

ESG Disclosure on Stock Prices: The Moderating Role of Profitability in Manufacturing Companies

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Abstract

This study is motivated by the underperformance of ESG indices relative to the Composite Stock Price Index (IHSG) in 2024, indicating that sustainability practices are not optimally valued in Indonesia's short-term, retail-dominated capital market. Consequently, this research aims to analyze the effect of specific Environmental, Social, and Governance (ESG) disclosure dimensions on stock prices and examine the role of profitability as a moderator within the context of Indonesian-listed manufacturing entities. Adopting a quantitative causal associative approach, the study utilizes archival data extracted from 16 manufacturers' annual and sustainability disclosure spanning 2022 through 2024. Through purposive sampling, 48 firm-year observations were obtained and examined through panel regression techniques via EViews 10. Result reveal that stock prices respond significantly only to governance disclosure practices, whereas environmental and social disclosure alongside profitability moderation, exhibit negligible market impact. These findings contribute to Stakeholder Theory by resolving prior inconsistencies through dimensional analysis, highlighting that the Indonesian market prioritizes immediate governance accountability over long-term sustainability. This study fills a critical gap regarding the limits of profitability moderation, offering essential implications for regulators and investors in emerging economies.



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1. INTRODUCTION

Corporate social responsibility has evolved significantly, with companies now focusing not only on shareholder interests, but also taking responsibility for a wider range of stakeholders (Carroll, 2016). Contemporary companies are increasingly evaluated through a multidimensional value creation framework that encompasses financial, social, and ecological performance (Purvis, 2019). The application of ESG considerations in corporate strategy has become a major focus due to its proven ability to strengthen sustainable returns for shareholders through risk mitigation and operational efficiency (Whelan et al., 2020). Comprehensive meta-analytical evidence confirms ESG achievement correlates positively with financial outcomes (Friede et al., 2015), particularly when material ESG elements shape both operational efficiency and investor valuations (Khan et al., 2016). Asset managers are gradually integrating ESG metrics into portofolio construction frameworks aligned with sustainable investment horizons (Amir & Serafeim, 2018)we provide insights into why and how investors use reported environmental, social, and governance (ESG, supported by PRI initiatives that promote capital allocation based on ESG considerations (Brief, 2022).

At the same time, Indonesia's demographic dividend characterized by a larger working age population than a dependent population positions the country for sustained growth

(Andriani, 2021). The country stands out as an innovative and dominant participant in the Green Sukuk market, combining shariah compliant financing with a sustainability framework (Nabila Azzahra & Erna Widiastuty, 2025). Indonesia's sustainable finance regulatory framework through OJK Roadmap Phase II (2021-2025) demonstrates systematic commitment with comprehensive regulations from POJK No. 51/2017 to OJK Circular Letter No. 16/2024 (OJK, 2020). The manufacturing sector contributes approximately 20% to GDP and absorbs over 15 million workers, making it crucial for achieving Net Zero Emission by 2060 (Sheikh et al., 2023). However, despite increased sustainability awareness with 12 million investors in 2023, Indonesia's ESG indices underperformed IHSG in 2024 SRI-KEHATI declined 14.03%, ESG Sector Leaders 12.08%, and ESGQ45 12.66% versus IHSG's 2.65% decline (Bursa Efek Indonesia, 2024). This index underperformance indicates that ESG investments fail to provide returns comparable to conventional investments, in line with recent evidence ESG investments cannot serve as a hedge and systematically underperform conventional indices in the Indonesian capital market (Agustin et al., 2024), suggesting that sustainability practices are still fundamentally undervalued by the country's dominant, short-term-oriented retail investor base. This difference reflects a gap in stock price valuation, where ESG-related information is not reflected in the stock prices of manufacturing companies despite strong regulatory and institutional support.

