

ESG AND GOOD CORPORATE GOVERNANCE AS DETERMINANTS OF STOCK RETURNS: THE MEDIATING ROLE OF PROFITABILITY IN IDX SUSTAINABILITY INDEX COMPANIES

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Abstract

This study examines the influence of Environmental, Social, and Governance (ESG) disclosure and internal Good Corporate Governance (GCG) mechanisms represented by independent commissioners, the board of directors, and the audit committee on stock return, with profitability (Return on Assets/ROA) tested as a mediating variable. The sample comprises 70 multi-sector companies listed in the IDX Sustainability index during 2021–2025, selected through purposive sampling, yielding 350 firm-year observations. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS 4, including bootstrapping-based direct- and indirect-effect testing. Results show that only board size has a significant negative effect on profitability; ESG, independent commissioners, the audit committee, and profitability itself show no significant effect on stock return. Profitability also fails to mediate the relationship between any of the four independent variables and stock return. Firm size is the only control variable with a significant negative effect on both profitability and stock return. These findings suggest that, among IDX Sustainability constituents, ESG disclosure and internal governance structures have not yet translated into measurable financial or market performance gains, implying that sustainability-index membership alone is an insufficient basis for investment decisions in the Indonesian capital market.

Keywords: *Environmental, Social, and Governance (ESG); Good Corporate Governance (GCG); Profitability; Stock Return; IDX Sustainability*

A. INTRODUCTION

Investment plays a central role in economic growth and household wealth accumulation, as investors allocate funds across financial instruments in pursuit of future returns (Hartono, 2022; Tandelilin, 2017). Indonesia's capital market has expanded rapidly: the Indonesia Stock Exchange (IDX) reported that the number of Single Investor Identifications (SID) surpassed 14 million by October 2024, reflecting growing public confidence in equity investment. For equity investors, the primary objective remains stock returnthe capital gain and dividend yield generated by share ownership (Hartono, 2022; Tandelilin, 2017) which serves as the principal benchmark of investment success.

Growth in investor participation has coincided with a shift in the basis of investment decisions. Beyond traditional financial indicators such as earnings and dividends, investors increasingly weigh non-financial information that signals a firm's capacity to manage risk and sustain long-term value. This shift underlies the global rise of sustainable investment, an approach that integrates environmental, social, and governance considerations into capital-allocation decisions (Global Sustainable Investment Alliance [GSIA], 2024). Worldwide, assets managed under responsible and sustainable investment approaches grew from USD 902 billion in 2018 to USD 16.754 trillion in 2024 (GSIA, 2024). In Indonesia, this trend is embodied in the IDX Sustainability index, which groups listed companies assessed as committed to sustainable business practice.

Membership in a sustainability index, however, does not guarantee superior market performance. Between 2021 and 2025, the return on the IDX ESG Leaders index rose from 6.92% to 18.61%, while the return on the Composite Stock Price Index (IHSG) rose more sharply, from 12.82% to 48.22%, remaining consistently above the ESG-based benchmark. Stock return also varied substantially among IDX Sustainability constituents themselves: non-financial-sector members generally outperformed financial-sector members, and firm-level dispersion was wide mean stock return rose from 0.19% in 2023 to 80.93% in 2025, while the median remained far below the mean and the gap between minimum and maximum observations was extreme. This pattern indicates that sustainability commitment alone does not translate uniformly into investor returns, motivating closer examination of the mechanisms linking sustainability practice to stock market performance.

ESG has become the principal framework for evaluating how firms manage environmental impact, social responsibility, and governance quality as part of long-term business strategy. ESG disclosure has grown markedly in Indonesia, with published sustainability reports rising from 54 in 2019 to 882 in 2023. Rising disclosure volume, however, does not necessarily indicate rising implementation quality: of the 192 firms constituting IDX Sustainability, 16 (8.33%) have been publicly linked to greenwashing allegations, underscoring that disclosure can outpace substantive practice. Because credible ESG implementation depends on governance mechanisms capable of ensuring that sustainability commitments are executed consistently and transparently (Kyei-Mensah, 2026),

Good Corporate Governance (GCG) commonly proxied by internal organs such as independent commissioners, the board of directors, and the audit committee (Otoritas Jasa Keuangan, 2014, 2015) is treated in this study as complementary to ESG in explaining stock return.

