ABSTRACT

This study analyzes the effect of Environmental, Social, and Governance (ESG) scores on stock returns, with firm size as a control variable, in companies listed on the LQ45 index of the Indonesia Stock Exchange (IDX) during the 2019–2023 period. Motivated by capital market fluctuations and inconsistent findings in previous studies regarding the ESG–stock return relationship, this research aims to provide a deeper understanding within the accounting context. Using a quantitative approach with an explanatory research design, secondary data from 18 purposively selected companies yielded 90 panel data observations. The analysis employed descriptive statistics and panel data regression using EViews software, including classical assumption testing and both partial and simultaneous hypothesis testing. The results show that the Environmental and Governance scores have a significant and positive effect on stock returns, indicating that environmental responsibility and strong governance mechanisms are correlated with better stock performance. Conversely, the Social score does not have a significant effect, suggesting that social initiatives are not yet a primary investment consideration in the Indonesian capital market. Simultaneously, the three ESG dimensions along with firm size significantly influence stock returns. These findings support Signaling Theory, affirming that ESG disclosures serve as credible signals to investors.

Keywords: *ESG, IDX, Firm Size, Control Variable*