This market-valuation disconnect reveals critical research gaps. First, a contradictory evidence gap exists where ESG disclosure negatively affected manufacturing firm value (Nabila Azzahra & Erna Widiastuty, 2025) sustainability reporting positively influenced while carbon emission disclosure showed no effect (Gamar & Widoretno, 2024), and Social and Governance scores were significant but Environmental score was not (Aydoğmuş et al., 2022; Hariyanto et al., 2024). This study identifies two gaps, contradictory evidence gap (Müller-Bloch & Kranz, 2015) regarding ESG dimensions individual effects, and theory application void (Müller-Bloch & Kranz, 2015) where moderation research remains limited in Indonesian manufacturing sectors with significant environmental impact (Agustin et al., 2024; Zhang, 2025), yet all three dimensions positively affected cost of debt (Johan, 2025). These inconsistencies suggest aggregated ESG measures obscure dimension specific market valuation mechanisms. Therefore, existing studies fail to explain which ESG dimensions affect stock prices and under what financial conditions these effects arise in manufacturing companies in Indonesia. Second, a theory application void exists where profitability's moderating role remains critically underexplored in Indonesian manufacturing a heavy polluting industry (20% GDP, 15+ million workers) where ESG effects prove more pronounced in other emerging economies but remain uninvestigated (Agustin et al., 2024; Zhang, 2025). To address these gaps, this research investigates, How do Environmental, Social, and Governance Disclosure individually influence stock prices, and does profitability moderate these relationships in Indonesian manufacturing companies?

This study offers three main novelties compared to previous ESG stock price studies in Indonesia. First, it uses ESG dimension disaggregation rather than composite scores, enabling precise identification of which sustainability pillars drive stock price movements. Second, it introduces profitability as a boundary condition through moderation analysis, which examines when ESG disclosure translates into stock price appreciation, a mechanism that has not been explored in the context of Indonesian manufacturing, where retail investors prioritize immediate financial returns. Third, the 2022-2024 observation window captures market responses during the implementation of Phase II of the OJK Roadmap and post-pandemic recovery, providing timely insights not available in previous studies using pre-regulation data.

By addressing the identified stock price valuation gap and conflicting ESG evidence, this study contributes theoretically, empirically, and practically. This study aims to analyze the influence of each ESG dimension on stock prices and the moderating role of profitability in Indonesian manufacturing companies during the period 2022-2024. Theoretically, this study resolves conflicting findings by showing that market valuation mechanisms differ among ESG dimensions in emerging economies, extending Stakeholder Theory to explain the conditional pathways through which sustainability creates value for shareholders. Practically, these findings provide guidance for manufacturing companies on which disclosures to prioritize in order to increase stock prices, inform investors that the economic value of ESG depends on concurrent financial performance in retail-dominated markets, and suggest to regulators that mandatory disclosure alone is insufficient incentive structures linking sustainability to profitability are necessary to change investor behavior.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Stakeholder Theory

Freeman (1984) proposed that corporate obligations extend beyond Shareholders and include all entities affected by business operations. The essence of this framework lies in the organization's ability to coordinate relationships between parties including shareholders, employees, customers, supply chain partners, and the community as a prerequisite for achieving sustainable competitive advantage and long-term survival (Freeman & McVea, 2005). This theory has three mutually supporting aspects: descriptive, which describes the company as a constellation of cooperative and competitive interests; instrumental, which links stakeholder management practices with the achievement of company performance and normative, as a fundamental basis that affirms that stakeholders are identified based on legitimate interests and that all stakeholder interests have intrinsic value that is worthy of consideration for their own sake (Donaldson & Preston, 1995).

2.2 Environmental Disclosure

Environmental Disclosure measures corporate performance in managing environmental aspects through sustainable practice implementation reflecting commitment toward environmental protection and resource efficiency (Drempetic et al., 2020). The Environmental dimension in corporate sustainability practices shows that comprehensive environmental disclosure can improve operational efficiency and reduce costs through better resource management. ESG factors material to specific industries have been proven to have significant influence on operational performance and market valuation (Khan et al., 2016).

2.3 Social Disclosure

The Social disclosure dimension reflects corporate responsibility toward employees, customers, and communities which has evolved into a strategic priority in creating long-term value. Quality CSR disclosure demonstrates the company's commitment to managing relationships with social stakeholders (Bofinger, 2021).

2.4 Governance Disclosure

The Governance disclosure dimension emphasizes the importance of corporate governance structures in ensuring accountability and transparency. Strong corporate governance functions as a mechanism to integrate external corporate governance into the overall corporate governance puzzle, ultimately enhancing investor confidence (Aguilera et al., 2015).

2.5 Profitability

Profitability describes corporate capability in generating profit through efficient utilization of all owned resources. This ratio assesses management effectiveness in managing assets, capital, and operational activities to achieve optimal profit levels (Fitriana, 2024).