Profitability, commonly proxied by Return on Assets (ROA), indicates how effectively a firm converts its assets into earnings (Kasmir, 2021) and, by extension, functions as a signal investors use to gauge firm prospects (Spence, 1973). Both ESG practice and GCG mechanisms are theorized to affect operational efficiency, risk management, and stakeholder trust, which in turn shape profitability (Abubakr et al., 2026; Alareeni & Hamdan, 2020; Boshnak et al., 2023; Kyere & Ausloos, 2021); improved profitability is, in turn, expected to send a positive signal that attracts investor demand and lifts stock return. Profitability is therefore positioned in this study as a variable that may mediate the relationship between ESG, GCG mechanisms, and stock return.

Despite extensive prior research, empirical findings on these relationships remain inconsistent. Several studies report that ESG implementation enhances stock return through improved transparency and investor confidence (Kyei-Mensah, 2026), while others find no significant ESG–stock return relationship once firm characteristics and disclosure quality are accounted for (Yin et al., 2023; Zhang & Zhang, 2026). A parallel inconsistency exists for GCG mechanisms and stock return, with some studies reporting a direct positive effect (Aladwey et al., 2026; Widyasi et al., 2024) and others finding that governance affects stock return only indirectly, through firm performance (William & Subiyanto, 2024). Moreover, most prior studies test ESG and GCG separately rather than within one integrated model, seldom test profitability as an explicit mediating mechanism, and typically measure ESG using scores from international rating agencies rather than disclosure indices grounded in Indonesia's own sustainable-finance regulation (Otoritas Jasa Keuangan [POJK] No. 51/POJK.03/2017).

This study addresses these gaps in three ways. First, it integrates ESG and internal GCG mechanisms independent commissioners, the board of directors, and the audit committee within a single research model explaining stock return. Second, it positions profitability (ROA) as an explicit mediating variable linking ESG and GCG to stock return. Third, it measures ESG using a 17-indicator disclosure index derived from POJK No. 51/POJK.03/2017, offering a regulation-grounded alternative to internationally sourced ESG scores. The study focuses on

companies constituting the IDX Sustainability index over 2021–2025 a period spanning Indonesia's post-pandemic recovery and the intensification of sustainable-finance regulation with the objective of analyzing the effects of ESG, independent commissioners, the board of directors, and the audit committee on profitability and stock return, and of testing the mediating role of profitability in these relationships.

These relationships are grounded in four complementary theories. Stakeholder Theory (Freeman, 1984) holds that firms addressing stakeholder interests through sustainable and responsible practice gain the support needed to strengthen performance. The Resource-Based View (RBV; Barney, 1991) frames ESG practice and managerial capacity including board composition as strategic resources capable of generating competitive advantage when deployed effectively. Agency Theory (Jensen & Meckling, 1976) explains how oversight mechanisms such as independent commissioners and the audit committee mitigate the conflict of interest between managers and shareholders, while also acknowledging that oversight structures which grow too large or complex can raise agency costs. Signalling Theory (Spence, 1973) explains how improvements in financial performance function as a positive signal shaping investor perception and market response.

Based on this theoretical foundation and the empirical evidence reviewed above, the following hypotheses are proposed (all referring to companies constituting the IDX Sustainability index, 2021–2025):

H1: ESG has a significant effect on profitability. H2: Independent commissioners have a significant effect on profitability. H3: The board of directors has a significant effect on profitability. H4: The audit committee has a significant effect on profitability. H5: ESG has a significant effect on stock return. H6: Independent commissioners have a significant effect on stock return. H7: The board of directors has a significant effect on stock return. H8: The audit committee has a significant effect on stock return. H9: Profitability has a significant effect on stock return. H10–H13: Profitability mediates the effect of ESG, independent commissioners, the board of directors, and the audit committee, respectively, on stock return.

