ABSTRACT

The study examines the effect of ESG scores, which cover environmental, social, and governance aspects, on stock return volatility in companies listed on the ESGSKEHATI Index. The focus of the study is based on the increasing attention to sustainability practices and the significance of the relationship between ESG performance and stock market risk in Indonesia.

The objective of the study is to test the simultaneous influence of the three ESG aspects along with stock trading volume on stock return volatility and to identify differences in these influences across industrial sectors. The methodology employed is a quantitative approach with a cross-sectional design, utilizing secondary data from financial reports and capital market sources.

The analysis was conducted using multiple linear regression using SPSS software for the tests, supplemented by tests for normality, heteroskedasticity, and multicollinearity to ensure the validity of the model. Hypothesis testing, such as partial and simultaneous tests, was also performed. Previous research findings indicate a significant simultaneous influence of the three ESG aspects on stock returns. These findings suggest that improved sustainability performance has the potential to reduce stock return volatility, which can be used as a basis for investment evaluation in the capital market.

The research results show that partial hypothesis testing between environment, social, and governance scores and stock return volatility indicates no significant effect. However, stock trading volume shows a partial effect on stock return volatility. Simultaneous testing shows a significant effect between ESG scores and stock trading volume on stock return volatility. These results indicate that the independent variables of environmental, social, and governance scores cannot determine either a positive or negative effect on stock return volatility.

This study can be used as a reference for further research to complement the information that studies on the relationship between ESG scores and stock return volatility have limitations in describing market reactions, given that high or low volatility cannot be interpreted as positive or negative indicators. Further research is recommended to examine the correlation between ESG scores and stock returns or stock price movements, as corporate policies tend to trigger market reactions reflected in changes in stock prices in the capital market.

Keywords*: capital market, ESG score, multiple linear regression, trading volume activity, stock return volatility, sustainability.*