2.6 Stock Price

Stock price represents share value traded in capital markets, serving as a crucial aspect for investor investment decisions as it reflects corporate performance and reputation (Egam et al., 2017). Closing price is the most important price in one trading day used for various purposes including mutual fund valuation, investment institution performance assessment, stock index calculation, derivative valuation, ETF asset value determination, and margin calculation and transaction settlement (Bogousslavsky & Muravyev, 2020).

2.7 Research Model

Based on the theoretical propositions above, Figure 1 illustrates the analytical framework used in this study

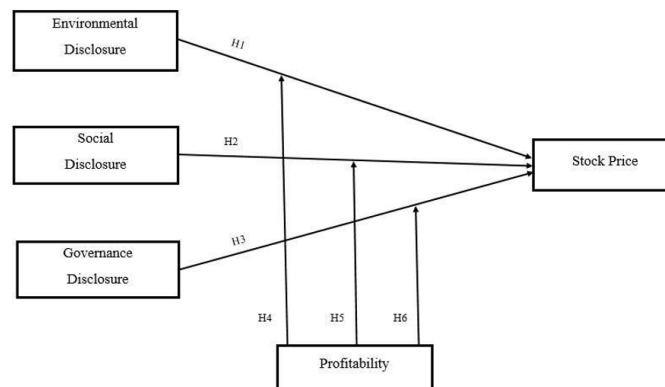


Figure 1. Empirical Research Model

Source: Processed data, 2025

2.8 Research Hypothesis

Based on Stakeholder Theory and synthesizing existing empirical evidence, six testable propositions emerge:

Environmental disclosure reflects a company's commitment to managing ecological impacts and resource efficiency. According to Stakeholder Theory, good environmental practices can reduce operational risk and provide better access to capital at lower cost. (Khan et al., 2016), which ultimately improves market valuation. Meta-analysis evidence shows a generally positive relationship between ESG performance and financial outcomes (Friede et al., 2015). However, empirical results in Indonesia show inconsistency, with some studies finding that environmental scores do not significantly affect company value (Hariyanto et al., 2024). Based on the above description, the hypothesis is:

H1: Environmental Disclosure has a significant effect on the stock prices of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Social disclosure demonstrates corporate responsibility towards employees, customers, and society. Strong relationships with stakeholders increase loyalty and productivity, which fundamentally contribute to long-term financial performance. (Yin et al., 2023). Institutional

investors are increasingly integrating ESG criteria into long-term investment decisions (Amir & Serafeim, 2018) we provide insights into why and how investors use reported environmental, social, and governance (ESG). Empirical evidence shows that social scores have a significant positive impact on company value (Aydoğmuş et al., 2022). Therefore, the hypothesis is:

H2: Social Disclosure has a significant effect on the stock prices of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Corporate governance disclosures emphasize the importance of corporate governance structures in ensuring accountability and transparency. Good governance reduces information asymmetry and agency costs, which in turn increases market value. (Aydoğmuş et al., 2022). The three ESG dimensions show a significant positive effect in reducing debt costs (Johan, 2025). Therefore, the hypothesis is:

H3: Governance Disclosure has a significant effect on the stock prices of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

The profits achieved show that the company has successfully balanced the interests of shareholders with the concerns of other stakeholders. When strong environmental disclosure is supported by high profits, it shows that sustainability practices are not merely a cost, but are strategically integrated to create shared value (Zhang, 2025). Therefore, the hypothesis is:

H4: Profitability moderates the positive effect of Environmental Disclosure on the stock prices of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

For the retail market that dominates in Indonesia, high profits are proof of a commitment to sustainable financial and social disclosure. ESG performance positively affects returns through financial performance transmission mechanisms, where good CSR practices generate positive responses from stakeholders (Yin et al., 2023). Profits reinforce the positive effect of sustainability reporting on company value. Therefore, the hypothesis is:

H5: Profitability moderates the positive effect of Social Disclosure on the stock prices of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Disclosure of governance serves as a signal of transparency that reduces information asymmetry and influences investor assessment. Angir and Weli (2024) show that positive market responses to ESG and governance disclosures are stronger in companies with better financial performance, as profits enhance the credibility of disclosed governance practices. Therefore, profits are expected to strengthen the impact of governance disclosures on stock prices. Therefore, the hypothesis is:

H6: Profitability moderates the positive effect of Governance Disclosure on the stock prices of manufacturing companies listed on the Indonesia Stock Exchange (IDX).

