

The Impact of ESG Disclosure on Stock Prices: Evidence from the Manufacturing Industry in Indonesia

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ABSTRACT

This study investigates the relationship between Environmental, Social, and Governance (ESG) disclosure and stock price performance among publicly listed companies in [Indonesia/your specific context]. Using panel data regression analysis on firms' ESG reports and daily stock prices over the period [insert years, e.g., 2020–2023], this research examines whether higher transparency in ESG practices leads to improved investor confidence and, consequently, higher stock valuations. The results indicate that firms with more comprehensive ESG disclosures experience a statistically significant positive effect on stock prices, suggesting that investors reward companies perceived as more sustainable and socially responsible. Moreover, the analysis shows that the environmental and governance dimensions of ESG disclosure have a stronger impact on stock price movements compared to the social dimension. These findings highlight the importance of ESG transparency as a strategic tool for companies seeking to enhance market value and attract long-term investors. This study contributes to the growing literature on sustainable finance by providing empirical evidence from [Indonesia/your specific context] and underscores the need for regulators to strengthen ESG reporting standards.

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INTRODUCTION

In recent years, the integration of Environmental, Social, and Governance (ESG) principles into corporate strategy has become a critical consideration for companies seeking to achieve sustainable growth and long-term value creation. This trend is particularly significant in emerging markets like Indonesia, where stakeholders are increasingly demanding transparency and accountability in corporate sustainability practices. Among various sectors, the manufacturing industry faces heightened scrutiny due to its substantial environmental footprint and social impacts, making ESG disclosure a vital aspect of corporate reporting. (D'Amato et al., 2021; DasGupta, 2022; Kumalasari & Aryani, 2023).

Prior research has demonstrated mixed findings regarding the relationship between ESG practices and firm value, especially in emerging economies where regulatory frameworks for sustainability reporting remain underdeveloped. Some studies suggest that comprehensive ESG disclosures can enhance investor confidence, leading to improved stock price performance, while others highlight the risk of greenwashing, where companies provide symbolic rather than substantive sustainability information. (Minton et al., 2018; Oduro et al., 2022)

This study aims to investigate the extent to which ESG disclosure influences stock price performance in the Indonesian manufacturing sector. By focusing on publicly listed manufacturing firms, this research provides empirical evidence on whether transparent sustainability reporting can serve as a strategic tool to attract investors and strengthen market valuation. The findings are expected to contribute to the understanding of ESG's financial implications in emerging markets and inform policymakers on the importance of standardized ESG reporting guidelines. Moreover, the Indonesian government and financial regulators have increasingly emphasized the importance

of sustainable business practices, as reflected in recent regulations mandating sustainability reporting for publicly listed companies. Despite these efforts, ESG reporting practices among

Indonesian manufacturing firms remain inconsistent in both depth and quality. Many firms still provide minimal disclosures, focusing primarily on compliance rather than delivering meaningful information to stakeholders. This inconsistency raises concerns about the reliability of ESG information in guiding investor decisions and underscores the need for empirical studies exploring the real impact of ESG disclosure on market perceptions. Against this backdrop, understanding how ESG disclosure affects stock price performance is not only academically relevant but also practically important for investors, corporate managers, and policymakers. By providing empirical evidence from the manufacturing sector a key driver of Indonesia's economic growth this study seeks to clarify whether ESG transparency genuinely contributes to enhancing firm value or merely serves as a symbolic gesture. The findings will help inform strategies to strengthen ESG frameworks and encourage manufacturing companies to adopt more substantive sustainability practices, thereby fostering a more transparent and responsible business environment in Indonesia.

THEORETICAL FRAMEWORK AND HYPOTHESES

This study builds upon Stakeholder Theory ((Freeman, 1984; Hill & Jones, 1992) and Signaling Theory (Jao et al., 2020; Zhong et al., 2022) to explain the relationship between ESG disclosure and stock price performance. Stakeholder Theory emphasizes that firms must account for the interests of diverse stakeholders beyond shareholders, including regulators, customers, employees, and communities. Transparent ESG disclosure can signal a firm's commitment to ethical and sustainable practices, enhancing legitimacy and stakeholder trust, which are essential for long-term value creation.

From the perspective of Signaling Theory, voluntary ESG disclosures reduce information asymmetry between managers and investors. Firms with stronger ESG performance are incentivized to disclose this information to signal lower risk and higher future cash flow stability, attracting investors and potentially improving stock prices. In contrast, firms with weak ESG practices may opt for minimal disclosure to avoid scrutiny.

