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# Financial Performance, Environmental, Social, Governance, and Stock Return of ESG Leaders Index

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**A B S T R A C T**

Corporate and public concern about environmental issues continues to increase. Many companies show environmental, social, and governance concerns to attract investors' attention. In addition to financial factors, this research will also examine non-financial factors to test their impact on stock returns. Financial performance consists of four financial ratios, while non-financial performance uses the ESG index in three separate pillars. The study's approach is quantitative, using financial and sustainability reports of companies in the IDX ESG Leaders index 2020-2023 as secondary data. The data was tested using the Statistical Packages for Social Science (SPSS) version 27 application, and found that profitability significantly positively affects stock returns. All financial performance ratios and each ESG performance index simultaneously affect stock returns.



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## 1. INTRODUCTION

### Research Background

Indonesia's economy has fluctuated over the past few years. According to the official BPS website, Indonesia's economic growth rate was 5.17% in 2018. The growth rate slowed and decreased by 0.15% to 5.02% in 2019. As is known, the world faced the COVID-19 pandemic at the end of 2019. The pandemic not only affected the health sector but also disrupted the world economy, especially Indonesia. Indonesia faced a recession, and the economic rate decreased by 7.09% to negative 2.07%. Various policies in tackling the pandemic, such as social distancing and lockdown, have distracted company operations. Companies must be able to adapt and make strategies to survive. The growth rate of the Indonesian economy experience a recovery and return to a positive 3.7% in 2021. Continue to grow and increase by 1.61% to 5.31% in 2022.

The growth of Indonesia's economic pace is partly driven by the implementation of the *Group of Twenty* (G20). Unlike previous meetings, in 2021 to 2022, Indonesia held the G20 Presidency for the first time. The G20 is considered to be one of the important discussion forums because it represents 2 out of 3 world populations that control 75% of global trade. With the "Recover Together, Recover Stronger" theme, it is hoped that the implementation of the G20 in 2022 can encourage all countries to help and support each other in restoring post-pandemic conditions and growing stronger and more sustainable.

Sustainability and environmental issues became one of the main topics of discussion at the G20 event. The G20 theme is divided into 2 agendas: the finance track and the sherpa track. While the Finance Track focuses on financial issues, the Sherpa Track focuses on non-financial issues. This shows that in addition to maximizing financial performance, companies must also perform non-financial performance in the form of environmental, social, and governance performance.

Investors certainly expect the maximum possible return. In stock investment, investors can withdraw capital whenever they want. However, investors must think and conduct an in-depth analysis before making a decision. Company performance is often measured by financial ratios, which are divided into four categories: liquidity, solvency, profitability, and utility ratios. This study uses all four ratios proxied by quick ratio, debt to equity ratio, return on equity ratio, and total assets turnover ratio. Non-financial performance in the form of concern for the environment, social, and governance that has become a concern of the company and investors can affect stock returns. Companies that care about the environment will gain more legitimacy, trust, and support from the community. However, the implementation of ESG increases the company's expenses and creates various restrictions. So, can a company that pays attention to ESG still earn high profits and provide promising returns for its investors?

Seeing companies' concern and real action in implementing environmental, social, and governance performance has encouraged the Indonesia Stock Exchange to strengthen its regulations by launching various green stock indexes. The ESG Leaders stock index is one of the green index that contains companies that implement ESG well and are not involved in controversies. Not only implement ESG well, the companies in this index also have good liquidity and financial performance.

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Tarmizi et al. (2018); Wijaya and Sedana (2020) stated that the quick ratio positively impacts stock returns. While Purba (2019) found the opposite. Higher debt-to-equity ratios generate higher stock returns (Arsita & Sihombing, 2021; Trisnowati et al., 2022). While Bintara and Tanjung (2019) found the opposite. The study conducted by Arsita and Sihombing (2021); Tarmizi et al. (2018) found that stock returns are positively affected by return on equity. However, according to Ristyawan (2019), ROE has a negative effect on stock returns. A high total assets turnover ratio makes the return higher, and vice versa (Arsita & Sihombing, 2021; Fadhila & Desmiza, 2021). But Pasaribu and Nugroho (2023) argue that stock returns negatively affected by TATO. Nabila and Wahyuningtyas (2023) found that environmental and social performance positively affect stock returns. Contrary to research conducted by Pernamasari et al. (2024), which found environmental performance does not affect the company's stock return.