3. RESEARCH METHOD

A quantitative panel regression methodology is deployed to empirically examine the proposed relationship using archival data. The research is grounded in the positivist paradigm, which emphasizes that valid knowledge must be based on empirical facts that can be measured and verified objectively (Saunders et al., 2019). Following a deductive approach, this research begins with Stakeholder Theory (Donaldson & Preston, 1995) as the theoretical foundation, which is then operationalized into testable hypotheses regarding the relationships between ESG disclosure dimensions, profitability, and stock prices.

Data sources consist of audited financial statements and corporate sustainability

documents that are publicly accessible through the IDX repository. From a population of 200 manufacturing companies listed on the IDX, companies were selected through purposive sampling based in criteria integrated with the time window sampling based on specific criteria, entities that maintain continuous IDX listing throughout the 2022-2024 period while being listed in recognized ESG indices (SRI-KEHATI, ESG Sector Leaders, or ESGQ45), publishing complete annual and sustainability reports with ESG disclosure, having complete financial and stock price data.

Based on these criteria, 16 companies were selected with a 3 year time span during 2022-2024 period, resulting in 48 observations (16 companies × 3 years) to be analyzed. Thus, 48 observations exceed the minimum requirement, ensuring sufficient statistical power. Additionally, Baltagi (2021) confirms that panel data with $N \geq 10$ and $T \geq 3$ is adequate for consistent panel regression estimation.

Table 1. Definition of Variables

Variables	Definition
Stock Price (Y)	The closing price at which shares are traded in the capital market at year-end (December 31), reflecting market valuation of the company
Environmental Disclosure (X ₁)	Corporate performance in managing environmental aspects through sustainable practices, measured using content analysis based on GRI 300 Series
Social Disclosure (X ₂)	Corporate performance in fulfilling social responsibility toward stakeholders, measured using content analysis based on GRI 400 Series
Governance Disclosure (X ₃)	Corporate performance in implementing accountable and transparent governance structures, measured using content analysis based on GRI 200 Series
Profitability (Z)	The company's ability to generate profit, measured using Return on Assets (ROA)

Table 2. Measurement of Variables and Data

Variable	Formula/M Measurement	Source
Dependent Variable		
Stock Price	Year-end closing price (December 31) in Indonesian Rupiah (IDR) obtained from IDX database	Bogousslavsky & Muravyev (2020)
Independent Variables		
Environmental Disclosure	ENV Score = Measured using content analysis based on GRI 300 Series with 0-5 scoring scale across 6 indicators.	GRI Standards; Global Reporting Initiative (2021).
Social Disclosure	SOC Score = Measured using content analysis based on GRI 400 Series with 0-5 scoring scale across 6 indicators.	GRI Standards; Global Reporting Initiative (2021).
Governance Disclosure	GOV Score = Measured using content analysis based on GRI 200 Series with 0-5 scoring scale across 5 indicators.	GRI Standards; Global Reporting Initiative (2021).
Moderating Variable		
Profitability (ROA)	ROA = (Net Income/Total Assets) × 100	Fitriana (2024)

ESG Scoring Criteria:

Score 0 = No disclosure or implementation.

Score 1 = Insignificant performance with no improvement initiatives.

Score 2 = Low performance, minimal improvement efforts

Score 3 = Satisfactory performance with an established development framework.

Score 4 = Good performance, active and measurable programs

Score 5 = Excellent performance, best practice, international certification

The analytical procedure employs panel data regression techniques, integrating temporal and cross-sectional dimensions via the EViews platform (Baltagi, 2021). Panel regression offers more comprehensive insights and enhanced parameter estimation efficiency relative to independent cross-sectional or time-series analyses (Stock & Watson, 2020). The model selection process rigorously evaluates three specifications: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) frameworks.

Regression Equation Model Formulation

The implementation of the conceptual model produced the following econometric specifications:

Model 1 (Main Effect):

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \varepsilon_{it}$$

Model 2 (Moderation Effect):

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z) + \beta_6 (X_3 \times Z) + \varepsilon_{it}$$

Where:

Y = Stock Price (dependent variable)

α = Constant

X1 = Environmental Disclosure (standardized)

X2 = Social Disclosure (standardized)

X3 = Governance Disclosure (standardized)

Z = Profitability (standardized)

(X1 × Z), (X2 × Z), (X3 × Z) = Interaction terms

$\beta_1, \beta_2, \beta_3$ = Main effect coefficients

$\beta_4, \beta_5, \beta_6$ = Interaction effect coefficients (moderation)

ε_{it} = Error term, (i) company, (t) time.