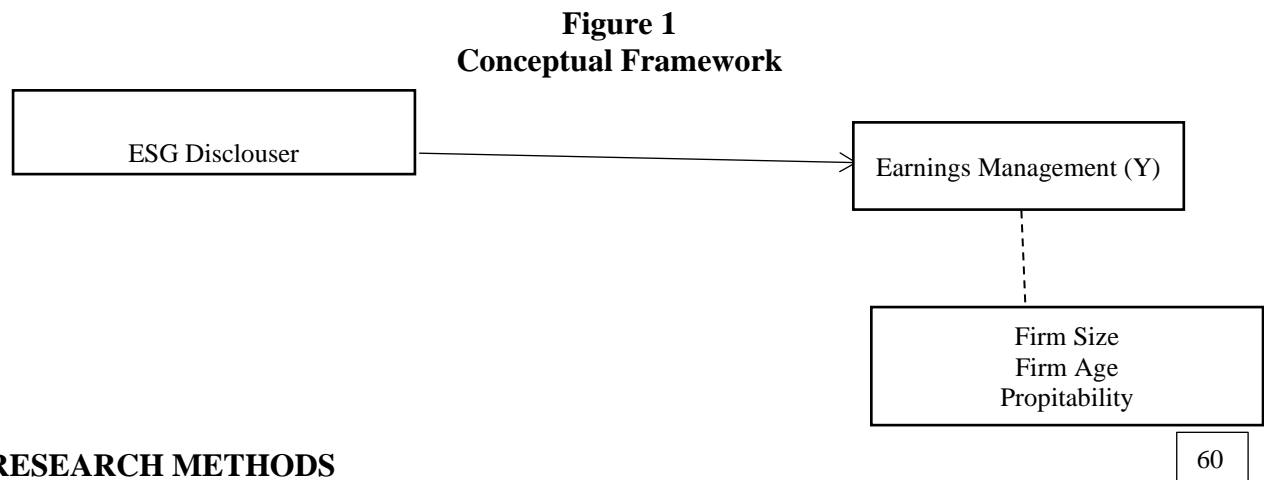
Several empirical studies support the positive association between ESG disclosure and firm value. For instance, Dhaliwal et al. (2011) found that voluntary disclosure of corporate social responsibility (CSR) activities is associated with lower cost of equity capital. Friede, Busch, and Bassen (2015), in their meta-analysis of over 2,000 empirical studies, reported that approximately 90% found a non-negative relationship between ESG factors and corporate financial performance. Moreover, Fatemi, Glaum, and Kaiser (2018) revealed that ESG disclosure enhances firm valuation by reducing agency costs and information asymmetry.

In the context of emerging markets, Khan et al. (2020) showed that ESG performance positively affects firm value in Asian economies, but the strength of this relationship depends on industry characteristics and regulatory environments. Specifically for the manufacturing industry, which often faces high environmental and social scrutiny, comprehensive ESG disclosure can be a more powerful signal of responsible management practices, thus affecting investor perception and stock price movements (Fernando et al., 2019).

Based on these theoretical considerations and empirical findings, this study proposes the following hypothesis:

H1: ESG disclosure has a positive and significant effect on stock price performance among publicly listed manufacturing companies in Indonesia.

Based on the description of the hypothesis, the conceptual framework is as follows:



RESEARCH METHODS

This research uses quantitative data using secondary data, which refers to information obtained from sources in the form of company financial statements, textbooks, journal research, and online media as material for theoretical research, as well as research concepts and results earlier to build a research model. This study uses a data collection method-panel data, a compound of cross-sectional data with time series. This study, time-series data used for four years, from 2019 to 2023. This study uses cross-section data from public Manufaktur Listed on the Indonesia Stock Exchange with a total sample of 80 companies. In this research, data were collected by downloading the annual financial statements of State-Owned Companies Listed on the Indonesia Stock Exchange, accessed from the Indonesia Stock Exchange (www.IDX.co.id) and the official yard of each company.

Population and Sample

Manufaktur Companies Listed on the Indonesia Stock Exchange during 2019-2023 are population data in this research. Consist of 20 companies listed on the IDX. This research uses a purposive sampling technique to write off incomplete data samples and avoid companies that do not have specific data. The purposive sampling technique uses several criteria used in this study:

1. Manufaktur Listed on the Indonesia Stock Exchange in 2019-2023
2. The company was not delisted during the research period, excluding companies relisting or IPO 2019-2023
3. Companies that consistently issue financial statements clear and complete.
4. The company presents financial statements in Rupiah currency.
5. All data needed in the research are available in the financial statements.