B. METHOD

This study employs a quantitative, causal research design using secondary data drawn from company annual reports, sustainability reports, financial statements, and share-price data published by the Indonesia Stock Exchange (IDX), individual company websites, Yahoo Finance, and IDX Sustainability publications (Sugiyono, 2023).

1. Population, Sample, and Sampling Technique

The study population comprises all companies constituting the IDX Sustainability index based on the constituent list accessed in April 2026, totaling 192 firms. Sampling followed a purposive technique applying three criteria: (a) constituent membership in IDX Sustainability as of April 2026; (b) consistent publication of complete annual and/or sustainability reports throughout 2021–2025; and (c) availability of complete data for all research variables across the observation period. After excluding 122 firms with incomplete reporting, 70 companies met all criteria, yielding 350 firm-year observations (70 firms $\times$ 5 years), comprising 51 non-financial-sector firms (73%) and 19 financial-sector firms (27%).

2. Variables and Measurement

ESG (X_1) is measured with an Environmental, Social, and Governance Disclosure Index (ESGDI) comprising 17 indicators adapted from POJK No. 51/POJK.03/2017 (eight environmental, six social, three governance items), computed as $ESGDI = \sum X_i / 17$, where $X_i = 1$ if an indicator is disclosed and 0 otherwise. Independent commissioners (X_2) are measured as the proportion of independent commissioners to total board of commissioners members (POJK No. 33/POJK.04/2014). The board of directors (X_3) is measured by the total number of directors, and the audit committee (X_4) by the total number of audit committee members (POJK No. 33/POJK.04/2014; POJK No. 55/POJK.04/2015). Profitability (Z), the mediating variable, is proxied by Return on Assets ($ROA = \text{net income} / \text{total assets}$). Stock return (Y), the dependent variable, is calculated as $(P_t - P_{t-1}) / P_{t-1}$, where P is year-end closing share price. Three control variables are included to account for structural differences that could otherwise confound the estimated relationships: the Debt to Equity Ratio ($DER = \text{total liabilities} / \text{total equity}$), firm size (natural logarithm of total assets), and an industry-sector dummy (financial = 1, non-financial = 0).

3. Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS 4, estimating two structural equations:

$$ROA = \beta_1 ESG + \beta_2 KI + \beta_3 DD + \beta_4 KA + \beta_5 DER + \beta_6 SIZE + \beta_7 DS + \zeta_1$$

$$SR = \beta_1 ESG + \beta_2 KI + \beta_3 DD + \beta_4 KA + \beta_5 ROA + \beta_6 DER + \beta_7 SIZE + \beta_8 DS + \zeta_2$$

Structural (inner) model quality was evaluated using the coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2), following the thresholds proposed by Hair et al. (2022): R^2 of 0.75/0.50/0.25 as strong/moderate/weak; f^2 of 0.35/0.15/0.02 as large/medium/small; and $Q^2 > 0$ as indicating predictive relevance. Hypothesis testing used bootstrapping, with path coefficients evaluated against a 5% significance threshold ($p < 0.05$, or $|t\text{-statistic}| > 1.96$); the mediating role of profitability was tested through the significance of each indirect effect using the same criterion.

C. RESULTS AND DISCUSSION

1. Sample Description

Sample selection is summarized in Table 1. Of the 192 IDX Sustainability constituent firms identified in April 2026, 122 were excluded for incomplete annual or sustainability reporting during 2021–2025, leaving 70 firms and 350 firm-year observations, with no missing values recorded for any research variable.

