



DOI: <https://doi.org/10.38035/dijeфа.v6i6>
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The Impact of ESG Disclosure on Stock Performance with Growth Opportunities as a Mediating Variable: Evidence from Indonesia's Industrial Sector

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Abstract: This study aims to examine the impact of ESG disclosure on stock performance in the Indonesian capital market, while highlighting the mediating role of growth opportunities. The research addresses the ongoing debate on whether ESG practices are fully recognized by investors in emerging markets, particularly Indonesia, where short-term profit orientation still dominates investment behaviour. The study adopts a quantitative research design was employed using secondary data obtained from annual and sustainability reports of companies listed on the Indonesia Stock Exchange. ESG disclosure was measured through content analysis based on the Global Reporting Initiative (GRI) indicators and OJK/IDX sustainability reporting guidelines. Stock performance was assessed through market-based indicators, while growth opportunities were proxied using price-to-book value ratio. The relationships among variables were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM), including direct and indirect effect testing through mediation analysis. The empirical results show that ESG disclosure has no significant effect on either growth opportunities or stock performance, as reflected in the very low T-statistics and high p-values obtained in the structural model. Conversely, growth opportunities display a significant positive relationship with stock performance; however, this direct effect does not translate into a mediating influence. Mediation analysis confirms that the indirect path from ESG disclosure to stock performance through growth opportunities is statistically insignificant, indicating that growth opportunities do not function as a mediator. Taken together, these findings suggest that ESG disclosure does not yet serve as a credible or influential signal capable of shaping growth expectations or driving market valuation within the Indonesian capital market. This study contributes to the ESG literature by demonstrating that, despite global trends emphasizing the financial relevance of sustainability practices, the Indonesian market has not yet fully integrated ESG information into investment evaluations. The findings provide important implications for regulators, companies, and investors regarding the need to strengthen ESG reporting quality, improve investor literacy on sustainability issues, and develop policies that encourage the strategic adoption of ESG practices.

Keywords: ESG Disclosure, Stock Performance, Growth Opportunities, Indonesia Stock Exchange.

INTRODUCTION

The concept of environmental, social, and governance (ESG) disclosure has gained immense attention in the global investment landscape over the past decade. Investors are now increasingly considering sustainability aspects as part of the decision-making process, as ESG practices are proven to reduce risk, improve reputation, and drive long-term value creation for companies. International frameworks such as the Global Reporting Initiative (GRI) and the United Nations Principles for Responsible Investment (UNPRI) have provided guidelines that promote transparency, comparability, and accountability in ESG reporting. Empirical studies on developed markets also show that companies with high ESG disclosure levels tend to be more attractive to investors and able to generate better financial performance, especially in periods of market uncertainty (M. J. Rahman & Yilun, 2024).

In Indonesia, the urgency of implementing ESG practices is further strengthened by regulations issued by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX). Since 2017, companies have been required to include sustainability information in annual reports or publish sustainability reports independently. This step is strengthened through the launch of indices such as the IDX ESG Leaders Index which aims to encourage companies to improve the transparency and quality of ESG reporting to align with global standards. These regulatory developments indicate that ESG reporting is no longer just a compliance obligation, but has become a strategic instrument to strengthen a company's competitiveness in the capital market (Anwar et al., 2022).

The effectiveness of ESG disclosure in improving stock performance in Indonesia is still a debate. Emerging markets such as Indonesia are often characterized by an investor orientation that emphasizes short-term profits, so the strategic value of ESG practices has not been fully accommodated in investment decisions. On the other hand, some empirical evidence is beginning to show that ESG considerations are gradually influencing investor perceptions and judgments. Complexity is increasing as many Indonesian companies face challenges in implementing comprehensive ESG disclosures, such as limited resources, non-uniform reporting standards, and low investor awareness (Nada & Hasanuh, 2021).

This situation is becoming increasingly crucial for the industrial sector which is currently facing major structural pressures that demand increased transparency and sustainability governance. The Industrial Development Report 2024 shows that the global industrial sector is in a state of polycrisis, including supply chain disruptions, climate risks, technological change, and declining innovation capabilities in developing countries. This condition is increasingly difficult for developing countries such as Indonesia, where industries are required to respond to important megatrends such as the energy transition, 4IR digitalization, and pressure on global competitiveness so as not to be left out of international production structures. These challenges not only pose operational and financial risks, but also affect investors' perception of the growth prospects of industrial companies (United Nations Industrial Development Organization, 2024). In the midst of these dynamics, the quality of ESG disclosure is an important signal for investors to assess the readiness of industrial companies to face long-term risks while capturing sustainable growth opportunities. Therefore, the industrial sector is an ideal context to observe how ESG disclosures contribute to market perception, growth prospects, and ultimately stock performance.

Research by Rahman & Che-Yahya (2019), which proves that a company's growth opportunities play an important role in IPO performance both in the short and long term, as well as several other ESG research that finds that ESG disclosure directly affects stock

performance (Hussainey et al., 2025; Lin, 2023; Novia et al., 2025), the majority of these studies still place ESG and growth opportunity as stand-alone variables. Research on ESG and stock performance generally only examines the direct relationship without taking into account the mechanism of transmission through growth opportunities, while studies on ESG and growth opportunity Rachmad & Suk, (2023) focus on the influence of ESG on growth potential without linking it to market consequences in the form of stock performance. Thus, there is a research gap related to whether growth opportunity plays a mediating variable in the relationship between ESG disclosure and stock performance.

