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The Effect of ESG Disclosure and Sales Growth on Stock Returns: The Moderating Role of Company Size

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Abstract

Purpose – This research investigates how environmental, social, and governance disclosures and sales expansion affect stock returns, and additionally, it examines the moderating effect of company size on these connections within Indonesia's capital market.

Design/methodology/approach – This study employs a quantitative methodology, specifically using moderated panel regression analysis. The research sample consists of non-financial firms listed on the Indonesia Stock Exchange from 2023 to 2025, which were chosen through purposive sampling. ESG disclosures were quantified via content analysis following GRI Standards, sales growth was determined by the annual percentage change in net sales, and firm size was represented by the natural logarithm of total assets. The moderated regression was used to analyze the data.

Findings – Results from empirical investigations show a notable positive correlation between ESG disclosure and stock returns, thereby reinforcing its status as a credible signal that mitigates information asymmetry and strengthens investor confidence. Sales growth similarly demonstrates a significant positive impact, reflecting the market's valuation of fundamental operational expansion. Furthermore, firm size significantly strengthens both relationships, supporting the resource-based view that larger firms' greater visibility, credibility, and resource capacity amplify the market's reception of ESG and growth signals.

Originality/value – This research contributes by simultaneously integrating sustainability disclosure, operational performance, and structural characteristics within a unified moderated framework, addressing a significant gap in the emerging market literature. It provides novel empirical evidence on the conditional effects of ESG disclosure in Indonesia, highlighting the contextual importance of firm scale.

Research limitations/implications – The findings are constrained by the three-year observation period, the use of self-constructed ESG disclosure metrics, and the exclusion of the financial sector. Future studies should extend the observation period, employ independent ESG ratings, and explore additional moderating variables such as governance quality or institutional ownership to deepen the understanding of these dynamics.

Keywords: ESG disclosure, sales growth, *stock returns*, firm size, and GRI standards.

Article type: Research paper

Introduction

The development of corporate governance focused on environmentally and socially sound business practices has fundamentally changed the investment decision-making landscape in global capital markets. The concept of environmental, social, and governance (ESG) has transitioned from a voluntary corporate social responsibility initiative to a strategic foundation for assessing company performance and valuation (Ovelia et al., 2025). This paradigm shift is driven by investors' increasing recognition of non-financial risks that can critically impact long-term operational sustainability and company value (Fanisa et al., 2020). Consequently, ESG information is no longer considered supplementary but has emerged as a key determinant in stock price formation (Kurniawan, 2021; Salsabila & Ulinnuha, 2019; Yanto & Sari, 2025).

This policy underscores the regulatory push committed to an economic model that prioritizes sustainability through standardized ESG disclosure, further strengthened by the Financial Services Authority (Otoritas Jasa Keuangan—OJK) 2025 Sustainable Finance Roadmap (Lusmeida et al., 2024; Desvaria et al., 2025). The Indonesia Stock Exchange (IDX) complements this framework through initiatives such as the IDX ESG Leaders Index, which recognizes companies with superior ESG performance and creates market incentives for responsible business practices (OJK, 2021; Bappenas, 2025). However, within this evolving sustainable finance landscape in Indonesia, an interesting paradox exists regarding the dynamics of stock returns in relation to ESG disclosure practices (Maivalinda, 2025). Empirical evidence presents a fragmented picture. Some studies identify a significant positive relationship between ESG disclosure quality and stock returns, suggesting that markets value transparency and accountability. However, other studies produce insignificant or even negative results (Bayuaji et al. 2021). This inconsistency highlights the complex and non-linear nature of the relationship between ESG disclosure and market valuation, suggesting the influence of contextual or conditional variables that can strengthen or weaken this link (Marquez, 2025).

The observed empirical inconsistencies suggest a potential moderating role for firm-specific characteristics, with firm size emerging as a theoretically prominent candidate. According to the resource-based view, significant disparities exist between large and small firms in terms of market perception, asset acquisition, and governance implementation capabilities (Varadarajan, 2020; (Sugiono, 2018; Hsiao, 2024). Larger firms generally have more mature disclosure infrastructures, professional investor relations teams, and closer analyst oversight, which may enhance the credibility and market uptake of their ESG signals (Fantin & Hadad, 2022). Conversely, for firms with limited operational scale, ESG information may not exhibit equivalent predictive power on stock price movements due to limited investor attention and the inherent complexity of interpreting non-financial data (Xiao & Su, 2022). Beyond sustainability dimensions, fundamental operational performance remains a classic determinant of firm valuation. Sales growth, as an indicator of business expansion and potential future profitability, reflects the competitive dynamics and resilience of an entity (Saputro, 2023; Afrizal et al., 2024) . In the context of the Indonesian capital market, which is still characterized by a significant presence of short-term investors, revenue growth information often triggers a more immediate and robust market reaction than long-term non-financial indicators. The interaction between sales growth and firm size also needs to be investigated, as economies of scale and established distribution networks inherent in larger firms can amplify the market impact of sales expansion.