Table 1. Sample Selection

No	Sampling Criteria	Firms
1	IDX Sustainability constituents (accessed April 2026)	192
2	Excluded: incomplete annual/sustainability reporting, 2021–2025	(122)
3	Firms meeting all sampling criteria	70
4	Firm-year observations (70 firms × 5 years)	350

Source: processed data (2026)

Descriptive statistics (Table 2) show that mean ESG disclosure across the sample is relatively high and concentrated (mean = 0.772, SD = 0.169), consistent with the expectation that IDX Sustainability constituents disclose ESG information more extensively than the

broader market. Independent-commissioner proportion is likewise fairly uniform (mean = 0.458, SD = 0.117). Board size varies more widely (mean = 6.65, SD = 2.63, range 2–15), as does audit-committee size (mean = 3.59, SD = 1.12, range 3–9). ROA averages 0.069 but ranges from –1.673 to 1.255, reflecting a mix of loss-making and highly profitable firm-years. Stock return shows the widest dispersion of all variables (mean = 0.569, SD = 4.586, range –0.916 to 82.762), confirming that even within a sustainability-screened sample, market performance is highly heterogeneous across firms and years.

Table 2. Descriptive Statistics of Research Variables

Variable	Mean	Median	Min	Max	SD
ESG	0.772	0.765	0.294	1.000	0.169
Independent Commissioners (KI)	0.458	0.500	0.100	0.833	0.117
Board of Directors (DD)	6.649	6.000	2.000	15.000	2.629
Audit Committee (KA)	3.591	3.000	3.000	9.000	1.119
ROA	0.069	0.046	-1.673	1.255	0.158
DER	3.184	1.116	-6.245	190.544	11.368
Firm Size	31.365	30.993	27.258	39.286	1.875
Sector Dummy (DS)	0.271	0.000	0.000	1.000	0.445
Stock Return (SR)	0.569	0.061	-0.916	82.762	4.586

Source: SmartPLS 4 output, processed data (2026)

2. Structural Model Evaluation

Table 3 reports the coefficient of determination for each endogenous variable. ESG, the three governance variables, and the control variables jointly explain only 7.8% of the variance in profitability ($R^2 = 0.078$; adjusted $R^2 = 0.059$), while the full set of predictors, including profitability, explains only 3.7% of the variance in stock return ($R^2 = 0.037$; adjusted $R^2 = 0.014$). Both values fall in the weak category under Hair et al.'s (2022) criteria. Effect-size (f^2) analysis corroborates this pattern: every individual path in the model has f^2 below the 0.02

threshold for a small effect, with firm size $\rightarrow$ ROA ($f^2 = 0.015$) and independent commissioners $\rightarrow$ stock return ($f^2 = 0.011$) the largest contributors. Predictive relevance nonetheless holds, as Q^2_{predict} is positive for both endogenous variables (Table 3), indicating that the model retains some out-of-sample predictive capacity despite its limited explanatory power. Such low R^2 and f^2 values are not unusual in capital-market research, where stock return is shaped by many macroeconomic and behavioral factors outside any single firm-level model (Brigham & Houston, 2025; Tandelilin, 2017); the more informative test of the hypothesized relationships is therefore statistical significance rather than explained variance alone.

Table 3. Structural Model Evaluation

Endogenous Variable	R^2	Adjusted R^2	Q^2_{predict}
ROA	0.078	0.059	0.031
SR	0.037	0.014	0.005

Source: SmartPLS 4 output (2026)