Due to the inconsistent findings of prior studies, further research is needed. While many studies have not thoroughly explained each pillar of ESG (Environmental, Social, and Governance), this study aims to analyze ESG as a separate index, which is expected to provide new insights. The impact of both financial and non-financial performance is examined using a sample of companies included in the IDX ESG Leaders Index, which is expected to reflect ESG performance better. Furthermore, there is still little research on one of the green stock indexes the IDX recently launched at the end of 2020. Therefore, the study intends to provide new insights for investors, corporate management, and the public and highlight the importance of considering not only a company's financial performance but also its ESG factors when making investment decisions and conducting business activities.

## Literature Review

Companies are created to maximize the wealth or value of the company, which affects the well-being of shareholders (Mangantar, 2017). In order to survive, companies need funds to support their operational activities. Employees act as agents who put the company's interests first, which is to maximize profits and reduce transaction costs (Holmstrom & Tirole, 1989). The firm theory discusses creating good conditions so the company can operate effectively and efficiently (Holmstrom & Tirole, 1989). Therefore, the company will try to maximize financial performance, which can be assessed through financial ratio analysis.

Stakeholder theory is associated with the company's business activities such as business ethics, strategic management, finance, accounting and marketing (Parmar et al., 2010). Freeman (1994) stated that the goal of the company's activities is to fulfill the interests of its stakeholders. Not only shareholders, stakeholders consist of employees, customers, investors, communities, and groups that are not favorable to the company itself (Freeman, 1994). Stakeholders take an important role in the survival of the company; they can control and influence the business policy. Stakeholder theory argues that companies will voluntarily disclose more environmental, social, and intellectual performance information to fulfill stakeholder expectations. This is carried out to receive recognition from stakeholders. According to this theory, companies disclose information because of pressure from powerful stakeholders

According to legitimacy theory, company will consider the interests of the organization's most immediate audiences, where these reciprocal relationships often lead to broader political, economic, or social dependencies (Suchman, 1995). This theory emphasizes the "social contract" that companies have with their local communities. A company is considered

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to have legitimacy if its actions are deemed appropriate and in accordance with the norms, values, beliefs, and perspectives that exist in the social community (Suchman, 1995). One of the reasons companies do activities related to legitimacy is to get support from the community (Suchman, 1995). Companies inform environmental performance through disclosures in corporate reports (Wilmshurst & Frost, 2000). According to legitimacy theory, disclosure is driven by public perception and recognition (Rokhlinasari, 2016). This theory supports the relationship of non-financial performance in the form of ESG to stock returns.

**Quick Ratio and Stock Return**

A company's liquidity level can be measured through quick ratio (Stefvy & Djohan, 2023). Companies with high quick ratio value are considered to have good financial health (VU et al., 2020). There are sufficient current assets to pay short-term debt, so the default risk is minimal. Liquidity is proportional to the value of the company (Anggita & Andayani, 2022; Iman et al., 2021). In accordance with the firm's theory, in order to maximize its value which often related to stock prices (Mangantar, 2017), the company will try to achieve high levels of liquidity.

Wijaya and Sedana (2020) found that an increase in a construction and building company's quick ratio was associated with an increase in its stock return. Tarmizi et al. (2018) also found the same thing in food and beverage companies listed on the Indonesia Stock Exchange. It can be concluded that short-term liabilities can be paid with current assets without the company's inventory. As a result, investors will be attracted to investing, and thus, stock returns will increase.

Companies with high liquidity are likely to generate high profits in the future (Mariam & Munandar, 2023). The minimal default risk attracts investors so that the share price and the return can increase.

H1: Quick ratio significantly has a positive effect on stock returns

**Debt to Equity Ratio and Stock Return**

The debt-to-equity ratio is used to assess the solvency of a company (Blessing & Sakouvogui, 2023). Based on the firm theory, companies tend to increase their value to maximize shareholder wealth (Mangantar, 2017), which affects the suppression of the amount of expenses or debt. The lower debt-to-equity ratio indicates that equity is not mostly used to ensure debt, so the risk of financial failure is low. On the other hand, the higher the ratio reflects that the company must bear a large interest expense so that the risk increases as well (Shabrina & Hadian, 2021).

Bintara and Tanjung (2010); Nabila and Wahyuningtyas (2023) tested DER's effect on banking companies' stock returns and found a significantly negative effect. Hasanudin et al. (2020) found similar results in telecommunications sub-sector companies; Siregar and Dewi (2019) in plantation sub-sector companies; Sausan et al. (2020) in property and real estate companies. The negative effect is caused by the burden of large debt that deteriorates the company's performance and value. Profits are used to pay debts, and nothing is left to distribute dividends to shareholders. The stock price will decrease, followed by a decrease in return.

