearity issues. The Glejser test revealed the presence of heteroscedasticity ($p < 0.05$); therefore, robust standard errors (White cross-section) were applied to maintain reliable statistical inference. Finally, the Durbin-Watson statistic of 1.437 fell within the acceptable range ($-2 < DW < 2$), indicating no autocorrelation problems. These results confirm that the regression model is valid and suitable for further analysis.

4.4 Hypothesis Testing

Table 6. Hypothesis Testing Results

Hypothesis	Relationship	Coefficient	p-value	Result
H1	EPS $\rightarrow$ Stock Price	0.187	0.022	Supported
H2	EPS $\times$ Env $\rightarrow$ Stock Price	-0.00015	0.810	Not Supported
H3	EPS $\times$ Soc $\rightarrow$ Stock Price	-0.00079	0.255	Not Supported
H4	EPS $\times$ Gov $\rightarrow$ Stock Price	0.00150	0.477	Not Supported

Source: Processed data from EViews 12 (2025)

4.4.1 Direct Effect Hypothesis (H1)

The regression results support H1, indicating a significant positive relationship between EPS and stock price ($\beta = 0.187$, $p = 0.022$). This finding aligns with Signaling Theory, where higher EPS serves as a positive signal to investors about the company's profitability and future prospects.

4.4.2 Moderation Effects Hypotheses (H2-H4)

The Moderated Regression Analysis (MRA) results did not support the moderation hypotheses:

H2: Environmental Score moderation was not significant ($p = 0.810$)

H3: Social Score moderation was not significant ($p = 0.255$)

H4: Governance Score moderation was not significant ($p = 0.477$)

4.5 Discussion

The findings reveal several important insights about the Indonesian capital market:

1) Primary Role of Financial Performance

The significant positive effect of EPS on stock prices (H1) confirms that traditional financial metrics remain the primary drivers of investor decisions in Indonesia's market. This supports Efficient Market Hypothesis principles, where financial performance information is quickly incorporated into stock prices.

2) Limited ESG Moderation Effects

The non-significant moderation effects of all three ESG dimensions suggest that Indonesian investors may not yet fully integrate sustainability performance into their valuation models when assessing the relationship between financial performance and stock prices. Several factors may explain this:

- Market Development Stage:** Indonesian investors may prioritize short-term financial returns over long-term sustainability considerations.
- ESG Integration Level:** The market may still be in early stages of effectively incorporating non-financial factors into investment decisions.
- Measurement Issues:** Bloomberg ESG scores might not fully capture aspects most relevant to Indonesian investors.
- Time Lag:** The benefits of ESG investments may manifest over longer periods than captured in this study.

While Stakeholder Theory and Signaling Theory provide valuable frameworks for understanding ESG importance, their applicability in emerging markets like Indonesia may be limited by contextual factors such as market maturity, regulatory environment, and investor sophistication levels.

For companies, the results suggest that while improving ESG performance is important for long-term sustainability and risk management, it may not immediately enhance how investors value financial performance. For policymakers, the findings highlight the need for better ESG education and awareness among investors to encourage more sustainable investment practices.

The study contributes to the growing literature on ESG in emerging markets by demonstrating that the relationship between financial performance, ESG factors, and market reactions may differ significantly from patterns observed in developed markets.

5. Conclusion

This study aimed to examine the moderating effect of ESG performance on the relationship between financial performance and market reactions in companies listed on the Indonesia Stock Exchange (IDX). Based on the analysis of 285 firm-year observations from 2019 to 2023, the following conclusions can be drawn:

1) Financial Performance Directly Influences Market Reactions

The results confirm that Earnings Per Share (EPS) has a significant positive effect on stock prices. This finding supports Signaling Theory, as higher EPS serves as a positive signal to investors about the company's profitability and future prospects. It also aligns with the Semi-Strong Form Efficient Market Hypothesis, where public information such as EPS is promptly reflected in stock prices.

2) Environmental Performance Does Not Moderate the Relationship

Environmental scores do not significantly moderate the relationship between EPS and stock prices. This indicates that investors in the Indonesian market do not yet integrate environmental performance as a decisive factor when responding to corporate financial performance. This may be attributed to the emerging market context where investor awareness and appreciation of environmental issues are still developing compared to mature markets.

3) Social Performance Does Not Moderate the Relationship

Similarly, social scores show no significant moderating effect on the relationship between financial performance and market reactions. This suggests that while social contributions are important from a Stakeholder Theory perspective, they have not yet become material information that significantly alters investor valuation decisions in response to financial performance indicators.

4) Governance Performance Does Not Moderate the Relationship

Despite theoretical expectations that good governance should provide positive signals about effective management and reduced agency risks, governance scores do not significantly moderate the relationship. This may be due to insufficient disclosure or ineffective communication about governance practices, preventing these signals from being fully captured by the market, as suggested by Signaling Theory.

The study demonstrates that while traditional financial metrics remain primary drivers of market reactions in Indonesia's emerging market, ESG factors have not yet developed significant moderating effects. This suggests that the application of mainstream theoretical frameworks (Stakeholder Theory, Signaling Theory, and EMH) in emerging

markets requires consideration of contextual factors such as market maturity, regulatory environment, and investor sophistication.

For companies, the findings indicate that while improving ESG performance is important for long-term sustainability, it may not immediately enhance how investors value financial performance. For policymakers and market regulators, the results highlight the need for better ESG education, improved disclosure standards, and developing investor awareness to encourage more sustainable investment practices.

This study focused on companies with available Bloomberg ESG scores, which may not represent the entire market. Future research could expand the sample size, incorporate different ESG measurement frameworks, examine longer time periods, or use alternative methodologies to capture potential lag effects of ESG performance on market reactions.

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