3. Hypothesis Testing (Direct Effect)

Table 4 presents direct-effect results from bootstrapping. ESG shows no significant effect on either profitability ($\beta = -0.000$; $t = 0.007$; $p = 0.994$) or stock return ($\beta = -0.087$; $t = 1.540$; $p = 0.124$), so H1 and H5 are rejected. Independent commissioners show no significant effect on profitability ($\beta = -0.068$; $p = 0.268$) or stock return ($\beta = 0.119$; $p = 0.241$), rejecting H2 and H6. The board of directors is the only main variable to reach significance: board size has a significant negative effect on profitability ($\beta = -0.097$; $t = 2.125$; $p = 0.034$), supporting H3, but no significant effect on stock return ($\beta = -0.020$; $p = 0.748$), rejecting H7. The audit committee shows no significant effect on profitability ($\beta = 0.012$; $p = 0.845$) or stock return ($\beta = 0.069$; $p = 0.224$), rejecting H4 and H8. Profitability itself has no significant effect on stock return ($\beta = 0.018$; $t = 0.327$; $p = 0.743$), rejecting H9. Among control variables, firm size has a significant negative effect on both profitability ($\beta = -0.171$; $p = 0.001$) and stock return ($\beta = -0.119$; $p = 0.031$), while DER and the sector dummy show no significant effect on either endogenous variable.

Table 4. Direct Effect (Hypothesis Testing)

Path	O	T-statistics	P-values	Result
ESG → ROA	-0.000	0.007	0.994	H1 rejected
KI → ROA	-0.068	1.109	0.268	H2 rejected
DD → ROA	-0.097	2.125	0.034	H3 accepted
KA → ROA	0.012	0.195	0.845	H4 rejected
ESG → SR	-0.087	1.540	0.124	H5 rejected
KI → SR	0.119	1.172	0.241	H6 rejected
DD → SR	-0.020	0.322	0.748	H7 rejected
KA → SR	0.069	1.215	0.224	H8 rejected
ROA → SR	0.018	0.327	0.743	H9 rejected
DER → ROA	-0.024	0.495	0.621	control
DER → SR	-0.017	0.532	0.595	control
DS → ROA	-0.055	0.371	0.710	control
DS → SR	-0.206	1.181	0.238	control
Size → ROA	-0.171	3.222	0.001	control (sig.)
Size → SR	-0.119	2.162	0.031	control (sig.)

Source: SmartPLS 4 output, processed data (2026)

4. Mediation Testing (Indirect Effect)

Table 5 reports indirect-effect results for the mediation hypotheses. All four indirect paths through profitability are statistically insignificant: ESG → ROA → SR ($\beta = -0.000$; $p = 0.999$), independent commissioners → ROA → SR ($\beta = -0.001$; $p = 0.849$), board of directors → ROA → SR ($\beta = -0.002$; $p = 0.784$), and audit committee → ROA → SR ($\beta = 0.000$; $p = 0.963$). H10 through H13 are therefore all rejected: profitability, as proxied by ROA, does not mediate the relationship between ESG, independent commissioners, the board of directors, or the audit committee, and stock return in this sample.

Table 5. Indirect Effect (Mediation Testing)

Path	O	T-statistics	P-values	Result
ESG → ROA → SR	-0.000	0.002	0.999	H10 rejected
KI → ROA → SR	-0.001	0.191	0.849	H11 rejected
DD → ROA → SR	-0.002	0.274	0.784	H12 rejected
KA → ROA → SR	0.000	0.046	0.963	H13 rejected
DER → ROA → SR	-0.000	0.092	0.926	control
DS → ROA → SR	-0.001	0.085	0.932	control
Size → ROA → SR	-0.003	0.295	0.768	control

Source: SmartPLS 4 output, processed data (2026)