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A high DER indicates that company debt is too high relative to its equity. It implies higher reliance on creditors, resulting in higher default rate. The high risk of default affects investors' perception of a company. Investees will avoid high-risk companies so that stock prices will decrease (Assegaf, 2014).

H2: Debt to Equity Ratio significantly has a negative effect on stock returns.

**Return on Equity Ratio and Stock Return**

The company's lifespan is determined by its ability to generate profits (Wulandari & Efendi, 2022; Yanti & Darmayanti, 2019), which can be measured through the return on equity ratio (Nadyayani & Suarjaya, 2021). This ratio calculates the net income that can be generated using each rupiah of equity. The more effective capital management, the higher the ROE rate of a company. This ratio is closely related to the firm theory, which underlies the concept that the company's goal is to optimize profit, shareholder wealth, and value (Mangantar, 2017).

The greater the profit that can be generated using each rupiah of own capital makes the company able to provide high returns for investors (Hadu et al., 2023). As the same result Tarmizi et al. (2018) research on food and beverage companies; Arsita & Sihombing (2021) on non-cyclical companies; Sherina et al. (2023) on banking sub-sector companies in the LQ 45 index; and Ramdiani & Iradianty (2022) on manufacturing companies listed on the IDX. It is concluded that investors highly favor companies that can manage funds effectively and efficiently to generate maximum profits. By the high demand of the share, made return increase as well.

Profitability directly affects the company's value, so the company's shares are more attractive to investors (Dwiastuti & Dillak, 2019; Iman et al., 2021). Companies with high profits can generate high returns for their shareholders.

H3: Return on Equity Ratio significantly has a positive effect on stock returns.

**Total Assets Turnover Ratio and Stock Return**

The activity ratio, in terms of the total asset turnover ratio, shows the sales that can be obtained from the available total assets (Christianty & Latuconsina, 2023). Fajriah et al. (2022) found that increasing sales indicates the company's growth so that company value also increases. In line with the firm theory, that state company's goal is to maximize value for its shareholders (Mangantar, 2017).

Arsita and Sihombing (2021); Fadhila and Desmiza (2021); Sausan et al. (2020) each examines TATO's influence on stock returns using the sample of non-cyclical, food and beverage, and property and real estate industry companies. It was found that company with high TATO value can distribute higher return. Effective and efficient asset management increases investors' interest in company shares, leading to an increasing share price.

The higher the total asset turnover ratio, the higher the sales that can be generated with the total assets. The high number of sales is generally directly proportional to the profit increase. Companies that can generate high profits are more attractive to investors because they are considered to be able to provide higher returns.

H4: Total Asset Turnover Ratio significantly has a positive effect on stock returns.

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**Environmental Performance and Stock Return**

Public awareness of environmental issues increases, and concrete steps are taken to reduce the damage that has occurred. This statement supported by Utama (2021) research, which found that environmental awareness drives Gen Z's purchase intention of environmentally friendly products. The company's operational activities often cause environmental damage. Therefore, in line with stakeholder theory, companies will try to take action to improve and preserve nature to fulfill the expectations of stakeholders who care about the environment (Freeman, 1994). Based on the GRI 300 index, the company's environmental performance in terms of materials, energy, water, emissions, supplier environmental assessments, etcetera.

Purwaningsih (2018); Shafira and Hermi (2022) found that investors also assess company performance through non-financial conditions related to environmental commitment. The company's environmental performance sends good signals to investors, causing them to be interested in buying the company's stock, which increases both the price and the return. Nabila & Wahyuningtyas (2023) found that companies in the banking sector that do environmental performance will be accepted and gain support from the surrounding community. Aziz & Chariri (2023) obtained similar results by examining non-financial sector companies listed on the IDX.

By allocating costs to mitigate environmental issues, companies can fulfill expectations and gain support from stakeholders. The community will be interested in buying the company's products/services so that sales increase. Which also attract the investor's interest in investing that enable the company to provide high returns.

H5: Environmental performance significantly has a positive effect on stock returns

**Social Performance and Stock Return**

Companies run their business in society. Legitimacy theory explains that by having a "social contract", companies should be concerned about the surrounding community to receive trust and support (Suchman, 1995). Based on the GRI 400 index, the company's social performance is seen through disclosures related to employment, labor/management relations, occupational health and safety, Indigenous peoples' rights, etcetera.

Disclosure of social performance is directly proportional to the company's stock return (Ikrima & Asrori, 2020). Nabila and Wahyuningtyas (2023) did research on banking companies in Indonesia and found that by implementing social performance, the community will view the company as good, so returns will increase. Pernamasari et al. (2024) found that social performance increases community trust, so the resources needed can be obtained more easily. The support of the local community attracts investors to invest because companies's operational activities can run smoothly and that can generate high returns.