A significant research gap remains in the sustainable finance literature in Indonesia, as few studies simultaneously examine the effect of ESG disclosure and sales growth on stock returns while considering the moderating role of firm size. (Qusibah & Yusra, 2019). Previous research has tended to isolate these variables or use a control variable approach that fails to capture complex interaction effects. A nuanced understanding of the contextual conditions that strengthen or weaken the relationship between sustainability practices and market performance is crucial for developing effective investor communication strategies and well-targeted policy incentives. In line with this, this study initiates the development of an empirical model to bridge the identified gap by integrating

sustainability, operational efficiency, and a firm's structural profile into a holistic analytical framework. This investigation focuses on two key questions: What are the direct consequences of ESG publications and sales expansion on the stock returns of non-financial companies listed on the IDX? And, do firm dimensions mediate these relationships, and how does this mediation occur?

The purpose of this study is twofold. (1) To generate empirical findings on the direct and conditional impacts of ESG signals and growth in emerging markets, while also providing applicable insights for corporate management, investors, and regulators. (2) To broaden the theoretical framework of sustainable finance, this study seeks to validate signaling theory and legitimacy theory within the specific institutional framework of the Indonesian capital market. Simultaneously, the findings are intended to inform the formulation of corporate disclosure strategies, assist in the construction of ESG-based portfolios, and support regulators in evaluating the effectiveness of existing sustainable finance policies.

Literature Review

Legitimacy Theory

Legitimacy Theory serves as a conceptual foundation for understanding corporate motivations in communicating with the public, including through ESG disclosure. According to this perspective, legitimacy is not a permanently acquired right, but rather a condition that must be continuously pursued and maintained through negotiations with various stakeholders. Corporations in the contemporary capital market landscape seek to obtain and maintain a social license to operate by demonstrating the alignment of their activities with the norms, values, and aspirations of the broader society (Masum *et al.,* 2020). Comprehensive ESG disclosure serves as a strategic mechanism for achieving this goal. Thus, sustainability reporting practices act as a form of accountability aimed at reducing potential conflicts, minimizing reputational risk, and ultimately strengthening investor confidence. This increased trust has the potential to be translated by the market into lower risk assessments and more favorable stock returns, as companies perceived as legitimate are perceived to have more stable operational sustainability prospects.

Signaling Theory

Signaling Theory provides an essential analytical framework for explaining the dynamics of ESG disclosure in the context of information asymmetry between management and investors. This theory argues that management, as the party with superior information about the company's internal conditions and prospects, has an incentive to send credible signals to the market to differentiate itself from lower-quality companies. ESG disclosure serves as an effective signaling mechanism because it is voluntary and costly to fake, allowing only companies with authentic ESG performance and long-term management commitment to consistently convey it (Nurfaeda & Rahmat Syah, 2021; Supriyanto *et al.*, 2023). By reducing investor uncertainty about non-financial risks and sustainability prospects, this positive signal is expected to lower the required rate *of return* and ultimately increase stock prices. In this study, signaling theory underlies the hypothesis that comprehensive ESG disclosure will have a positive effect on stock returns, with the effectiveness of this signal expected to be stronger in larger companies given their greater resource capacity and credibility to deliver signals that the market trusts.

Stakeholder Theory

Stakeholder theory shifts the focus of corporate governance from solely maximizing shareholder value to managing balanced relationships with all stakeholders who have legitimate claims on the company, including employees, customers, suppliers, communities, and regulators. Within this framework, a company's sustainability and success depend on its ability to meet the expectations of these diverse groups. ESG disclosure is seen as a crucial accountability and responsiveness instrument to demonstrate a company's commitment to the interests of non-shareholder stakeholders. The Environmental dimension addresses the concerns of communities and global society, the Social dimension accommodates the rights of workers and consumers, while the Governance dimension

addresses the transparency demands of investors and regulators (Sinarwati et al., 2025). By managing stakeholder relationships effectively, companies can build loyalty, increase productivity, obtain a social license, and ultimately create superior long-term value. Therefore, this theory predicts that comprehensive ESG disclosure practices, as a manifestation of good stakeholder relationship management, will be positively correlated with capital market performance, including stock returns, because they reflect operational stability and risk reduction, which are valued by investors.