5. Discussion

5.1 Effects on Profitability (H1–H4)

ESG disclosure shows no measurable effect on profitability (H1 rejected), a result that diverges from studies reporting a positive ESG–profitability link (Abubakr et al., 2026; Alareeni & Hamdan, 2020;) but aligns with evidence that ESG's financial payoff is not universal. A plausible explanation lies in sample homogeneity: because all sample firms already belong to a sustainability-screened index, ESG disclosure levels are relatively uniform (SD = 0.169), leaving limited cross-sectional variation to explain differences in ROA. The disclosure index used here also captures disclosure breadth rather than implementation depth, so a high score need not indicate that sustainability spending has yet generated the efficiency gains or reputational returns that ESG research generally treats as accruing over a longer horizon. Theoretically, this result offers only partial support for Stakeholder Theory (Freeman, 1984) and the Resource-Based View (Barney, 1991): ESG remains a potential source of stakeholder trust and competitive advantage, but its translation into measurable earnings is evidently contingent on execution quality rather than disclosure volume alone. Practically, firms should not treat ESG disclosure as an end in itself; sustainability programs need to be integrated into core operations for their financial benefits to surface in profitability.

Independent commissioners also show no significant effect on profitability (H2 rejected), consistent with Ramadhani et al. (2025) and Fariha et al. (2022), though the result contrasts with Kyere and Ausloos (2021), and Boshnak et al. (2023). Agency Theory (Jensen & Meckling, 1976) predicts that independent oversight reduces the principal–agent conflict and thereby supports performance, but the narrow variation in independent-commissioner proportion in this sample ($SD = 0.117$) may mute any detectable relationship; practically, regulatory compliance with minimum independent-commissioner requirements does not automatically translate into stronger financial performance unless oversight is genuinely substantive.

By contrast, the board of directors is the only variable with a significant effect on profitability, and the direction is negative (H3 supported): larger boards are associated with lower ROA. This is consistent with the view that larger boards raise coordination costs and slow decision-making (Fariha et al., 2022; Prayanthi & Laurens, 2020), offering partial support for Agency Theory's recognition that governance structures which grow too large can themselves generate agency costs (Jensen & Meckling, 1976), while qualifying the Resource-Based View's premise that managerial resources automatically translate into competitive advantage (Barney, 1991) board size functions as a strategic resource only when matched by effective coordination. The result differs from studies reporting a positive board-size effect (Garad et al., 2021; Kyere & Ausloos, 2021), suggesting the effect is sensitive to firm and industry context. Practically, companies should prioritize board competence, experience, and clarity of role division over simply expanding board membership.

The audit committee shows no significant effect on profitability (H4 rejected), departing from evidence linking audit-committee effectiveness to financial performance (Fuadah et al., 2022; Garad et al., 2021). Because audit-committee size in this sample already satisfies regulatory minimums with limited dispersion ($SD = 1.12$), its oversight role may be more relevant to reporting quality and compliance than to earnings generation, implying its contribution to firm value is better assessed through financial-reporting and risk-management outcomes than through profitability alone.

5.2 Effects on Stock Return (H5–H9)

None of the four independent variables ESG, independent commissioners, the board of directors, or the audit committee shows a significant direct effect on stock return (H5–H8 rejected), and profitability itself is likewise unrelated to stock return (H9 rejected). These results diverge from studies reporting a positive ESG–return relationship (Kyei-Mensah, 2026) but align with evidence that ESG's market effect is inconsistent once firm and market characteristics are controlled for (Yin et al., 2023; Zhang & Zhang, 2026). Similarly, while governance research elsewhere finds a direct link between board mechanisms and stock return (Aladwey et al., 2026; Widyasi et al., 2024), other studies report that governance affects return only indirectly, through firm performance (Lestari & Kusumawati, 2024; William & Subiyanto, 2024) a pattern this study's own findings echo. Even profitability, which Signalling Theory (Spence, 1973) predicts should function as a positive signal to investors, fails to move stock return here, in contrast with studies that do find a profitability–return link (William & Subiyanto, 2024); this suggests investors in this sample weigh forward-looking growth prospects and macro-level sentiment more heavily than the historical earnings captured by ROA (Hartono, 2022). These null results are consistent with the model's very low R^2 for stock return, reinforcing that firm-level ESG, governance, and profitability indicators explain only a small share of return variation once broader market forces interest rates, inflation, sector cycles, investor sentiment are at play (Brigham & Houston, 2025). Theoretically, these results offer limited support for Stakeholder Theory, the Resource-Based View, and Signalling Theory within this market segment and period, suggesting that sustainability-screened indices such as IDX Sustainability do not, by construction, guarantee a return premium. Practically, ESG membership, governance structure, or reported profitability should not be treated as standalone return predictors by investors; for firms, strengthening ESG and governance practice may still be justified on risk-management and legitimacy grounds even without a guaranteed short-term stock-return payoff.