Companies with social performance gain support and trust from the surrounding community to have a good reputation. A good reputation can increase company sales. Investors will be interested in buying company shares so that prices and returns increase.

H6: Social performance significantly has a positive effect on stock returns

**Governance Performance and Stock Return**

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Corporate governance reflects the structure and internal management of a company (Handoyo & Anas, 2024). How management makes the best decisions transparently, taking responsibility for its actions to remain ethical and accepted by society and stakeholders. This is in line with legitimacy and *stakeholder* theory. Based on the GRI 102 index, corporate governance performance is partly reflected by governance structures, executive-level responsibility for economic, environmental, and social topics, and conflicts of interest.

Transparent disclosure of governance information attracts investor attention. This is supported by Nasution et al. (2024); H. Shafira and Astuti (2024) research that shows good governance increases the company's value. High value makes the company's relationship with the capital market smoother so that costs and risks can be reduced. Investors tend to choose companies with minimum risk so the return will increase. Handoyo and Anas (2024); Inawati and Rahmawati (2023) found that governance positively impacts company performance. Good corporate governance reflects that the company has various resources, such as strategy, risk management, and shareholder trust, that optimize corporate performance.

Companies with structured governance have good value and performance. The company attracts investors to invest because it is considered to be able to generate high profits, so that it can distribute high returns as well. This is also supported by strategy and decision-making through good governance.

H7: Corporate governance performance significantly has a positive effect on stock returns.

## 2. METHODOLOGY

This study uses quantitative techniques by examining the causal relations of the variables. Quantitative research uses data in numbers and then analyzes them using statistics (Syahroni, 2022). Researchers want to know whether financial performance, as well as environmental, social, and governance performance, can affect the stock returns of companies in the ESG Leaders Index.

Listings of research population were sourced from Indonesia's official stock market website. There are 49 companies included in the IDX ESG Leaders Index in 2020, 2021, 2022, and 2023. Sample is part of the population (Syahroni, 2022). The sample of 27 companies that passed the criteria listed in Table 1 was selected using a purposive sampling technique. The research time range is 4 years, so the total data used is 108. From this data, there are 15 outlier data that must be removed so that the observation data is normally distributed. Quoting from Kwak & Kim (2017), outlier data is data with unique characteristics that are different from other observed observations. The final data used in the study was 93 observational data.

**Table 1. Sampling Criteria**

| Criteria | Total |
|---|---|
| Companies included in the IDX ESGL index in 2020, 2021, 2022, or 2023 | 49 |
| Publish complete annual report during 2020-2023 | (5) |
| Publish complete sustainability report during 2020-2023 | (5) |
| Use GRI index assessment in sustainability report | (12) |
| Total | 27 |
| (27 companies x 4 years) | 108 |

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| | |
|---|---|
| Outlier data | (15) |
| **Final observation data** | **93** |

Source : Processed Data (2024)

The data used is classified as secondary data.Taherdoost (2021) states that secondary data is not directly obtained from data sources but through other people or documents such as books, records,etc . Data for ratio calculations such as total assets, liabilities, inventories, and equity are obtained through the company's annual report. ESG performance data is obtained by calculating the Global Report Initiative (GRI) aspects published by the company in its sustainability report. Many companies use GRI standards to report sustainable performance, which was created by the independent international organization Global Report Initiative (Aditama, 2022). In 2021, there is an update to the 2016 GRI standard. The use of the 2016 or 2021 GRI standard for calculations depends on each company. Most companies apply the 2021 GRI guidelines in their 2022 sustainability report. Annual and sustainability reports are obtained through the Indonesia Stock Exchange web or each company's official website.

Figure 1 shows the conceptual framework for the study. Researchers want to know whether financial performance, as well as non-financial performance, affects stock returns. Financial performance consists of 4 ratios proxied by QR, DER, ROE, and TATO. The non-financial performance used is ESG, which is separated into 3 separate pillars: environmental, social, and governance performance.