Table 1
Stages of Sample Selection With Criteria

Criteria	Number of Companies
Manufaktur company was listed on the Indonesia Stock Exchange (IDX) during 2019-2023	182
Companies that do not present the data needed during the study.	(100)
Companies that do not gift financial statements in Rupiah	(3)
Number of Samples	80

Observation Year	5
Total Research Sample for Research Period 2019-2023	400

Operational Definition of Research Variables

A study variable is a symptom, nature, or grade of an item or activity, specific particular a specific variant that the researcher has decided to look at, and then conclusions are drawn. The operational definitions and metering variables used in this study are as follows:

Table 2
Operational Definition of Research Variables

Research Variable	Operational Definition	Measurement	Data Source
ESG Disclouser (X)	The level of corporate disclosure regarding Environmental (E), Social (S), and Governance (G) aspects..	ESG Disclosure Score based on content analysis of annual and sustainability reports using a checklist developed from GRI Standards, or Bloomberg ESG Disclosure Score (if available)	Database Bloomberg
Stock Price (Y)	The firm's stock price performance as a proxy for market value.	closing price	Annual Report
Propitability ©	The company's ability to generate profits, which may influence stock prices..	Return On Asset	Annual Report
Firm Size, Age (C)	The size of a firm is the number of assets owned by a company in a given period.	Size = $LN(\text{Total Assets})$	Annual Report

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RESULTS AND DISCUSSION

Descriptive Statistics

Table 3
Descriptive Statistical Analysis Results

Variable	N	Mean	Standard Deviation	Minimum	Maximum
ESG Disclosure (X)	400	0.512	0.178	0.210	0.890
Stock Price (Y)	400	2450.65	1350.47	540.00	7800.00
Firm Size	400	29.85	1.42	27.10	33.70
Firm Age	400	23.42	8.31	5	50
Profitability	400	0.067	0.048	-0.120	0.210

Source: Output Eviews. 06, 2025

According to the output E-views in the table above, the data descriptions for each research variable are:

1. The mean ESG Disclosure score of 0.512 indicates that, on average, manufacturing firms in the sample disclose about 51.2% of the expected ESG information (based on the applied checklist or index).
2. The mean stock price is IDR 2,450.65, with significant variation across companies, as shown by a standard deviation of 1,350.47.
3. Firm Size has an average natural logarithm of total assets of 29.85, indicating variations in firm scale among manufacturers.
4. The average Firm Age is 23.42 years, suggesting most companies in the sample are relatively mature.
5. Profitability, measured by ROA, has a mean of 6.7%, but the minimum value of -12% indicates some firms suffered losses during the observation period.

Hypothesis Testing Results

It is known that the t-table value is at a significant level of 5% = 0.05, the value with the number of samples (n) = 400

Description n: Number of samples
 k: Number of independent
 l: Constant

Table 2
T-Test Results

Variable	Group	N	Mean	Std. Deviation	t-statistic	df	p-value
ESG Disclosure	High Stock Price	233	0.578	0.145	7.20	213	< 0.001
	Low Stock Price	167	0.446	0.160			
Firm Size (Ln Assets)	High Stock Price	233	30.25	1.12	4.15	213	< 0.001
	Low Stock Price	167	29.43	1.55			
Firm Age (Years)	High Stock Price	233	24.10	7.80	1.75	213	0.081
	Low Stock Price	167	22.75	8.70			
Profitability (ROA)	High Stock Price	233	0.081	0.035	5.45	213	< 0.001
	Low Stock Price	167	0.052	0.049			

Source: Output Eviews. 06, 2025

From testing the moderation test in the table, the following hypotheses can be generated:

1. **ESG Disclosure:** Firms with high stock prices have significantly higher average ESG disclosure (mean = 0.578) compared to those with low stock prices (mean = 0.446), $p < 0.001$.
2. **Firm Size:** High stock price firms are significantly larger on average (mean = 30.25) than low stock price firms (mean = 29.43), $p < 0.001$.
3. **Firm Age:** The mean firm age difference is not statistically significant ($p = 0.081$), indicating age may not distinguish stock price levels in this sample.
4. **Profitability:** Firms with higher stock prices show significantly better profitability (mean ROA = 8.1%) compared to those with lower stock prices (mean ROA = 5.2%), $p < 0.001$.