5.3 Mediating Role of Profitability (H10–H13)

Consistent with the null ROA–stock return relationship (H9), profitability also fails to mediate the effect of ESG, independent commissioners, the board of directors, or the audit

committee on stock return (H10–H13 all rejected). This indicates that even where a governance variable does affect profitability as board size does that effect does not propagate to the market response captured by stock return, because the second link in the mediation chain (profitability → stock return) is itself absent. The result offers limited support for the joint operation of Agency Theory, the Resource-Based View, and Signalling Theory as an integrated explanatory chain in this context, even though each theory finds partial support at the level of an individual path. For companies and regulators, policies aimed at strengthening ESG and governance practice should not be justified primarily on the expectation of a profitability-mediated stock-return payoff; their value is better framed around risk management, stakeholder legitimacy, and long-run resilience.

D. CONCLUSIONS

This study examined how ESG disclosure and internal Good Corporate Governance mechanisms independent commissioners, the board of directors, and the audit committee affect stock return among companies constituting the IDX Sustainability index, and whether profitability mediates these relationships. The findings show that board size is the only variable with a measurable effect within the model, exerting a negative influence on profitability; ESG disclosure, independent commissioners, and the audit committee show no discernible effect on either profitability or stock return, and profitability itself does not translate into stock return. Profitability likewise fails to serve as a mediating mechanism linking any of the four independent variables to stock return. Taken together, these results indicate that membership in a sustainability-screened index and adherence to standard governance structures do not, on their own, guarantee superior financial or market performance; among IDX Sustainability constituents over the observed period, stock return appears to be shaped far more by factors outside the firm-level ESG governance profitability chain examined here, such as macroeconomic conditions, sector dynamics, and investor sentiment. The study's scope also carries inherent limitations: it observes only IDX Sustainability constituents over a relatively short five-year window, measures ESG through a disclosure-based rather than an implementation-quality index, and does not extend beyond the four governance and

profitability variables specified in the model, so conclusions about the broader ESG–governance–return relationship should be drawn with appropriate caution.

E. SUGGESTIONS

For companies, sustainability and governance practice should be pursued as substantive strategy rather than as disclosure or compliance exercise: ESG initiatives should be linked explicitly to operational efficiency and risk reduction, and board composition should prioritize competence and clear role division over sheer size, so that governance structures translate more reliably into financial performance. For investors, the results suggest that ESG membership, governance indicators, and reported profitability should not be treated as sufficient standalone signals of return potential; investment decisions involving IDX Sustainability constituents should also weigh macroeconomic conditions, sector-specific prospects, and firm growth trajectories. For regulators, the gap between disclosure volume and greenwashing risk identified in this study supports continued strengthening of ESG reporting standards and verification mechanisms under Indonesia's sustainable-finance roadmap.

For future research, this study recommends: extending the model with additional determinants of stock return, such as Price to Book Value, Earnings per Share, Tobin's Q, firm growth, and macroeconomic variables (inflation, interest rates, exchange rates); adopting an ESG measure that captures implementation quality, such as ratings issued by national or international rating agencies, alongside or instead of a disclosure index; lengthening the observation period to better capture the long-horizon benefits ESG and governance practices are theorized to generate; applying panel-data estimation methods (e.g., EViews or Stata) as a robustness check against the PLS-SEM approach used here; and broadening the sample beyond IDX Sustainability constituents to improve the generalizability of findings across the wider Indonesian capital market.

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