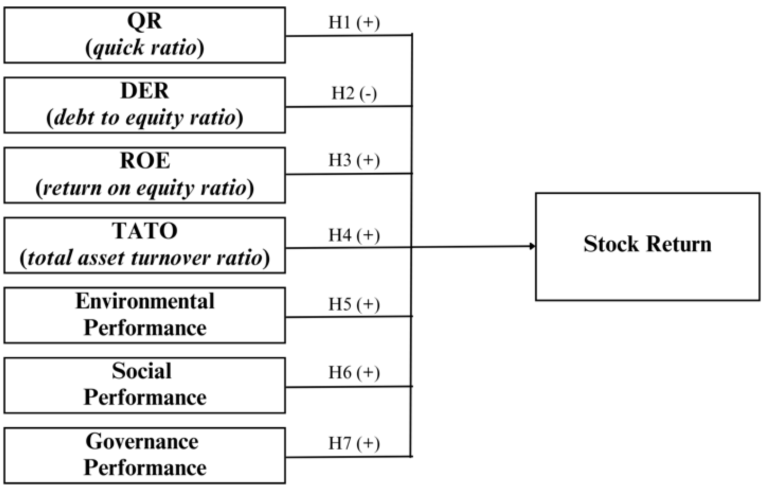


**Figure 1. Conceptual Framework**

In this study, the data analysis method is multiple linear regression. However, a classical assumption test is done beforehand to ensure the data is good. Consist of normality, heteroscedasticity, autocorrelation, and multicollinearity tests. Data were analyzed by the Statistical Packages For Social Science (SPSS) application, version 27. The equation is as follows:

$$\text{SR}t = \alpha + \beta 1QR_{it} + \beta 2DER_{it} + \beta 3ROE_{it} + \beta 4TATO_{it} + \beta 5ENV_{it} + \beta 6SOC_{it} + \beta 7GOV_{it} + \varepsilon_{it}$$

This study will examine whether stock returns as the dependent variable can influenced by financial performance (quick ratio, debt to equity ratio, return on equity, total assets turnover ratio) and non-financial performance (environmental, social, and governance). Based on the 2016 GRI guidelines, environmental topics issued by GRI 300 consist of 32 items; social topics issued by GRI 400 consist of 40 items; governance topics issued by GRI 102 consist of 22 items. Based on the 2021 guidelines, environmental topics issued by GRI 300 consist of 31 items; social topics issued by GRI 400 consist of 37 items; governance topics issued by GRI 2 consist of 13 items. A complete definition and measurement of the variable are shown in Table 2.

**Table 2. Variable Operational Definition**

| Variable | Definition | Measurement |
|---|---|---|
| Stock Return (Y) | Result obtained from stock investment (Nadyayani & Suarjaya, 2021). | $\mathrm{SR} = \frac{(\mathrm{Pt} - \mathrm{Pt} - 1)}{\mathrm{Pt} - 1}$ (Aditama, 2022) |
| Quick Ratio (X1) | Indicates the ability of the company to meet its short-term liabilities with liquid assets, excluding inventory (VU et al., 2020). | $QR = \frac{current\ assets - inventory}{current\ liability}$ (VU et al., 2020) |
| Debt to Equity Ratio (X2) | Shows the amount of each rupiah of equity used to secure debt (Shabrina & Hadian, 2021). | $DER = \frac{total\ liability}{total\ equity}$ (Shabrina & Hadian, 2021) |
| Return on Equity Ratio (X3) | Shows how much net profit after tax the company can generate using equity (Tarmizi et al., 2018). | $ROE = \frac{net\ income}{total\ equity}$ (Colline, 2022) |
| Total Assets Turnover Ratio (X4) | Shows the amount of sales that the company can obtain through each rupiah of assets (Christianty & Latuconsina, 2023). | $TATO = \frac{sales}{average\ total\ assets}$ (Christianty & Latuconsina, 2023) |
| Environmental Performance (X5) | Company efforts to minimize negative environmental impacts and contribute to sustainable development (Handoyo & Anas, 2024). | $ENV = \frac{number\ of\ items\ disclosed}{total\ items}$ (Aditama, 2022) |
| Social Performance (X6) | Shows company's ability to maintain relationships such as trust and loyalty with employees, customers, and the community (Velte, 2017). | $SOC = \frac{number\ of\ items\ disclosed}{total\ items}$ (Aditama, 2022) |

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| | | |
|---|---|---|
| Governance Performance (X7) | Corporate governance is the company's structure and management, i.e., board composition, executive compensation, and shareholder rights (Handoyo & Anas, 2024), which can be used to manage conflicts of interest (Martínez-Ferrero & Lozano, 2021). | $GOV = \frac{number\ of\ items\ disclosed}{total\ items}$ (Aditama, 2022) |

### 3. RESULT AND DISCUSSION

Descriptive statistics are used to summarize the data and elucidate the relationship between variables (Kaur et al., 2018). This shows each variable's mean, standard deviation, max, and min. As can be seen in Table 3, each variable has an average that is not much different. For financial performance, the QR and DER variables have higher averages than the other two ratios. These two variables have a noticeable maximum value of 5.36 for the QR variable owned by MIKA in 2020 and 6.63 for the DER variable owned by BBNI in 2021. The minimum value of ROE touches on the negative number, which is owned by TPIA in 2022. For non-financial performance, the governance variable has a slightly higher average than environmental and social performance.