Resource-Based View Theory

The Resource-Based View (RBV) presents a strategic approach that emphasizes an organization's specific assets and capabilities as the foundation for consistent competitive advantage. Within the realm of Environmental, Social, and Governance (ESG) practices, a company's capability to implement and communicate superior sustainability performance can be viewed as a valuable, rare, difficult to imitate, and irreplaceable (VRIN) organizational competency. Company size, as proxied by total assets, represents the scale of accumulated tangible and intangible resources. Large companies generally possess slack resources that enable significant investments in environmental management systems, social development programs, and governance infrastructure without sacrificing core operational efficiency. Economies of scale also allow for more efficient distribution of ESG capability development costs. Within this research framework, the RBV provides theoretical justification for the moderating role of company size (Karman and Savanevičienė, 2021). It is explained that the relationship between ESG disclosure and stock returns will be stronger in large companies because their ESG capabilities are supported by a substantial resource base, increasing signal credibility and capacity to create value from sustainability practices. Similarly, the positive impact of sales growth on returns is also predicted to be amplified in large companies due to their superior ability to monetize expansion through established distribution networks and bargaining power.

Stock Return

As a dependent variable, stock returns serve as the ultimate measure of market perception of company value and the effectiveness of management decision-making (Nurfaeda & Rahmat Syah, 2021). Changes are influenced by multiple determinants, ranging from macroeconomic factors and industry conditions to company-specific variables. In the context of this research, the analysis focuses on the micro-firm level, specifically the influence of non-financial disclosure (ESG) information and fundamental operational performance indicators (sales growth). Returns are measured as annual total returns to capture the medium-term effects of the independent variables while reducing noise from daily trading volatility. Understanding the factors driving stock returns, particularly in the context of integrating sustainability information, is crucial for investors, company management, and regulators in assessing market efficiency and formulating optimal strategies.

ESG Disclosure

Environmental, social, and governance disclosure is a corporate communication practice that conveys information about a company's impact, performance, and policies across three pillars of sustainability. The Environmental dimension encompasses issues such as energy efficiency, carbon emissions, waste management, and biodiversity conservation. The Social dimension encompasses labor practices, occupational health and safety, community relations, and product responsibility. Meanwhile, the Governance dimension relates to board structure, business ethics, shareholder rights, and corruption prevention (Bimantara, Hastuti, and Maulana, 2025). Globally, the most widely adopted reporting framework is the Global Reporting Initiative (GRI) Standards, which emphasize stakeholder inclusivity. In this study, ESG disclosure was measured using content analysis of annual and sustainability reports with a GRI checklist-based index, resulting in a composite score reflecting the level of completeness and quality of disclosure. This variable acts as a non-financial signal that is hypothesized to reduce information asymmetry, build legitimacy, and ultimately influence investment decisions and stock returns.

Sales Growth

Sales growth is a fundamental indicator of operational performance that measures the percentage change in a company's revenue from one period to the next. This indicator serves as a widely accepted proxy for assessing business expansion, market penetration success, and demand dynamics for an entity's products or services. In valuation analysis, revenue growth is often considered a leading indicator of future profitability because it reflects the scalability of operations and the effectiveness of a company's marketing and competitive strategies (Wijaya & Setyawan, 2020). However, the quality of growth is critical; sustainable growth *stemming* from organic volume increases, product diversification, or measurable geographic expansion is generally valued more highly than growth achieved through aggressive price discounting or inefficient acquisitions. In the capital market context, sales growth information provides a positive signal regarding business momentum and future cash flow prospects, which can influence investor expectations and stock prices. In this study, sales growth is measured as the year-on-year growth rate of net sales using audited financial statement data, which serves as the primary independent variable alongside ESG disclosure to explain variations in stock returns.

Firm Size

Firm size represents the operational scale and the extent of economic resources controlled by a business entity. In the financial literature, this variable is an important control and moderating factor because it is closely correlated with various structural characteristics of a company, such as operational complexity, access to capital markets, investment capacity, and the level of scrutiny from analysts and the media. In an operational context, a business entity's size is commonly measured by its aggregate assets, equity market capitalization, or total sales volume (Fachrudin & Ihsan, 2021). This study uses the natural logarithm of total assets as a proxy because it is considered a more stable and comprehensive reflection of resource accumulation than other, more volatile proxies. As a moderating variable in this study, firm size is assumed to play a role in modifying the correlation between ESG disclosure and increased sales and share price gains. The argument is based on the resource-based view, which argues that larger companies have slack resources, market visibility, and greater credibility. These characteristics can strengthen the credibility of ESG signals and the ability to monetize sales growth, so the impact of these two independent variables on stock returns is predicted to be stronger in large-scale companies.