In response to this, this study aims to analyse how ESG disclosures affect the performance of companies' stocks in the Indonesian capital market, with a special focus on the role of growth opportunities as a mediating variable. By including growth opportunities as a mechanism that connects ESG practices and market outcomes, this study seeks to provide a comprehensive understanding of how a company's sustainability strategy translates into long-term financial value for companies and investors.

Literature Review and Hypothesis Development

Signaling Theory

Signalling theory describes how a company sends certain information to the market to reduce uncertainty and information asymmetry between management and investors. According to Spence (1973), a signal is an action or information conveyed by an internal party of a company to show certain qualities or conditions that cannot be directly observed by external parties. In the context of the capital market, these signals can be in the form of financial statements, non-financial disclosures, or sustainability practices that describe a company's commitment to long-term performance. Further Connelly et al. (2011), emphasized that credible signals are able to increase investors' perception of a company's value, especially when the information is consistent, transparent, and verifiable. In the framework of ESG disclosure, sustainability reporting practices serve as a signal regarding the company's ability to manage social and environmental risks, maintain good governance, and demonstrate operational stability. When these signals are seen as strong and trustworthy, investors are likely to respond positively through increased investment interest and higher market valuations.

ESG Disclosure

Environmental, Social, and Governance (ESG) disclosure refers to the practice of publicly reporting a firm's activities, policies, and performance related to sustainability and corporate governance. ESG disclosure provides stakeholders particularly investors with information that extends beyond financial indicators, capturing how firms manage environmental risks, uphold social responsibilities, and ensure effective governance structures. This information reduces information asymmetry between companies and the market, enhances transparency, and allows investors to evaluate long-term sustainability prospects.

The environmental dimension of ESG disclosure typically covers aspects such as energy efficiency, waste management, carbon emissions, and initiatives to mitigate climate change. The social dimension encompasses human rights, labor practices, community engagement, and employee welfare. Meanwhile, the governance dimension includes board structure, shareholder rights, executive compensation, and anti-corruption measures. Together, these dimensions provide a holistic picture of how companies integrate sustainability into their strategic operations (Hassani & Bahini, 2022).

Globally, frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) have established guidelines to standardize ESG reporting and ensure comparability across firms and industries. In Indonesia, the Financial Services Authority (OJK) since 2017 has required listed firms to incorporate sustainability

information into their annual reports or publish separate sustainability reports. The Indonesia Stock Exchange (IDX) has further advanced these practices by launching sustainability indices, including the IDX ESG Leaders Index, to incentivize companies to enhance ESG transparency (Bermejo Climent et al., 2021).

Empirical evidence suggests that robust ESG disclosure yields several benefits. It signals a company's commitment to sustainability, which may reduce perceived risk among investors and attract socially responsible investment funds. Furthermore, ESG transparency is associated with reduced cost of capital, improved access to financing, and stronger stakeholder trust. However, in emerging markets like Indonesia, the maturity of ESG reporting remains uneven, and firms often face challenges in implementing consistent and comprehensive disclosure due to resource limitations and lack of standardized practices (Khandelwal et al., 2023).

Given these dynamics, ESG disclosure in the Indonesian capital market is both a regulatory obligation and a strategic choice. It not only satisfies compliance requirements but also serves as a competitive advantage for firms seeking to differentiate themselves and secure long-term investor confidence. This study situates ESG disclosure as the independent variable, hypothesizing its role in shaping growth opportunities and, ultimately, stock performance.

Growth Opportunities

Growth opportunities represent the potential of a firm to expand its operations, enhance profitability, and create long-term shareholder value. They are often perceived by investors as signals of a company's capacity to generate future cash flows and sustain competitive advantage. In financial literature, growth opportunities are typically measured using proxies such as the Price-to-Book Value (PBV) ratio and Tobin's Q, both of which capture market expectations regarding the firm's future performance relative to its current assets (Abdulfatah et al., 2022).

The relevance of growth opportunities lies in their role as a bridge between corporate strategies and market valuation. Firms with strong growth prospects are more likely to attract investors, secure financing at lower costs, and pursue expansion into new or sustainable business lines. For example, companies that integrate ESG practices may open avenues for innovation in green technologies, renewable energy, or sustainable supply chains, all of which reinforce their growth trajectory. This linkage suggests that ESG disclosure does not merely fulfil compliance or reputational goals, but also directly influences how the market perceives a firm's future expansion potential (Yusna & Sulistiono, 2021).

Empirical studies highlight that firms with high growth opportunities are rewarded with higher stock valuations because investors anticipate superior returns over time. Conversely, firms with limited growth prospects often face higher capital costs and weaker market confidence. In emerging markets such as Indonesia, growth opportunities are particularly crucial, as they indicate resilience in competitive environments and signal alignment with global sustainability trends (Yusna & Sulistiono, 2021).