**Table 3. Descriptive Statistical Test Results**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| QR | 93 | .1816 | 5.3631 | 1.8356 | 1.3111 |
| DER | 93 | .1123 | 6.6260 | 1.8656 | 1.9682 |
| ROE | 93 | -.0532 | .3632 | .1310 | .0849 |
| TATO | 93 | .0602 | 1.4654 | .4538 | .3385 |
| ENV | 93 | .0323 | 1.0000 | .4142 | .2362 |
| SOC | 93 | .0750 | .9189 | .4062 | .1828 |
| GOV | 93 | .0455 | 1.000 | .5941 | .4253 |
| SR | 93 | -.7695 | .5823 | -.0396 | .2465 |

Source : Processed Data (2024)

The normality test is used to detect confounding variables in the regression model or to check that the residual value is distributed normally (Alita et al., 2021). As shown in Table 4, the Kolmogorov-Smirnov test was performed for normality. The obtained significance level was 0.052, which is greater than 0.05, indicating that the data were normally distributed.

**Table 4. Normality Test Result**

| | Unstandardized Residual |
|---|---|
| N | 93 |
| Asymp. Sig. (2-tailed)[c] | .052 |

Source : Processed Data (2024)

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The multicollinearity test was performed to assess the correlation among the study's independent variables (Alita et al., 2021). This test examines each variable's tolerance value and variance inflation factor (VIF). As shown in Table 5, all variables appear to have more than 0.1 tolerance value and VIF value below 10. Therefore, it can be concluded that there is no problem of multicollinearity in this study.

**Table 5. Multicollinearity Test Result**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| | QR | .699 | 1.496 |
| | DER | .461 | 2.169 |
| | ROE | .816 | 1.225 |
| | TATO | .474 | 2.112 |
| | ENV | .544 | 1.837 |
| | SOC | .565 | 1.770 |
| | GOV | .669 | 1.494 |
| | Dependent Variable: SR | | |

Source : Processed Data (2024)

The heteroscedasticity test is used to determine whether variance inequality exists in the residuals across observations (Alita et al., 2021). This test is performed using Spearman's rho method. As shown in Table 6, there is no symptom of heteroscedasticity in this study's data, as each variable has a significance level greater than 0.05.

**Table 6. Heteroscedasticity Test Result**

| | | | Unstandardized Residual |
|---|---|---|---|
| Spearman's rho | QR | Sig. (2-tailed) | .736 |
| | DER | Sig. (2-tailed) | .434 |
| | ROE | Sig. (2-tailed) | .783 |
| | TATO | Sig. (2-tailed) | .437 |
| | ENV | Sig. (2-tailed) | .919 |
| | SOC | Sig. (2-tailed) | .366 |
| | GOV | Sig. (2-tailed) | .716 |

Source : Processed Data (2024)

The autocorrelation test is used to ensure no correlation between confounding errors between periods in the study (Youssef, 2022). An autocorrelation test is done using the run test method. Based on Table 7, the significance is 0.251, greater than 0.05, so it can be concluded that there is no autocorrelation in the research data.

**Table 7. Autocorrelation Test Result**

| | Unstandardized Residual |
|---|---|
| Test Value | -.02520 |

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| | |
|---|---|
| Cases < Test Value | 46 |
| Cases >= Test Value | 47 |
| Total Cases | 93 |
| Number of Runs | 53 |
| Z | 1.148 |
| Asymp. Sig. (2 tailed) | .251 |

Source : Processed Data (2024)

According to Table 8, the F count value is 2.243, which is greater than the F table value of 2.12. The significance of f sig is 0.038, smaller than 0.05. So, all variables in this study, namely QR, DER, ROE, TATO, ENV, SOC, and GOV simultaneously affect the stock return. These results also indicate that the model in this study is good.

The test of Coefficient of Determination is used to determine the independent variable's ability to explain the variation of the dependent variable (Di Bucchianico, 2008). Table 8 shows that the adjusted R-squared value is 0.086. The study's independent variables can affect returns by 8.6%, while various factors outside this study influence the remaining 91.6%.