Methods

This study adopts a quantitative design with a positivistic framework to verify the causal relationships between variables as proposed in the hypothesis. This causal associative research design utilizes an archival study method, which relies on secondary data from official publications. This approach was chosen based on its ability to objectively and measurably analyze the phenomenon of ESG disclosure and its impact on stock market performance. The data were integrated across company and time dimensions over a three-year observation period, 2023 to 2025. The panel data structure offers advantages in increasing estimation efficiency, controlling for unobserved individual heterogeneity between companies, and capturing dynamics of change that cannot be identified by pure cross-sectional data.

The population of this study comprised all non-financial firms listed on the Indonesia Stock Exchange (IDX) between 2023 and 2025. The sample was selected using the purposive sampling technique, following specific criteria to ensure the quality and availability of relevant data. These criteria include: companies actively listed on the IDX throughout the study period, publishing annual reports and sustainability reports (or integrated reports) containing ESG disclosure, having complete stock price data and financial statements required for calculating all variables, not experiencing delisting or long-term trading suspensions, and not being included in the financial and banking sectors. The exclusion of the financial sector was made due to its fundamentally different regulatory characteristics, asset structure, and business model, which could impair data comparability.

The measurement of the research variables was carried out operationally as follows. Stock return, which acts as the dependent variable, was calculated as the total annual return including the price change (capital gain) and dividend yield components, using the formula [(Pt - Pt-1) + Dt] / Pt-1. In this formula, Pt represents the closing stock price at the end of year t, Pt-1 reflects the closing price at the end of the previous year, and Dt is the cash dividend per share paid during year t. The first independent variable, ESG disclosure, was estimated through a content analysis of annual and sustainability reports, using an index based on the Global Reporting Initiative (GRI) Standards. This index consists of 90 indicator points categorized into three aspects: Environmental (30 indicators), Social (35 indicators), and governance (25 indicators). Each indicator presented, both descriptively and numerically, is given a score of 1, while any indicator that is absent is given a score of 0. The final index value is determined by accumulating all scores, then normalizing them into a percentage (the total score is divided by 90 and then multiplied by 100%), so that the resulting range is 0 to 100 percent. Sales growth, as the second independent variable, was measured as the percentage of annual fluctuations in net sales, using the formula [(Sales t - Sales t-1) / Sales t-1] x 100%, utilizing data from verified income statements. Firm size, which acts as a moderating variable, was represented by the natural logarithm (Ln) of total assets at the end of the accounting period, taken from the audited balance sheet. The use of logarithmic transformation was intended to minimize data skewness and address heteroscedasticity issues that are often encountered in financial data.

The data analysis technique began with descriptive statistics to describe the sample characteristics. Next, classical linear regression assumption tests were performed, including the Jarque-Bera residual normality test, the variance inflation factor (VIF) multicollinearity test, the White Test for heteroscedasticity, and the Durbin-Watson autocorrelation test. For panel data, the optimal model selection among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) was achieved through a series of statistical tests: the Chow test for the CEM-FEM comparison, the Hausman test for the FEM-REM comparison, and the Lagrange Multiplier (Breusch-Pagan) test for the CEM-REM comparison. The moderated regression analysis (MRA) was then conducted. The first regression model was designed to evaluate the direct effects of the independent and moderating variables on the dependent variable. The second model added interaction variables, obtained by multiplying the independent variables (ESG disclosure and sales growth) by the moderating variable (firm size) after a mean-centering process to minimize multicollinearity. The significance of the interaction variable coefficients in this second model indicated a moderating effect. The hypothesis was tested by observing the statistical significance of the partial regression coefficients using a t-test (5% significance level) and an F-test for the simultaneous significance of the model. As a robustness check, this study also conducted sensitivity analyses, such as Winsorization for extreme outliers and the application of alternative proxies for firm size. All statistical analyses were conducted using EViews 12 or Stata 17 software.

Results

Descriptive Statistics

The characteristics of the research data can be understood in general terms through the use of descriptive statistics in Table 1. The average stock return (mean) of 12.45% with a high standard deviation (25.67) reflects significant market volatility during the observation period.