In the context of this study, growth opportunities are positioned as a mediating variable that connects ESG disclosure to stock performance. By disclosing comprehensive ESG information, firms may strengthen investor confidence in their long-term prospects, thereby improving growth opportunities. In turn, these enhanced opportunities are expected to contribute positively to stock performance, offering a pathway through which ESG practices create sustainable financial value.

Stock Performance

Stock performance reflects the extent to which a company's shares generate returns and value for investors in the capital market. It serves as a critical indicator of how well a firm is perceived by market participants and how effectively it translates its resources, strategies, and

growth potential into shareholder wealth. From a financial perspective, stock performance can be evaluated using measures such as stock returns, abnormal returns, Price-to-Book Value (PBV), and Tobin's Q. These indicators not only capture the profitability of holding a company's stock but also signal market expectations of future performance (Farhan Saputra, 2022).

Strong stock performance often suggests investor confidence in a firm's operational stability, growth prospects, and risk management practices. Conversely, weak stock performance may reflect inefficiencies, heightened risks, or declining competitiveness. In emerging markets like Indonesia, stock performance is highly sensitive to external factors such as macroeconomic volatility, regulatory shifts, and investor sentiment. This sensitivity highlights the importance of non-financial information, such as ESG disclosure, in shaping investor perceptions and influencing market outcomes (Sukesti et al., 2021).

Theoretically, ESG disclosure can influence stock performance by reducing information asymmetry, lowering perceived risks, and enhancing a company's legitimacy among stakeholders. Firms that demonstrate strong commitments to sustainability and governance are more likely to attract long-term institutional investors, gain favourable financing conditions, and improve their market valuations. However, the evidence in Indonesia remains mixed, with some studies suggesting weak associations between ESG practices and stock performance due to the dominance of short-term profit-seeking behaviours among investors (Bon & Hartoko, 2022).

Stock performance is positioned as the dependent variable, reflecting how market valuation responds to ESG disclosure directly and indirectly through growth opportunities. By analysing these relationships, the research aims to clarify whether ESG practices are effectively priced in by the Indonesian capital market, and how they contribute to sustainable value creation for shareholders.

Relationship Between ESG Disclosure and Stock Performance

The relationship between ESG disclosures and stock performance has become an important focus in the sustainable finance literature. Theoretically, signalling theory explains that companies that disclose ESG information more comprehensively are sending credible signals to investors regarding their long-term commitment to sustainability, risk management, and quality governance (Connelly et al., 2011). This non-financial information reduces information asymmetry, increases transparency, and improves market perception of company stability. A number of previous studies have shown similar findings. Aydogmus et al., (2022) found that companies with high ESG disclosures had better valuations because they were perceived to have lower long-term risks. Friede et al. (2015), through a meta-analysis of more than 2,000 studies, concluded that about 90% of the relationship between ESG and financial performance is neutral or positive. Most of the research indicates that the market is giving a premium to companies that invest in sustainable practices. In the Asian region, Murata & Hamori (2021), found that companies that actively disclose ESG received a positive market response, especially from institutional investors. However, studies in Indonesia show more varied results; several studies (Murata & Hamori, 2021; Rahmaniati & Ekawati, 2024) report that the influence of ESG on stock performance is not always significant, which can be caused by low disclosure quality and lack of investor attention to sustainability factors. Nonetheless, the global trend of green investing and increasing regulatory intervention suggest that ESG disclosures have the potential to be a key factor in shaping stock performance. Based on these theories and empirical evidence, the following hypotheses are formulated:

H₁: ESG disclosure has a significant effect on stock performance.

Relationship Between ESG Disclosure and Growth Opportunity

ESG disclosures not only directly affect market perception, but also have the potential to increase a company's growth opportunities. From a resource-based theory, companies that have sustainability-related capabilities such as energy efficiency, low-carbon business models, and environmentally-oriented innovations have the potential to build a long-term competitive advantage. ESG disclosure is a means for companies to demonstrate this commitment to investors and creditors, thereby strengthening access to financing (Martiny et al., 2024). Previous research Sabrina et al. (2025), has shown that companies that adequately disclose ESG information tend to have better expansion opportunities. found that sustainability disclosure was positively associated with asset growth and increased capital expenditure (Zhang & Yang, 2023). Hassani & Bahini (2022), emphasized that companies that improve the quality of environmental disclosures typically get a lower cost of capital, thus allowing the company to enlarge its growth capacity. In developing countries, Itan et al., (2025) found that ESG disclosures increase investor confidence in long-term prospects, which ultimately drives business expansion.

H₂: ESG disclosures have a significant effect on growth opportunity.

Relationship Between Growth Opportunity and Stock Performance

Growth opportunity are an important determinant in the formation of a company's value and the response of the capital market. According to Sandy & Mulya (2025), companies with high growth prospects are usually considered more expensive than low-growth companies because investors take into account potential future profits. Within the framework of valuation theory by Luo & Zhu (2025), markets react positively to growth signals such as increased capital expenditure, business diversification, or new market expansion. Empirical evidence supports this relationship. That companies with high growth opportunities have different funding structures and tend to obtain higher valuations as investors anticipate future revenue increases (Mabandla & Marozva, 2025). Previous studies showed that the variable growth of a company's assets is an important predictor of stock returns. Research in the context of developing countries also supports these findings that growth opportunities are consistently a factor that determines a company's market performance in the Asian market (Cakici & Zaremba, 2024). These revealed that companies with high growth tend to provide stronger stock returns, especially in the manufacturing sector. On this basis, a third hypothesis is formulated as follow:

H₃: Growth opportunity have a significant effect on stock performance.