**Tabel 8. Summary of Hypothesis Test Results**

| **Model** | **Unstandardized Coefficients** | | **t** | **Sig.** | **Conclusion** |
|---|---|---|---|---|---|
| | **B** | **Std. Error** | | | |
| (Constant) | -.213 | .103 | -2.067 | .042 | |
| QR | -.016 | .023 | -.719 | .474 | Rejected |
| DER | .008 | .018 | .434 | .666 | Rejected |
| ROE | 1.070 | .320 | 3.342 | .001 | Accepted |
| TATO | -.052 | .105 | -.495 | .622 | Rejected |
| ENV | .050 | .141 | .355 | .724 | Rejected |
| SOC | .188 | .179 | 1.054 | .295 | Rejected |
| GOV | -42 | .071 | -.597 | .552 | Rejected |
| **R** | | .395[a] | **F count** | | 2.243 |
| **R Square** | | .156 | **F sig** | | .038 |
| ***Adj* R *Square*** | | .086 | | | |

Source : Processed Data (2024)

Table 8 shows that every 1% increase in QR leads to a decrease of 0.016 in stock returns, assuming other variables remain constant. The t count is smaller than the t table, and the significance is greater than 0.05. Then, the negative effect of QR is insignificant. The results of the study align with research conducted by Martina et al. (2019); Yap & Firnanti (2019).

The insignificant negative effect means that QR is not an aspect affecting the stock return. This is because the high value of the *quick ratio* does not always reflect that the company is in good condition. In some cases, a very high quick ratio indicates an inefficient management of current assets. There are many current assets or cash that settle in the company. Cash is

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not utilized for production, investment, or expansion purposes. However, if the company uses these current assets, it can generate maximum income to increase the return distributed to investors. Table 3 shows that the highest QR value in the observation data is 5.36. It can be interpreted that every Rp1 of current liabilities is guaranteed by Rp 5.36 of current assets. The company has current assets other than inventory that are 5 times greater than its current liabilities.

From Table 8, it can be seen that for every 1% increase in the Debt to Equity Ratio (DER), stock returns increase by 0.008, assuming that all other variables remain constant, the t count is less than the t value and the significance level is greater than 0.05. Then, the positive effect of DER is insignificant. The study's result align with previous research conducted by Alfian & Indah (2023); Hidayat (2023); Hocky et al. (2023); Mufidah & Sucipto (2020); Sherina et al (2023).

Although not significant, the study found that DER have a positive effect on stock returns. This can be because the companies can manage their equity well. The company can utilize capital from external parties to develop its business so that revenue is optimal. Therefore, the company can pay back the debt, and investors do not need to worry about the risk of default. However, the positive effect of DER is insignificant on stock return. Investors can pay attention to ratios or factors other than DER before making investment decisions.

Table 8 indicates that an increase of 1% in ROE is followed by an increase of 1.070 in stock returns, assuming that other variables remain at 0 or constant. Furthermore, the t count is greater than the t table value, and the significance level is less than 0.05. Then, the positive effect of ROE is significant. These findings align with previous research conducted by Arsita & Sihombing (2021); Hadu et al. (2023); Mufidah & Sucipto (2020); Sherina et al. (2023).

In accordance with the research hypothesis, there is a significant positive correlation between ROE and stock returns. Profitability influences a company's lifespan. Companies that can generate profits can survive and grow. A high ROE is an indication that a company effectively utilizes equity to generate substantial net profit. By obtaining a high net profit, the company can also provide high returns for its shareholders. Investors can choose companies with high ROE values if they want high stock *returns*.

According to Table 8, for every 1% increase in TATO, the stock return decreases by 0.052, with other variables equal to 0 or constant. The number of t counts is less than the t table, and the significance is higher than 0.05. Then, the negative effect of TATO is insignificant. The study's results are consistent with previous research by Fredyansyah et al. (2023); Laia et al. (2023); Rahmawati & Martaseli (2021); Safitri & Wahyudiono (2022).

The result is that TATO negatively and insignificantly affects stock returns. This can be because even though the turnover of total assets is high, which shows a high number of sales, it may not be accompanied by large profits. Each total asset can generate a large amount of sales, but the profit earned is small. This can be caused by the fact that part of the research period was during the COVID-19 pandemic when world economic conditions slowed down. People's declining purchasing power requires companies to think of strategies to provide various attractive offers in the form of discounts or price cuts. The various strategies carried out reduce the amount of profit so that the return distributed to investors decreases.

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However, the negative effect of TATO on stock returns is insignificant. TATO is not an important consideration that investors should pay attention to when expecting high returns.