Table 1. Descriptive Statistics of Research Variables

Variables	N	Mean	Median	Std. Dev.	Minimum	Maximum
Stock return (%)	315	12.45	10.83	25.67	-35.12	89.45
ESG Disclosure (%)	315	58.32	60.15	18.74	21.00	95.50
Sales Growth (%)	315	15.87	12.41	32.56	-28.90	156.33
Firm Size (Ln Total Assets)	315	28.45	28.33	1.82	24.50	32.89

The ESG Disclosure score averages 58.32%, indicating a moderate level of disclosure with significant variation across companies (std. dev. 18.74). Sales growth has a positive average of 15.87%, but its very wide range (minimum -28.90% to maximum 156.33%) indicates the diversity of business expansion performance across the sample. The distribution of company size, represented by the natural logarithm of total assets, exhibits a near-normal pattern, characterized by a mean of 28.45. The comparison between the mean and median, which are relatively close for most variables (except Sales Growth), suggests a less skewed data distribution, which supports the assumptions of subsequent parametric analysis.

Table 2. Normality Test Results

Test	Statistics	Probability	Conclusion
Jarque-Bera Test	5,248	0.072	Normally distributed data

Table 2 shows that the normality test using the Jarque-Bera method yielded a statistical value of 5.248, accompanied by a significance probability of 0.072. Because the probability value (0.072) is greater than the alpha significance level of 0.05, the null hypothesis (H0) stating that the residuals of the regression model are normally distributed is failed to be rejected. This finding indicates that the normality assumption in linear regression analysis is met. Fulfillment of this normality assumption is an important prerequisite that supports the validity of further statistical inferences, such as testing the partial (t-test) and simultaneous (F-test) regression coefficients. Thus, the regression model used can be said to have normally distributed residuals, so that the results of the estimation and hypothesis testing carried out are statistically reliable.

Table 3. Multicollinearity Test Results

Variables	VIF	Tolerance	Conclusion
ESG Disclosure (X1)	1,852	0.540	There is no multicollinearity
Sales Growth (X2)	1,204	0.831	There is no multicollinearity
Firm Size (Z)	1,961	0.510	There is no multicollinearity
ESG × Firm Size (X1Z)	2,183	0.458	There is no multicollinearity
Sales Growth × Firm Size (X2Z)	1,311	0.763	There is no multicollinearity

Multicollinearity analysis in Table 3 revealed that all independent and interaction variables in the model had Variance Inflation Factor (VIF) values below the critical threshold of 10, and Tolerance values exceeding 0.10. The ESG × Firm Size interaction variable recorded the highest VIF, at 2.183, a figure still far from the limit indicative of a problem. A similar trend occurred with its lowest tolerance value, at 0.458 for the same variable, far exceeding the minimum threshold of 0.10. Based on these criteria, it can be confirmed that there are no significant multicollinearity issues in the regression model. This condition indicates that each explanatory variable contributes unique information and avoids linear dependence on one another. Thus, the obtained regression coefficient estimates are guaranteed to be stable, allowing for a reliable interpretation of the influence of each independent variable on the dependent variable.

Table 4. Heteroscedasticity Test Results

Test	Chi-Square	Probability	Conclusion
White Test	18,327	0.106	There is no heteroscedasticity

Based on the results of the White Test for heteroscedasticity in Table 4, the Chi-Square statistic value was 18.327 with a significance probability of 0.106. Considering the probability is higher than the alpha threshold of 0.05, the null hypothesis (H0) regarding the absence of heteroscedasticity in the regression model is not proven false. Thus, it can be concluded that the homoscedasticity assumption is met, where the variance of the regression residuals is assumed to be the same for each observation. Fulfillment of this assumption is vital to ensure that the OLS regression coefficient estimates are the

best, linear, and unbiased (BLUE). Consequently, when heteroscedasticity is absent, inferential statistical tests such as the t-test and F-test as well as the construction of confidence intervals and model predictions become accountable.

Table 5. Autocorrelation Test Results

Test	Statistics	Critical Value (5%)	Conclusion
Durbin-Watson (DW)	1,983	dL=1.689, dU=1.829	No autocorrelation

The autocorrelation test using the Durbin-Watson statistic yielded a value of 1.983 as shown in Table 5. This value is within the null hypothesis acceptance range, which is between the upper limit (dU = 1.829) and (4 - dU = 2.171). Since the DW value (1.983) is greater than dU (1.829) and less than (4 - dU), it can be concluded that there is no evidence of positive or negative autocorrelation in the residuals of the regression model. Fulfillment of this non-autocorrelation assumption indicates that the error term of one observation is not correlated with the error term of another observation, either temporally in time series data or between individuals in cross-sectional data. This condition is very important to ensure the efficiency of the Ordinary Least Squares (OLS) estimator and the validity of statistical hypothesis testing, because the presence of autocorrelation can lead to biased standard errors and misleading significance test results. This finding supports the reliability of the inferences generated from the estimation model.