The Mediating Role of Growth Opportunity

In addition to direct influence, the relationship between ESG disclosure and stock performance can also take place through indirect mechanisms, one of which is through growth opportunities. This mediation concept is in line with the view that ESG disclosure increases the credibility of the company and investors' confidence in the company's long-term sustainability. When companies demonstrate a strong sustainability strategy, investors tend to perceive them as better prepared to face regulatory risks, energy transitions, and changing consumer preferences. This positive perception increases access to funding, expands expansion opportunities, and drives asset growth. Several previous studies support the existence of this mediation mechanism. In the context of emerging markets, mediation mechanisms have become relevant as investors need strong signals to assess a company's long-term prospects amid market uncertainty. Thus, the following hypothesis is formulated:

H₄: Growth opportunity mediates the relationship between ESG disclosures and stock performance.

Research Framework

Figure 1 illustrates the conceptual relationships among the key variables of this study. ESG disclosure is expected to influence firm stock performance directly. It is also expected to indirectly influence of ESG disclosure on stock performance through growth opportunity. This means that higher levels of ESG disclosure is assumed to enhance a firm’s growth opportunities, which in turn improve stock performance.

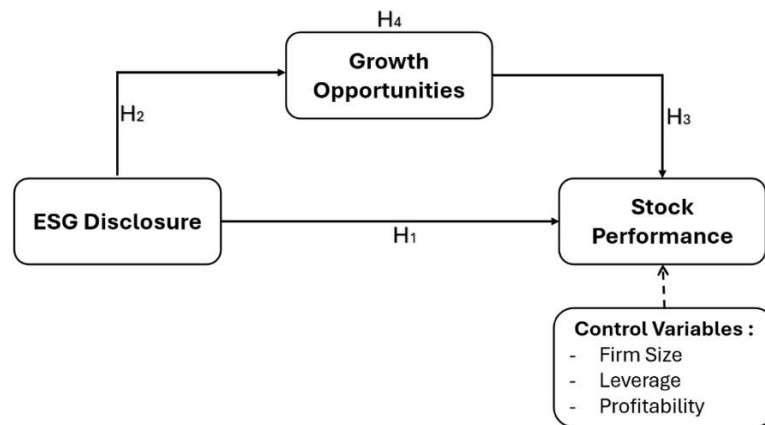


Figure 1. Research Framework

Additionally, several control variables are incorporated to strengthen the robustness of the research model. Firm size, leverage, and profitability (proxied by return on assets) are included to control for firm-specific financial characteristics that may also influence stock performance. In this framework, ESG disclosure is proposed to affect stock performance directly (H1) as well as indirectly through growth opportunities (H2 and H3). Growth opportunities therefore function as a mediating variable (H4), capturing the mechanism through which ESG practices translate into improved stock outcomes. Thereby providing a comprehensive model to explain the relationship between ESG practices and stock performance.

METHOD

Research Design

This study uses a quantitative research design with a descriptive-correlational approach. The purpose of this design is to examine the causal relationship between ESG disclosures, growth opportunities, and stock performance in companies listed on the Indonesia Stock Exchange (IDX). By applying this approach, the study not only identifies whether ESG disclosures directly affect stock performance, but also investigates whether growth opportunities serve as a mediating mechanism in this relationship. In addition, mediation analysis will be applied to test the indirect effects of ESG disclosures on stock performance through growth opportunities. This methodological choice reflects the research's goal to move beyond simple direct effects models and provide a more comprehensive understanding of the pathways through which ESG disclosures generate value in the Indonesian capital market.

Population and Sample

The population of this study consists of companies on industrial sector listed on the Indonesia Stock Exchange (IDX) that are required to disclose sustainability-related information in accordance with the Financial Services Authority (OJK) regulations. Since 2017, OJK has mandated listed firms to publish sustainability reports or integrate ESG-related disclosures into their annual reports. This regulatory framework provides a comprehensive basis for selecting companies that have made ESG information publicly available. To ensure data adequacy, the

study focuses on firms that consistently disclose ESG information during the observation period from 2019 to 2024. This timeframe was chosen to capture the post-regulatory implementation effects and to ensure sufficient variation in ESG reporting practices. The sample was determined using a purposive sampling technique as showed in Table 1.