Table 8 shows that every 1 percent improvement in environmental performance makes stock returns grow by 0.050 when other variables are 0 or constant. The t count is lower than the t table value, and the level of significance is greater than 0.05. Then, the positive effect of environmental performance is insignificant. This result is supported by Pernamasari et al. (2024) .

It was found that environmental performance has a positive but insignificant effect on stock returns. This could be because although awareness of the environment is increasing, consumers still consider other factors, such as price, when buying a product. Consumers are more interested in economic prices than the company's environmental performance. In addition, environmental performance is considered to affect the company's financial performance indirectly. Many companies implement environmental policies within the minimum limits of existing regulations. This causes environmental performance not to provide optimal added value for companies and investors. Investors can pay attention to factors other than environmental performance when making investment decisions.

Table 8 shows that every 1% increase in social performance makes a 0.188 increase in stock returns, with all other variables equal to 0 or held constant. However, the significance level is greater than 0.05, and the t count is smaller than the t table value. Therefore, the positive effect of social performance is considered insignificant. These findings are in line with previous research conducted by Aditama (2022); Aulia & Sudrajat (2024).

The findings indicate that social performance has a positive but insignificant effect on stock returns. This is because, generally, the target of programs related to social activities is only the community around which the company operates. So, the impact of social performance cannot be felt by the community or consumers in general. In addition, this study measures social performance variables using the GRI 400 index. Not only does it assess the company's relationship with the surrounding community, but this index also assesses the company's concerns internally to its employees. The insignificant relationship may be because social performance related to human resources only affects the company's internal conditions, such as increased employee welfare, etc., but does not affect the company's external conditions, such as sales and stock returns. Another reason underlying the research results is that the rapid changes in market conditions require management put more attention into sales-related factors.

From Table 8, each 1% increase in governance performance reduces stock return by 0.042 when other variables are 0 or constant. In addition, the t count is less than the t table value, and the significance level is more significant than 0.05. Then, the negative effect of social performance is insignificant. Consistent with Aditama (2022); Pernamasari et al. (2024).

The study found that governance performance has a negative but insignificant effect on stock *returns*. Policies related to governance performance have been established for a long time. As can be seen in Table 3, the average governance score is slightly higher than the social and environmental performance. The insignificant research results can be due to companies not having fully implemented optimal policies regarding governance. Although the company's registered report has fulfilled governance-related policies, the implementation has not gone

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well, so governance performance cannot affect stock *returns*. Insignificant results can also be caused by the public and investors who already believe that all companies have good governance performance. So that governance is not a factor that affects stock *returns*. Investors can pay attention to other criteria before making investment decisions.

## 4. CONCLUSION

Based on testing and discussion, it can be concluded that from financial performance (1), the quick ratio negatively and insignificantly affects stock returns. This shows that a high QR does not always reflect that the company has good liquidity. A QR value that is too high may show the company's poor management of current assets. (2) Similarly, Total Asset Turnover also presents a negative and insignificant effect; high turnover without profits can reduce returns. (3) Otherwise, the Debt-to-Equity Ratio shows a positive insignificant effect; although much of the company's funding comes from external parties, management can manage equity well to be paid back. However, it can be noted that these three effects are insignificant. Investors can ignore the impact of QR, TATO, and DER effects on stock returns. (4) In contrast, Return on Equity has a significant positive effect on stock returns. Align with the firm theory and hypothesis formulated, high company profit leads to better returns for shareholders. Investors must consider this significant effect before making investment decisions.

In terms of non-financial performance (5,6), environmental and social performance both show positive but insignificant effects on stock returns. The insignificant effect of environmental performance is because consumers consider price more when buying products. Companies often implement environmental performance policies within minimum limits, and this performance is considered to affect financial performance indirectly. The insignificant effect of social performance is due to the limited scope of the impact of the performance. (7) Governance performance has a negative and insignificant effect, often due to ineffective execution. These three effects are insignificant. Investors can ignore the impact of ESG performance effects on stock returns.

Theoretically, this research implication is to extend the literature on financial performance, ESG, and stock returns. The ROE variable is proved to significantly positively affect stock returns, strengthening the firm theory. The practical implication for investors is to provide an overview of the factors that must be considered when wanting high returns when investing. The practical implication for company management is to determine the factors that must be considered and maximized to attract investors to invest in the company.

The limitation of this research is in terms of the research period. The research can only be conducted within four years because the IDX ESG Leaders stock index was just launched in 2020. It is expected that future researchers can deepen research on the IDX ESGL index with a more extended research period. In addition, it is hoped that future research can be done on other environmentally friendly stock indexes for comparison. For further research, other variables, such as macroeconomic factors or financial ratios outside the variables of this study, can be tested.

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