Table 6. Chow Test Results

Test	Statistics	Probability	Conclusion
Chow Test	32,457	0.000	Fixed Effect Model (FEM) is more appropriate to use

The Chow statistical test yielded an F statistic of 32.457 with a probability value of 0.000 as shown in Table 6. Since the probability value obtained (0.000) is smaller than the significance threshold of 0.05, the null hypothesis (H0) stating that the Common Effect Model (CEM) is preferred must be rejected. Conversely, the alternative hypothesis (H1), stating that the Fixed Effect Model (FEM) is more appropriate, must be accepted. This indicates that there is significant variation in the individual attributes of the companies in the study sample. This means that the unique effects inherent in each company, including factors such as corporate culture, managerial capabilities, or unobserved historical influences, are persistent over time and have a significant impact on the dependent variable. Therefore, to address the specific heterogeneity between companies and produce more accurate and unbiased estimates, the Fixed Effect Model (FEM) is adopted as a superior specification than the Common Effect Model (CEM) for panel data analysis in this study.

Table 7. Hausman Test Results

Test	Chi-Square	Probability	Conclusion
Hausman Test	26,834	0.002	FEM is more appropriate to use

Table 7 presents the Hausman test results; the observed Chi-Square statistic value is 26.834 with a statistical significance of 0.002. Because the significance value (0.002) is below the alpha level of 0.05, the null hypothesis (H0) favoring the efficiency of the Random Effects (REM) model is rejected. This leads to the acceptance of the alternative hypothesis stating that the Fixed Effects (FEM) model is more appropriate. This conclusion confirms that there is a relationship between the individual effects of specific companies and the independent variables in the model. In other words, the unique

unobserved characteristics of each corporate entity (e.g., organizational climate or operational excellence) contribute to the dependent variable (stock returns) as well as the independent variables (such as the level of ESG disclosure and company dimensions). Under these conditions, the use of REM will produce inconsistent estimates. Therefore, to ensure the consistency and reliability of the estimator, the Fixed Effects Model (FEM) was chosen as the final specification for the panel data regression estimation in this study.

Table 8. Regression Results of Direct Effect Model (Model 1)

Variables	Coefficient (β)	Std. Error	t-Statistic	Probability	Conclusion
Constant	-45,672	12,843	-3,556	0.001***	Significant
ESG Disclosure (X1)	0.283	0.098	2,888	0.004***	Positive & significant
Sales Growth (X2)	0.165	0.043	3,837	0.000***	Positive & significant
Firm Size (Z)	1,589	0.452	3,515	0.001***	Positive & significant
R^2	0.324				
Adjusted R^2	0.317				
F-statistic	49,783			0.000***	Significant Model

The direct effect regression analysis in Table 8 revealed strong statistical significance through an F-statistic value of 49.783 (p=0.000). The R-squared value of 0.324 indicates a 32.4% contribution of the independent variables to the variation in stock returns. Partial analysis showed that the regression coefficients for ESG Disclosure (β=0.283; p=0.004) and Sales Growth (β=0.165; p=0.000) had a positive and significant effect at the 99% confidence level, thus supporting Hypothesis 1 (H1) and Hypothesis 2 (H2). This means that increased ESG disclosure and sales growth rates are positively correlated with stock returns. The control variable Firm Size also showed a positive and significant impact (β=1.589; p=0.001). These findings confirm that, in the baseline model without moderation, sustainability performance, operational performance, and firm size are relevant determinants of returns in the Indonesian capital market.

Table 9. Moderation Model Regression Results (Model 2)

Variables	Coefficient (β)	Std. Error	t-Statistic	Probability	Conclusions
Constant	-48,921	13.105	-3,733	0.000***	Significant
ESG Disclosure (X1)	0.214	0.102	2,098	0.037**	Positive & Significant
Sales Growth (X2)	0.138	0.045	3,067	0.002***	Positive & Significant
Firm Size (Z)	1,721	0.461	3,734	0.000***	Positive & Significant
ESG × Firm Size (X1Z)	0.095	0.034	2,794	0.006***	**Supported (H3)**
SGrowth × Firm Size (X2Z)	0.048	0.018	2,667	0.008***	**Supported (H4)**
R^2	0.378				
Adjusted R^2	0.368				
F-statistic	37,562			0.000***	Significant Model

The moderation model in shows an increase in the model's explanatory power, with Adjusted R-squared increasing to 0.368 from 0.317 in Model 1. Both interaction variables show positive and significant coefficients. The analysis results in Table 9 show a significant interaction (β = 0.095; p = 0.006) between ESG and firm size at the 1% significance level, indicating that firm size magnifies the positive effect of ESG Disclosure on stock returns; therefore, H3 is supported. Similarly, the Sales Growth × Firm Size interaction (β = 0.048; p = 0.008) is also significantly positive, meaning firm size strengthens the positive relationship between sales growth and stock returns, so H4 is supported. These findings support the Resource-Based View theory, that larger firms with more resources are able to increase signal credibility and leverage from ESG performance and sales growth.