Table 1. Sample Selection

Sample Selection Criteria	Firm-Year Observations
Total firm-year data (2019-2024)	390
<i>Less:</i>	
• Incomplete financial information data	(73)
• Unavailable closing stock price data	(23)
• Unavailable ESG disclosure	(2)
Final Sample	292

Variable Measurement

Each variable in this study is defined and measured as follows:

Stock performance reflects market valuation and the rate of return earned by investors from the company's stock ownership. This variable describes how the market assesses financial conditions, growth prospects, and the effectiveness of the company's strategy in creating value for shareholders. Stock performance measurement is carried out using market-based indicators that are commonly used in financial research, namely stock return (Margaretna, 2021; Shamsudin et al., 2013). Stock return is calculated to assess the change in stock price from the previous year to the current year using the following formula:

$$\text{Stock Return} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

ESG disclosures, proxied by ESG scores, were gathered from content analysis of sustainability reports or annual reports to assess the completeness of the information disclosed in each indicator. The ESG check list was derived from aspects according to the guidelines of the Global Reporting Initiative (GRI) G4 and OJK/IDX sustainability reporting guidelines. To obtain an ESG scores, each indicator is given a score of 1 if disclosed and 0 if not disclosed. Disclosure score constructed by summing reported items and dividing by the total possible items. Thus, the final score reflects the company's level of transparency and commitment to sustainability principles as per the GRI-G4 guidelines (Manuel, 2024).

Growth opportunities, which is the company's ability to expand operational activities, attract new investments, and achieve sustainable growth. This variable describes the potential for future increase in the company's value and is an important indicator for investors in assessing growth prospects with growth opportunities proxied by the price-to-book value ratio. The price-to-book value ratio is calculated by comparing the market price of stock with the book value per share of the company's equity (Adam & Goyal, 2007; Billett et al., 2009).

$$\text{PBV} = \frac{\text{Stock Market Price}}{\text{Book Value per Share}}$$

To minimize potential confounding effects, the following control variables are included: Firm size is measured using the natural logarithm of total assets, leverage is calculated using the debt-to-equity ratio, while profitability is measured using return on assets. These variables are selected because they are widely recognized as determinants of both firm value and stock performance in prior research (Indrati & Aulia, 2022; Margaretna, 2021).

Data Analysis

Structural equation modelling Partial Least Squares (SEM-PLS) was used in this study because it was able to analyse the linear relationships between latent variables that could not

be measured directly. The SEM-PLS according to Ghozali (2015), analysis includes two main stages, namely the evaluation of the measurement model (outer model) to ensure that the indicators of each construct meet the requirements for validity and reliability through convergent validity (loading factor > 0.7), discriminant validity (cross-loading > 0.7), and composite reliability (> 0.7), as well as structural model evaluation (inner model) to test the causal relationship between latent variables using the R² value. path coefficient, t-statistic, Q², and f² as the basis for assessing the strength of the predictive model. Once the model meets the measurement requirements, the test of the relationship between variables is carried out through the following structural model:

RESULTS AND DISCUSSION

Statistics Descriptive

To provide an initial overview of the data used in this study, descriptive statistics were generated for all key variables, including stock performance, growth opportunities, ESG disclosure, leverage, profitability, and firm size. These statistics summarize the distribution of each variable in terms of minimum, maximum, mean, and standard deviation, offering insight into the overall characteristics and variability of the dataset.

Table 2. Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Stock Performance	292	.113	.918	-.974	8.959
ESG Disclosure	292	.140	.043	.063	.228
Growth Opportunity	292	1.278	2.064	-6.818	17.927
Leverage	292	.872	3.471	-21.590	41.480
Profitability	292	.021	.114	-.682	.514
Firm size	292	27.818	1.817	22.442	33.790

Source: STATA Output.

The descriptive statistics in Table 2 show that all variables in the model exhibit considerable variation across the 292 firm-year observations, as indicated by the wide range between their minimum and maximum values. Stock Performance has a mean of 0.113 with a relatively large standard deviation (0.918), suggesting that firms experience highly diverse stock return outcomes, from substantial losses (-0.974) to very high gains (8.959). ESG disclosure shows a relatively low mean value of 0.140, indicating that, on average, firms disclose only a small portion of the ESG indicators required by the GRI-G4 framework, although some firms demonstrate better disclosure practices (max = 0.228). Growth opportunity, proxied by PBV, also presents a wide distribution (min = -6.818; max = 17.927), implying significant differences in market expectations regarding firms' future growth potential. Leverage, proxied by DER, has a mean of 0.872 but displays an extremely wide range, from -21.590 to 41.480, reflecting substantial variability in capital structure and the presence of firms with unusually high or negative leverage conditions. Profitability, proxied by ROA, pictured a low average of 0.021, with values ranging from -0.682 to 0.514, indicating that many firms operate with modest profit levels, and some encounter negative earnings. Lastly, firm size, measured by the natural logarithm of total assets, has a mean of 27.818 and a standard deviation of 1.817, demonstrating that the sample includes both relatively small and very large companies listed on the Indonesia Stock Exchange.

Measurement Model

Based on the results of the outer loading analysis displayed on the model, all indicators in the research variables showed a loading value of 1,000, which means that all indicators met the convergent validity criteria. According to Hair et al. (2017), the loading factor value ≥ 0.70

indicates that the indicator has a substantial contribution in explaining latent variables, since more than 50% of the variance of the indicator can be explained by its construct.