All independent variables and moderator are standardized (z-score) before creating interaction terms to avoid multicollinearity and facilitate coefficient interpretation.

4. RESULT AND ANALYSIS

Table 3. Descriptive Statistics

Statistic	X1	X2	X3	Y	Z
Mean	3.752917	4.222292	4.013333	5093.917	0.106875
Median	3.830000	4.170000	3.970000	2330.000	0.095000
Maximum	4.670000	4.830000	4.970000	26775.00	0.300000
Minimum	2.500000	3.500000	3.080000	320.0000	-0.030000
Std. Dev.	0.556478	0.295781	0.498885	6113.046	0.083185
Observations	48	48	48	48	48

Source: Data processed with EViews 10, 2025

Stock Price (Y) shows a mean of 5,093.917 with a maximum value of 26,775.00 and minimum of 320.00. The standard deviation (6,113.046) exceeds the mean, indicating high heterogeneity in stock prices across manufacturing companies. Environmental Disclosure (X₁) has a mean score of 3.752917, Social Disclosure (X₂) demonstrates the highest mean at 4.222292, and Governance Disclosure (X₃) shows a mean of 4.013333. Profitability (Z) has a mean of 0.106876 (10.7%), ranging from -0.030 to 0.300, with the negative minimum indicating some companies experienced losses during the observation period.

Table 4. Chow Test Results (CEM vs FEM)

Effects Test	Statistic	d.f.	Prob.	Decision
Cross-section Chi-square	201.778876	15	0.0000	Select FEM

Source: Data processed with EViews 10, 2025

The Chow Test yielded a probability value of $0.0000 < 0.05$, leading to the rejection of H_0 . This indicates that the Fixed Effect Model (FEM) is superior to Common Effect Model (CEM). Therefore, the analysis proceeded to the Hausman Test to compare FEM with REM.

Table 5. Hausman Test Results (FEM vs REM)

Test Summary	Chi-Sq Statistic	Chi-Sq. d.f.	Prob.	Decision
Cross-section random	0.964591	4	0.9151	Select REM

Source: Data processed with EViews 10, 2025

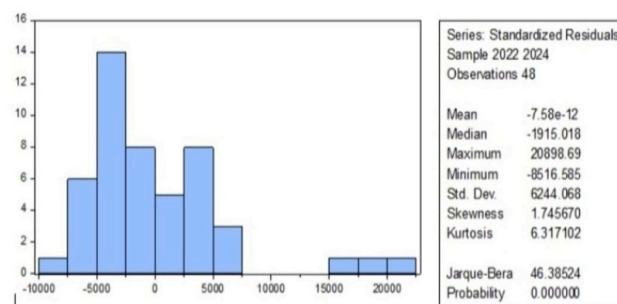
The Hausman Test produced a probability of $0.9151 > 0.05$, resulting in the acceptance of H_0 . This suggests that the Random Effect Model (REM) is more appropriate than Fixed Effect Model (FEM). The Lagrange Multiplier diagnostics the verifies the REM-CEM comparison.

Table 6. Lagrange Multiplier Test Results (CEM vs REM)

Null (no rand.effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	19.97264 (0.0000)	0.777853 (0.3778)	20.75049 (0.0000)

Source: Data processed with EViews 10, 2025

The Lagrange Multiplier (Breusch-Pagan) Test yielded a probability value (Both) of $0.0000 < 0.05$, leading to the rejection of H_0 . This confirms that the Random Effect Model (REM) is superior to Common Effect Model (CEM). Based on these three tests, REM was selected as the most appropriate estimation method for this study.

**Figure 2. Normality Test Before Transformation**

Source: Data processed with EViews 10, 2025

The initial normality test revealed a Jarque-Bera value of 46.38524 with probability $0.000000 < 0.05$, indicating that residuals were not normally distributed, violating the normality assumption. To address this violation, data transformation was performed.