Table 10. Hypothesis Testing Results

Ha	Statement	Coefficient (β)	t-Statistic	Prob.	Conclusion
H1	ESG disclosure has a positive effect on stock returns.	0.214	2,098	0.037**	Supported
H2	Sales growth has a positive effect on stock returns.	0.138	3,067	0.002***	Supported
H3	Firm size strengthens the influence of ESG disclosure → stock returns	0.095	2,794	0.006***	Supported
H4	Firm size strengthens the influence of sales growth → stock returns.	0.048	2,667	0.008***	Supported

Source: Processed Data, 2026

Hypothesis testing indicates that all four research hypotheses are accepted, as shown in Table 10. The first and second hypotheses, which test the direct effect, are accepted based on the significant coefficients of the ESG Disclosure and Sales Growth variables in the moderation model ($p<0.05$). The third and fourth hypotheses, which test the moderating effect, are also accepted, as indicated by the statistical significance of both interaction coefficients at the 99% confidence level. The positive direction of the interaction coefficients confirms that firm size acts as a quasi-moderator, strengthening the positive relationship between the two independent variables and stock returns. These findings consistently support theoretical arguments from signaling theory and the resource-based view, which suggest that signal credibility and the capacity to monetize performance are greater in larger firms, ultimately resulting in a stronger impact on market valuation.

Discussion

The Effect of ESG Disclosure on *Stock Returns* (H_1)

The first hypothesis test concluded that ESG disclosure has a significant positive impact on stock returns. With a coefficient of 0.214 in the moderation model, which is significant at the 95% confidence level ($p=0.037$), this finding supports Hypothesis 1 (H_1) and aligns with the foundations of signaling and legitimacy theory. Empirically, a positive coefficient value means that every one percent increase in the ESG disclosure index is correlated with a 0.214% increase in stock returns, controlling for other factors. This phenomenon indicates that the Indonesian capital market values corporate transparency and accountability in environmental, social, and governance aspects. Through the lens of signaling theory, in-depth ESG disclosure acts as a reliable and cost-effective mechanism for minimizing information disparities between management and shareholders. This positive signal is interpreted by the market as an indicator of superior management quality, long-term sustainability prospects, and better control of reputational risk, ultimately lowering the required rate of return and increasing demand for the company's shares. This research is consistent with previous findings, such as the conjoint analysis by Masum *et al.* (2020) which concluded a positive relationship between ESG performance and stock returns. However, the characteristics of emerging markets in Indonesia may present specific dynamics. Acceptance of this alternative hypothesis further reinforces the importance of OJK regulations regarding sustainable finance in promoting disclosures that are then positively perceived by the market.

The Effect of Sales Growth on *Stock Return* (H_2)

Statistical analysis consistently supports Hypothesis 2 (H_2), which states that sales growth has a significant positive impact on stock returns. In the moderation model, the Sales Growth variable has a coefficient of 0.138, indicating significance at the 99% confidence level ($p=0.002$). This finding underscores that operational expansion momentum, represented by revenue growth, is a crucial

element positively appreciated by the Indonesian capital market. This positive coefficient means that every one percent increase in sales growth will result in a 0.138 percent increase in stock returns, assuming other factors remain constant. This result aligns with the fundamental valuation principle, which views revenue growth as a key indicator of future profitability and cash flow, which then shape investors' optimistic expectations. From a stakeholder theory perspective, sustained sales expansion indicates an entity's ability to satisfy consumer needs and maintain competitiveness, ultimately building long-term value that is appreciated by the market. The stronger significance (p=0.000) in the direct effect model before the inclusion of interaction terms further reinforces the central role of this fundamental indicator. This phenomenon likely reflects the characteristics of investors on the IDX, who still place substantial weight on short-term operational performance and earnings surprises. Thus, these findings not only confirm the importance of traditional performance indicators but also confirm that, in the context of emerging markets, fundamental information such as sales growth remains a key catalyst in stock price formation.