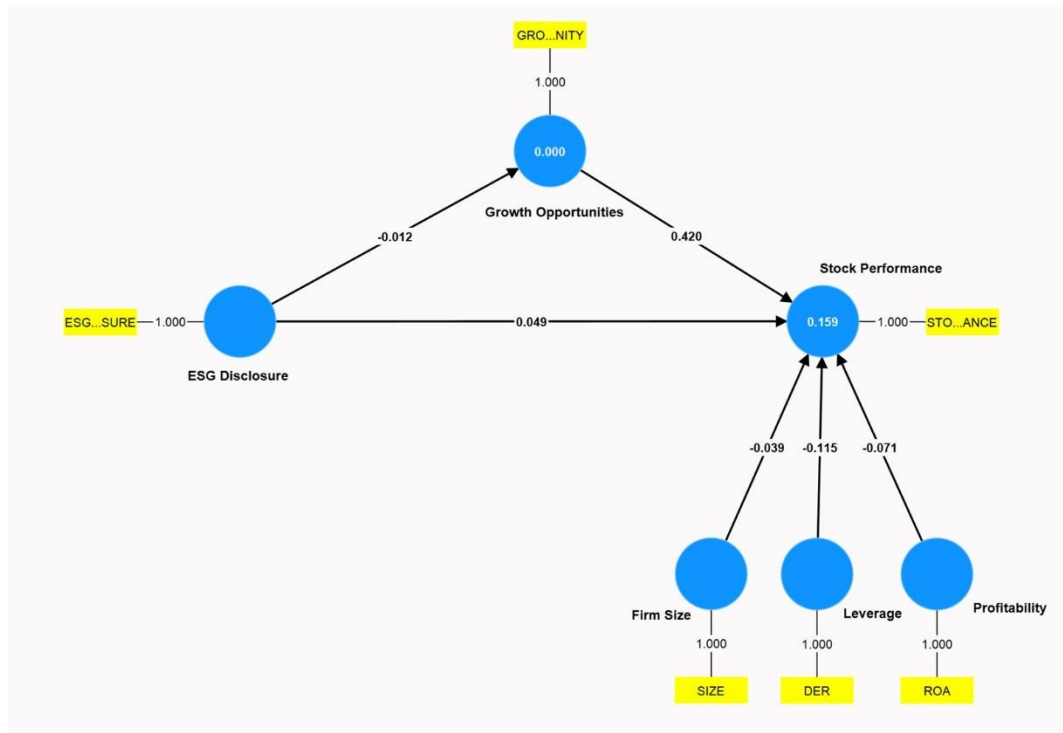


Figure 2. Measurement Model

Convergent Validity

Based on the results of the outer loading test on the measurement model, all indicators in the variables such as ESG disclosure, growth opportunity, stock performance, firm size, leverage, and profitability showed a loading value of 1,000. According to Hair et al. (2017), an indicator is said to meet convergent validity when it has an outer loading value of ≥ 0.70 ; therefore, it can be declared valid and suitable for use in the analysis of the measurement model.

Table 2. Factor Loading Result

Construct	Factor Loading
Leverage	1.000
ESG Disclosure	1.000
Growth Opportunities	1.000
Profitability	1.000
Firm size	1.000
Stock Performance	1.000

At the stage of evaluating construct reliability and validity, this research model did not test *construct reliability* or *convergent validity* such as *Cronbach's Alpha*, *Composite Reliability (CR)*, or *Average Variance Extracted (AVE)*. This is because all constructs in this study are formative constructs or constructs with one indicator (single-item). According to Hair et al. (2017), internal reliability testing is only relevant for reflective constructs that consist of several indicators that must demonstrate internal consistency. In formative constructs, indicators do not need to correlate with each other because each indicator makes a unique contribution in forming constructs. Meanwhile, in single-item constructs, the indicator has represented the construct in its entirety so that internal reliability is considered unnecessary. Thus, the reliability and validity test of the construct on this model is declared not applicable.

Goodness of fit

The evaluation of the structural model’s goodness of fit was conducted using several model adequacy indicators available in Smart PLS, namely Standardized Root Mean Square Residual (SRMR), d_ ULS, d_ G, Chi-square, and the Normed Fit Index (NFI). Using the final sample of 292 firm-year observations as presented in Table 1, the saturated model produced an SRMR value of 0.000, while the estimated model yielded an SRMR value of 0.094. According to Yu et al. (2023), an SRMR value below 0.08 indicates a well-fitting model. Thus, although the estimated model slightly exceeds this threshold, the value remains acceptable within the context of PLS-SEM, which emphasizes predictive accuracy rather than exact model fit. The saturated model’s SRMR value of 0.000 indicates a perfect fit, whereas the estimated model presents minor deviation, still within the tolerable range for exploratory predictive research. Additional fit indices including d_ ULS, d_ G, Chi-square, and NFI as shown in Table 3 also support the adequacy of the model, with the saturated model displaying ideal values and the estimated model falling within acceptable limits for variance-based SEM.

Table 3. Results of Suitability Model Results

	Saturated model	Estimated model
SRMR	0,000	0,094
d_ ULS	0,000	0,184
d_ G	0,000	0,035
Chi-square	0,000	51,043
NFI	1,000	0,567

Structural Model

In the structural model testing as pictured in Figure 3, the results showed that most of the relationships between variables in this model were significant.