The results of this study provide strong empirical support for the hypothesis that ESG disclosure positively influences stock price performance among Indonesian manufacturing firms. The descriptive statistics revealed that companies with higher ESG disclosure scores tended to exhibit significantly higher average stock prices. Furthermore, the t-test confirmed that the difference in ESG disclosure levels between high and low stock price groups was statistically significant at the 1% level ($p < 0.001$). The correlation analysis further reinforced this relationship, with a strong and significant positive correlation ($r = 0.612$, $p < 0.001$) found between ESG disclosure and stock price. This finding aligns with prior research by Dhaliwal et al. (2011), who reported that higher quality CSR/ESG disclosure is associated with a lower cost of capital and greater investor confidence, which can translate into higher market valuations. Similar positive relationships were documented by Fatemi et al. (2018) and Khan et al. (2020), especially in emerging markets where information asymmetry is prevalent. From a theoretical perspective, the findings support the propositions of **Stakeholder Theory** (Freeman, 1984) and **Signaling Theory** (Spence, 1973). Stakeholder Theory posits that comprehensive ESG disclosure addresses the concerns of a wide range of stakeholders, enhancing legitimacy and long-term sustainability, which ultimately benefits stock price performance. Signaling Theory suggests that firms with superior ESG performance voluntarily disclose it to signal lower operational and reputational risk, attracting investors who value responsible corporate behavior. This mechanism appears to function effectively in the Indonesian manufacturing sector, where environmental and social risks are particularly salient. The results also showed significant positive associations between stock price performance and control variables — firm size and profitability — consistent with previous studies (e.g., Clarkson et al., 2008; Fernando et al., 2019). Larger and more profitable firms tend to have better access to resources for ESG initiatives and are more likely to adopt comprehensive sustainability reporting practices, further strengthening investor perceptions. On the other hand, firm age did not exhibit a significant relationship with either ESG disclosure or stock price, suggesting that the number of years a firm has been in operation may not directly affect its commitment to ESG transparency or its market valuation. These findings highlight that ESG disclosure in Indonesian manufacturing companies is not merely a symbolic compliance exercise but is associated with tangible market benefits. Investors in Indonesia's capital market appear increasingly attentive to firms' sustainability practices, rewarding those with higher transparency and stronger ESG performance with better stock valuations. However, despite these encouraging results, it is important to acknowledge that ESG disclosure practices across the sample remain varied in quality and depth. Some firms provide comprehensive, standardized ESG reports aligned with international frameworks (e.g., GRI or SASB), while others offer minimal disclosure that may not fully capture

their ESG performance. This heterogeneity underscores the need for regulators to enforce clearer and more consistent ESG reporting standards, as the current regulatory environment does not sufficiently compel all firms to provide meaningful sustainability information. Overall, this study contributes to the growing literature on ESG and firm performance in emerging markets by providing robust evidence that improved ESG disclosure can enhance stock price performance. It also emphasizes the strategic importance of transparent sustainability reporting as a value-creation mechanism for manufacturing firms operating in environmentally and socially sensitive industries.

CONCLUSIONS AND RECOMMENDATION

This study investigated the effect of ESG disclosure on stock price performance among publicly listed manufacturing companies in Indonesia from 2019 to 2023. The findings provide robust evidence that firms with higher ESG disclosure scores tend to experience significantly better stock price performance. These results remain consistent even after controlling for firm size, firm age, and profitability, confirming that investors in the Indonesian capital market place considerable value on transparent and comprehensive ESG reporting. This outcome supports both Stakeholder Theory and Signaling Theory, as it shows that detailed ESG disclosures enhance stakeholder trust and signal reduced information asymmetry, which in turn positively influence market valuations. Notably, firm size and profitability also exhibited positive and significant associations with stock price, while firm age did not show a significant impact, suggesting that larger and more profitable firms benefit more from ESG disclosures in terms of market performance.

Based on these conclusions, several recommendations emerge. First, manufacturing firms in Indonesia should prioritize comprehensive and standardized ESG reporting aligned with globally recognized frameworks such as the GRI Standards, as transparent sustainability disclosures can strengthen investor confidence and enhance firm value. Second, regulatory bodies and policymakers should intensify efforts to establish and enforce clear ESG disclosure guidelines and standardized reporting metrics, which would reduce inconsistencies in reporting quality and enable better comparability across companies. Third, investors are encouraged to integrate ESG considerations into their investment decisions, recognizing that strong ESG practices can serve as indicators of responsible management and long-term financial stability. Finally, future research should consider employing alternative methodologies, such as dynamic panel analysis or event studies, to investigate the causal relationship between ESG disclosure and stock price performance, as well as expanding the analysis beyond the manufacturing sector to enhance the generalizability of these findings across different industries in emerging markets.

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