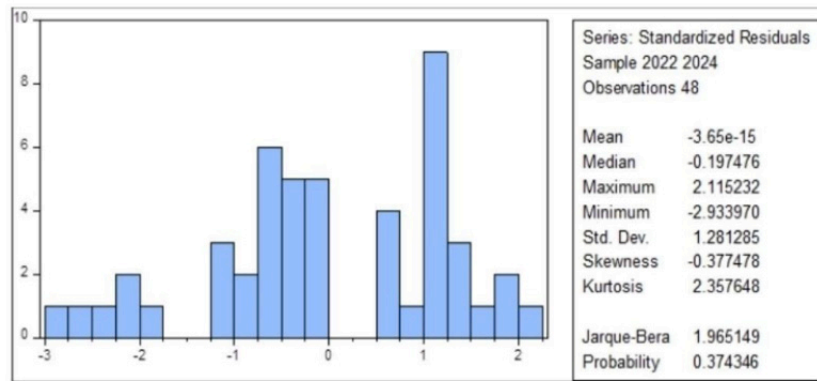


Figure 3. Normality Test After Transformation

Source: Data processed with EVIEWS 10, 2025

After data transformation, the Jarque-Bera value decreased significantly to 1.965149 with probability $0.374346 > 0.05$, confirming that the normality assumption was satisfied. All subsequent analyses used the transformed data to ensure valid statistical inferences (Baltagi, 2021).

Table 7. Correlation Matrix Multicollinearity Test

	X1	X2	X3	Z
X1	1.0000000000000000	0.6101847289978433	0.2991959723488612	0.1121665608690459
X2	0.6101847289978433	1.0000000000000000	0.5837536067936084	0.3476631488910624
X3	0.2991959723488612	0.5837536067936084	1.0000000000000000	0.06952066769404559
Z	0.1121665608690459	0.3476631488910624	0.06952066769404559	1.0000000000000000

Source: Data processed with EVIEWS 10, 2025

The correlation diagnosis shows that all relationship between predictors remain below the threshold of 10, with X1-X2. These metrics prove that there is no problematic collinearity (Baltagi, 2021). No variable needs to be excluded from the model due to multicollinearity concerns.

Table 8. White Heteroscedasticity Test Results

Variable	Std.Error	Prob.	Interpretation
C	0.115554	0.1297	Homoscedastic
X1	0.214115	0.0048	Heteroscedastic
X2	0.133083	0.0355	Heteroscedastic
X3	1.166226	0.2684	Homoscedastic
Z	1.166226	0.2152	Homoscedastic

Source: Data processed with EVIEWS 10, 2025

The White Test results indicate that heteroscedasticity exists in the model, particularly for variables X_1 (Prob. = $0.0048 < 0.05$) and X_2 (Prob. = $0.0355 < 0.05$), suggesting that the variance of residuals is not constant. To address this violation without eliminating observations or altering the model structure, White Cross-Section Robust Standard Errors were employed in subsequent regression estimations. This method corrects standard errors to account for heteroscedasticity while maintaining the consistency of coefficient estimates, ensuring valid statistical inferences for hypothesis testing (t-tests and F-test).

4.1 Hypothesis Testing Results

Table 9. F-Test Results

Weighted Statistics	
F-statistic	5.001343
Prob(F-statistic)	0.000391

Source: Data processed with EViews 10, 2025

The F-statistic of 5.001 with probability $0.000391 < 0.05$ indicates that the moderation regression model is statistically significant and suitable for explaining the influence of Environmental, Social, and Governance Disclosure and their interactions with Profitability on Stock Prices. The model as a whole is valid for hypothesis testing.

Table 10. Main Effect Regression Results with Robust Standard Errors

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
C	7.202649	0.824601	8.734712	0.0000	Significant
X1	0.190320	0.106843	1.781305	0.0819	Not Significant
X2	-0.317349	0.158828	-1.998071	0.0521	Not Significant
X3	0.167603	0.051361	3.263240	0.0022	Significant
Z	6.556325	2.011012	3.260211	0.0022	Significant

Source: Data processed with EViews 10, 2025

Note: t-table (df=43, $\alpha=0.05$, two-tailed) = 2.0167

Regression Equation (Model 1):

$$Y = 7.202649 + 0.190320X_1 - 0.317349X_2 + 0.167603X_3 + 6.556325Z + \varepsilon$$

a. Environmental Disclosure and Stock Price (H_1 rejected)