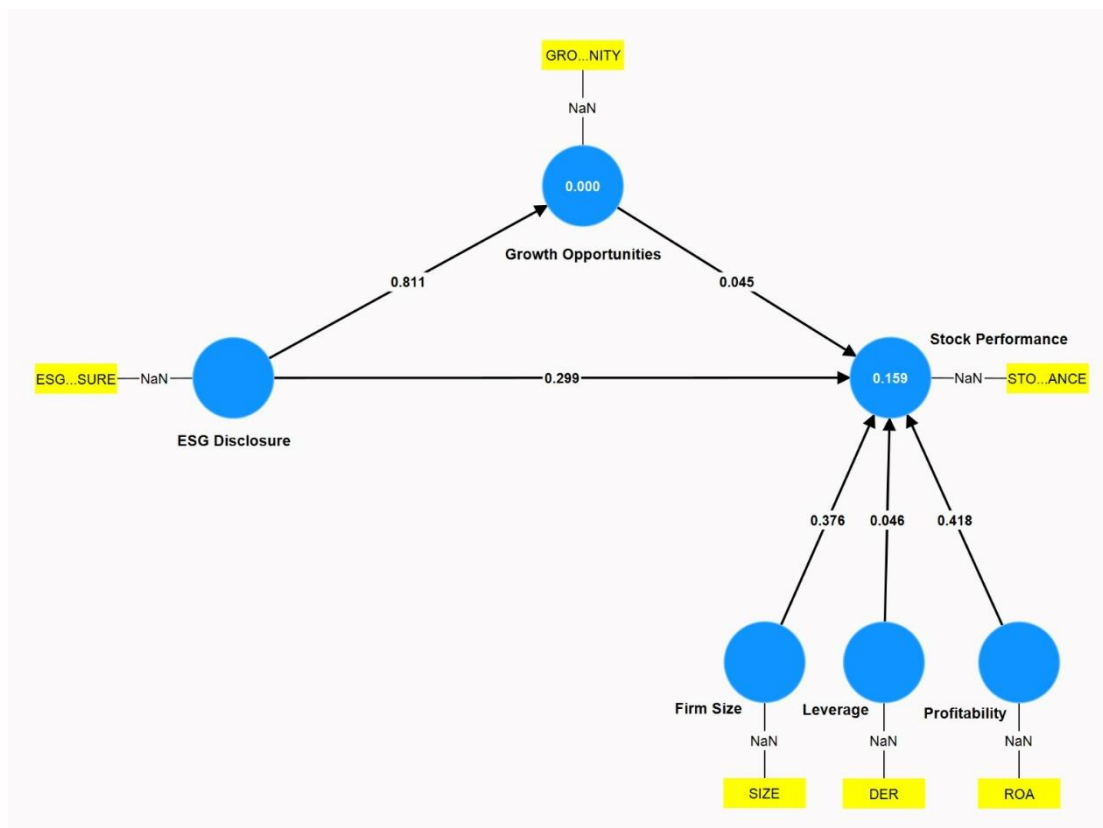


Figure 3. PLS Bootstrapping Structural Model Test Results

According to Hair et al., (2017), hypothesis testing in PLS-SEM is carried out by looking at the significance of *path coefficients* through the bootstrapping procedure, which produces t-statistic values and p-values as the basis for acceptance or rejection of the hypothesis. (1) If the t-statistic > 1.96 ($p < 0.05$), then the relationship between the variables is significant, and the hypothesis is accepted. While, (2) if the t-statistic < 1.96 ($p > 0.05$), then the relationship is insignificant, and the hypothesis is rejected.

Based on the hypothesis testing results presented in Table 4, ESG disclosure is shown to have no significant effect on either growth opportunities or stock performance. This is reflected in the very low t-statistic of 0.239 ($p = 0.811$) for the effect of ESG disclosure on growth opportunities, and 1.038 ($p = 0.299$) for its effect on stock performance. These results clearly indicate that H_1 and H_2 are not supported by the empirical evidence. Although signalling theory, as emphasized by Connelly et al. (2011), suggests that high-quality ESG disclosure should serve as a credible signal that reduces information asymmetry and enhances investor confidence, the results showed that it has no significant effect on stock performance. These findings contrast with studies reported by Friede et al., (2015) and Murata & Hamori (2021), which found positive market responses to ESG transparency. Nevertheless, this study consistent with an evidence from Indonesian that indicates limited investor attention to sustainability information (Rahmaniati & Ekawati, 2024). Similarly, the insignificant effect of ESG disclosure on growth opportunities differs from resource-based arguments that sustainability-related capabilities should enhance a firm’s expansion prospects (Martiny et al., 2024). In real conditions, many investors in Indonesia still prioritize financial indicators over ESG-oriented metrics, so ESG is not strong enough to trigger an increase in growth prospects. From the perspective of stakeholder theory, ESG benefits often appear in the long term, so they are not directly reflected in growth opportunities.