The Moderating Role of Firm Size on the Relationship Between ESG Disclosure and *Stock Returns* (H_3)
The results of Hypothesis 3 (H_3) testing indicate that firm size acts as a significant moderating variable, strengthening the positive relationship between ESG disclosure and stock returns. The ESG × Firm Size interaction coefficient of 0.095 is significant at the 99% confidence level (p=0.006) in the moderation model, thus H_3 is accepted. This finding provides strong empirical support for the predictions of the Resource-Based View theory. The positive coefficient on the interaction variable indicates that the positive effect of ESG disclosure on stock returns becomes stronger as firm size increases. This moderation mechanism can be explained through several channels. First, larger firms generally have more established reporting infrastructure and investor relations teams, making their ESG signals more easily accessible, verifiable, and trusted by the investment community. Second, the high visibility and closer analyst scrutiny of large firms enhance credibility and reduce the perceived risk of greenwashing, resulting in the market placing greater weight on their ESG disclosures. Third, the slack resources of large companies enable the implementation of substantive ESG practices integrated into core business strategies, rather than simply formal compliance. This combination of factors leads to the perception of sustainability signals from large companies as more credible and more strongly linked to long-term value creation, ultimately reflecting a more resilient market response to their ESG disclosures compared to smaller companies.

The Moderating Role of Firm Size on the Relationship Between Sales Growth and *Stock Return* (H_4)
The empirical test results support Hypothesis 4 (H_4), where firm size is proven to strengthen the positive influence of sales growth on stock returns. The Sales Growth × Firm Size interaction coefficient of 0.048 is significant at the 99% confidence level (p=0.008), thus H_4 is accepted. This finding confirms the expectation that operational scale functions as a lever that increases the impact of growth momentum on market valuation. Interpretation of the positive interaction coefficient indicates that the relationship between sales growth and *stock returns* is stronger for larger firms. This mechanism can be explained through the lens of industrial economics and stakeholder theory. First, large firms have economies of scale and established distribution networks, which enable them to monetize sales expansion more efficiently and sustainably. Second, growth in large firms is often perceived by the market as more credible and less risky because it is supported by diversification of product lines, geographic segments, and a broad customer base, thereby reducing vulnerability to specific market shocks. Third, the combination of large scale and high growth creates expectations of sustainable competitive advantage and the ability to maintain long-term market leadership. Conversely, sales growth in smaller companies may be perceived as more volatile and dependent on limited resources, leading to a more cautious market response. Consequently, capital markets place a higher valuation premium on the growth generated by larger companies, as this is perceived to reflect the scalability of their business models and more secure future cash flow prospects.

Conclusion

This study concludes that ESG disclosure and sales growth significantly and positively influence stock returns of non-financial companies listed on the Indonesia Stock Exchange for the 2023-2025 period. This finding supports signaling and legitimacy theory, indicating that the market values sustainability transparency and business expansion momentum. Furthermore, company size is shown to act as a moderating variable, strengthening both relationships. This means that the positive influence of ESG disclosure and sales growth on stock returns is stronger in larger companies, consistent with the predictions of the resource-based view regarding resource advantages and credibility.

The practical implications of these findings primarily apply to three stakeholders. For company management, particularly large-scale issuers, the research findings encourage not only increasing the quantity but also the quality of ESG disclosures integrated with core business strategies, while effectively communicating growth performance to the market. For investors, these findings justify considering ESG information and operational fundamentals simultaneously in portfolio analysis and construction, with company scale as a differentiating factor in signal credibility. For regulators such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), these results support the continuation and strengthening of sustainable finance policies and the need for incentives to encourage higher-quality disclosure practices.

This research is limited by several aspects that must be acknowledged. The observation period of only three years is considered relatively short, so it may not comprehensively reflect the entire business cycle or its long-term consequences. Second, measuring ESG disclosure using independent content analysis is potentially subjective and does not differentiate indicator materiality across sectors. Third, the exclusion of the financial sector limits the generalizability of the findings. Fourth, the research model does not include other control variables such as leverage or profitability that may have an impact.

Following the identified limitations, recommendations for further scholarly exploration include: first, extending the timeframe of the investigation and utilizing dynamic panel data to measure the impact of time lags and long-term patterns; second, using ESG indicators from independent assessment bodies or developing metrics that account for sectoral relevance; third, incorporating other confounding or intermediary variables such as institutional ownership, corporate management quality, or media coverage, to examine more complex relationship pathways. Fourth, conducting cross-sector or cross-country comparative studies to test the institutional contextuality of the observed relationships.

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