Environmental Disclosure shows a positive coefficient of 0.190, indicating that a one-unit increase in Environmental Disclosure score is associated with a 0.190 unit increase in stock price (after transformation). However, with t-statistic of $1.781 < t\text{-table} (2.0167)$ and probability $0.0819 > 0.05$, this relationship is not statistically significant. Therefore, H_{01} is accepted and H_1 is rejected, indicating that Environmental Disclosure does not significantly influence Stock Price in Indonesian manufacturing companies during 2022-2024. This finding contrasts with studies suggesting positive ESG-firm value relationships (Yoon et al., 2018) but aligns with research by (Gavrilakis & Floros, 2023) who documented ESG's limited market impact. Indonesian capital markets, dominated by short-term oriented retail investors, prioritize immediate financial returns over long-term sustainability (Bursa Efek Indonesia, 2024). This creates a temporal disconnect where stock prices fail to reflect the future value of environmental initiatives that require substantial upfront investment but only yield results in 5–10 years.

b. Social Disclosure and Stock Price (H_2 rejected)

Social Disclosure exhibits a negative coefficient of -0.317, suggesting an inverse relationship where higher Social Disclosure scores are associated with lower stock prices. The t-statistic of -1.998 (absolute value $1.998 < 2.0167$) and probability $0.0521 > 0.05$ (marginally above the threshold) indicate this relationship is not statistically significant at the 5% level. Therefore, H_{02} is accepted and H_2 is rejected, suggesting that Social Disclosure does not significantly influence Stock Price. This finding is surprising given theoretical expectations

that strong social practices enhance corporate reputation, employee productivity, and stakeholder relationships, ultimately benefiting firm value (Fatemi et al., 2018). The negative, though insignificant, coefficient suggests that the market perceives social investments such as employee welfare and community development as operational burdens rather than value-creating activities. In the Indonesian context, enhanced social disclosure is often interpreted as a signal of rising labor costs without clear immediate returns, reflecting a short-term market bias. This sentiment was likely amplified during the 2022–2024 post-pandemic recovery, where investors prioritized companies maintaining strict cost discipline over those expanding social commitments amidst inflationary pressures..

c. Governance Disclosure and Stock Price (H₃ accepted)

Governance Disclosure demonstrates a positive coefficient of 0.168, indicating that a one-unit increase in Governance Disclosure score is associated with a 0.168 unit increase in stock price. With t-statistic of 3.263 > t-table (2.0167) and probability 0.0022 < 0.05, this relationship is highly statistically significant. Therefore, H₀₃ is rejected and H₃ is accepted, confirming that Governance Disclosure significantly and positively influences Stock Price in Indonesian manufacturing companies. This finding strongly supports previous research (Aydoğmuş et al., 2022; Johan, 2025) demonstrating that good corporate governance enhances firm valuation. The significant positive relationship can be explained through several mechanisms grounded in Stakeholder Theory. Strong governance structures act as a primary driver of value by ensuring transparency and reducing information asymmetry while simultaneously protecting minority shareholders within Indonesia’s landscape of concentrated family ownership (Aguilera et al., 2015). Furthermore, robust internal controls enhanced corporate resilience against post-pandemic economic uncertainties (2022–2024), leading the market to prioritize verifiable governance measures over environmental or social dimensions. Ultimately, governance serves as a vital signal of management quality and risk mitigation, directly resulting in significant positive valuation premiums.

Table 11. Moderation Effect Regression Results with Robust Standard Errors

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
C	6.215282	1.071940	5.798161	0.0000	Significant
X1Z	-4.048917	2.654464	-1.525324	0.1350	Not Significant
X2Z	3.978078	2.934532	1.355609	0.1828	Not Significant
X3Z	-2.249873	2.268939	-0.991597	0.3274	Not Significant
Z	13.24705	4.416676	2.999326	0.0046	Significant

Source: Data processed with EViews 10, 2025

Note: t-table (df=40, α=0.05, two-tailed) = 2.021

Regression Equation (Model 2):

$$Y = 6.21528191549 + 0.567614863719X_1 - 0.665123805572X_2 + 0.444407324977X_3 + 13.2470536445Z - 4.0489166805X_1Z + 3.9780777942X_2Z - 2.24987281752X_3Z + \epsilon$$

d. Profitability Moderating Environmental-Stock Price (H₄ rejected)

The interaction term (X₁Z) shows a negative coefficient of -4.049, suggesting that higher profitability actually weakens (rather than strengthens) the relationship between Environmental Disclosure and Stock Price. However, with t-statistic of -1.525 < t-table (2.021) and probability 0.1350 > 0.05, this moderation effect is not statistically significant.