Table 4. Hypothesis Testing Results (Direct Influence)

	Original sample (O)	Sample mean (M)	Standard dev. (STDEV)	t-statistics (O/STDEV)	p-values
ESG Disclosure -> Growth Opportunities	-0,012	-0,012	0,049	0,239	0,811
ESG Disclosure -> Stock Performance	0,049	0,044	0,047	1,038	0,299
Firm size -> Stock Performance	-0,039	-0,036	0,044	0,885	0,376
Growth Opportunities -> Stock Performance	0,420	0,377	0,210	2,004	0,045
Leverage -> Stock Performance	-0,115	-0,099	0,058	1,994	0,046
Profitability -> Stock Performance	-0,071	-0,041	0,088	0,810	0,418

In contrast, growth opportunities demonstrate a significant positive effect on stock performance, with a t-statistic of 2.004 ($p = 0.045$). This finding shows that firms with stronger growth opportunities tend to exhibit higher stock performance, thereby supporting H_3 . This finding in line with valuation theory and empirical studies in emerging markets that emphasize the market premium given to firms with high growth prospects (Cakici & Zaremba, 2024; Mabandla & Marozva, 2025).

Among the control variables, leverage shows a statistically significant negative effect on stock performance (t-statistic = 1.994, $p = 0.046$), suggesting that firms with higher leverage levels are likely to experience lower stock performance. Meanwhile, firm size and profitability do not significantly influence stock performance, as shown by t-statistics of 0.885 ($p = 0.376$) and 0.810 ($p = 0.418$), respectively. These findings illustrate that the company's fundamental factors may be less paid attention to by Indonesian investors who tend to be influenced by short-term market dynamics and external sentiment.

Further, the mediation analysis showed that growth opportunities do not mediate the relationship between ESG disclosure and stock performance ($t = 0.252, p = 0.801$). This indicates that ESG practices in Indonesia are not yet strong enough to operate through more complex transmission mechanisms such as growth prospects, unlike evidence from more mature markets where ESG-driven growth is valued by investors (Eccles et al., 2011). The results of the study showing that growth opportunities do not mediate the relationship between ESG disclosures and stock performance can be explained through the real conditions that occur in the Indonesian capital market and the characteristics of the company. The insignificance of the mediation of growth opportunities shows that the relationship between ESG disclosures and stock performance does not always run through the company's growth path, especially in emerging markets such as Indonesia. Theoretically, signaling theory assumes that ESG

Table 5. Mediation Analysis Results (Indirect)

	Original sample (O)	Sample mean (M)	Standard dev. (STDEV)	t-statistics (O/STDEV)	p-values
ESG Disclosure -> Growth Opportunities -> Stock Performance	-0,005	-0,004	0,020	0,252	0,801

CONCLUSION

This study investigates the impact of ESG disclosure on stock performance in the Indonesian capital market, emphasizing the mediating role of growth opportunities. The empirical findings lead to several conclusions. ESG disclosure does not have a significant effect on stock performance, indicating that sustainability reporting has not yet evolved into a credible market signal for investors in Indonesia. Despite global evidence showing that ESG practices can enhance firm valuation, the Indonesian market appears to place limited emphasis on ESG-related information when assessing stock outcomes. ESG disclosure also does not significantly influence growth opportunities, suggesting that transparency in environmental, social, and governance practices does not translate into greater expansion potential or improved market expectations. This may be due to inconsistent disclosure quality, limited adoption of global reporting standards, or insufficient investor awareness of sustainability issues.

Meanwhile, growth opportunities show a significant positive effect on stock performance, indicating that firms with stronger growth prospects tend to experience better market valuation. This result aligns with valuation theory and highlights that Indonesian investors selectively respond to certain growth indicators rather than ESG-related information. Further, growth opportunities do not mediate the relationship between ESG disclosure and stock performance, as both the indirect and underlying direct effects are insignificant. This confirms that ESG practices do not enhance stock performance through growth mechanisms within the current market environment. Lastly, control variables such as firm size and profitability do not significantly influence stock performance, while leverage demonstrates a modest negative effect. These results imply that firm-level fundamentals may exert limited influence on stock returns in Indonesia's sentiment-driven and highly reactive capital market.

The study concludes that ESG disclosure has not yet been internalized by investors as a material factor in evaluating firm performance or future potential. This reinforces the need for improved ESG reporting quality, stronger regulatory incentives, and enhanced investor literacy to ensure that sustainability information becomes more relevant in investment decision-making.

This study suggests the need to enhance the quality of ESG disclosures by promoting reporting practices that are more comprehensive, consistent, and aligned with materiality principles, supported by clearer regulatory direction and more rigorous oversight from OJK and IDX. Strengthening investor understanding through broader ESG literacy initiatives is also

crucial to ensure that sustainability information is appropriately incorporated into investment considerations. Furthermore, companies are encouraged to embed ESG principles into their long-term strategic planning and to disclose their growth and innovation strategies more transparently, given the central role of growth opportunities in influencing stock performance.

Future studies are encouraged to employ alternative ESG measurement approaches, such as third-party ESG ratings, and to expand the scope of analysis across different sectors or regional contexts to capture more diverse patterns. Incorporating potential moderating variables, such as institutional ownership or firm visibility, may help explain the limited association observed between ESG disclosure and stock performance. Methodologically, the application of longitudinal or event-study designs, along with the exploration of additional mediating variables such as corporate reputation, innovation capability, or risk mitigation, could provide deeper insights. Integrating qualitative perspectives from managers, regulators, and investors may further enrich the understanding of how ESG information contributes to firm value within the Indonesian capital market.

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