Therefore, H04 is accepted and H₄ is rejected, indicating that Profitability does not moderate the relationship between Environmental Disclosure and Stock Price. The non-significant moderation results from a temporal misalignment where environmental investments require long gestation periods to yield financial returns, creating a disconnect between disclosure and realized profitability (Grewal et al., 2017). In a market dominated by short-termism, these commitments are often perceived as diverting resources from shareholder distributions, suggesting a prioritization of stakeholder interests over immediate wealth maximization. Furthermore, measurement challenges introduce statistical noise, as disclosures frequently reflect reported activities rather than actual economic performance, obscuring the detection of significant moderation effects.

e. Profitability Moderating Social-Stock Price (H₅ rejected)

The interaction term (X₂Z) exhibits a positive coefficient of 3.978, suggesting that profitability could potentially strengthen the relationship between Social Disclosure and Stock Price. However, with t-statistic of 1.356 < t-table (2.021) and probability 0.1828 > 0.05, this moderation effect is not statistically significant. Therefore, H05 is accepted and H₅ is rejected, meaning that Profitability does not significantly moderate the influence of Social Disclosure on Stock Price. The lack of significant moderation implies that the market perceives social investments as discretionary costs rather than strategic value drivers, disregarding potential synergies with high profitability. Short-term Indonesian retail investors prioritize immediate returns like dividends, failing to reward the intangible benefits of social initiatives such as employee retention. This disconnect is driven by the difficulty in quantifying social returns and a marked preference for tangible financial metrics over “soft” indicators during the 2022–2024 economic recovery.

f. Profitability Moderating Governance-Stock Price (H₆ rejected)

The interaction term (X₃Z) shows a negative coefficient of -2.250, suggesting that profitability might weaken rather than strengthen the relationship between Governance Disclosure and Stock Price. However, with t-statistic of -0.992 < t-table (2.021) and probability 0.3274 > 0.05 (far above the significance threshold), this moderation effect is not statistically significant. Therefore, H06 is accepted and H₆ is rejected, indicating that Profitability does not moderate the relationship between Governance Disclosure and Stock Price. The non-significant moderation indicates that governance mechanisms operate independently of profitability, serving as a fundamental baseline for market confidence rather than a factor contingent on earnings. While the negative coefficient suggests a potential “ceiling effect” or concerns regarding bureaucratic inefficiencies, the findings ultimately confirm that the market values governance structures such as board independence and audit quality consistently, regardless of a firm’s financial performance.

Table 12. Coefficient of Determination

Statistic	Value
R-squared	0.467

Source: Data processed with EViews 10, 2025

An R-squared value of 0.467 indicates that ESG disclosure and its interactions with profitability explain 46.7% of the variation in stock prices of Indonesian manufacturing firms during 2022–2024, while the remaining 53.3% is driven by other factors.

5. CONCLUSION

This study examines the effect of ESG Disclosure on stock prices in Indonesian manufacturing firms (2022–2024). Results show that only Governance Disclosure significantly enhances valuation, while Environmental and Social disclosures do not. This indicates that the market prioritizes immediate governance accountability over longer-term environmental and social benefits.

Furthermore, profitability does not moderate the ESG stock price relationship, suggesting these elements function as independent value drivers rather than synergistic ones. This challenges the assumption that financial performance amplifies ESG rewards, highlighting the prevalence of short-term orientation and limited ESG integration within Indonesia.

Theoretically, the findings provide partial support for Stakeholder Theory (Freeman, 1984; Donaldson & Preston, 1995). However, the insignificance of environmental and social factors underscores that the theory's instrumental validity is context-dependent. By disaggregating ESG, this study resolves prior contradictions, identifying governance as the primary pricing channel in this market.

Overall, this research contributes to sustainable finance literature by offering dimension-specific evidence on ESG valuation in emerging markets. It establishes boundary conditions for ESG-profitability interactions and explains the underperformance of local ESG indices, providing critical insights for future policy and corporate strategy. This study acknowledges several limitations. The restricted sample of 16 firms over a short period (2022–2024) introduces selection bias and limits the assessment of long-term ESG impacts. Future research should address these limitations by expanding the sample to include diverse sectors and non-indexed firms, while employing longer observation periods to capture dynamic ESG effects. Methodologically, studies should incorporate objective performance indicators or third-party ratings alongside disclosure metrics, and explore alternative profitability measures (such as ROE, ROI, or NPM) to test non-linear interactions.

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