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The Value Relevance of Sustainability Disclosure Quality

Aulia Fuad Rahman*[1], Desi Tri Kurniawati[1], Ayu Aryista Dewi[2], Kholilah Kholilah[3]

[1,2]*Universitas Brawijaya, Jalan M.T. Haryono 166, Malang, Jawa Timur, Indonesia*

[2]*Universitas Udayana, Jalan P.B. Sudirman, Denpasar, Bali, Indonesia*

[3]*UIN Maulana Malik Ibrahim Malang, Jl. Gajayana No.50, Malang, Jawa Timur, Indonesia*

*fuad_ub@ub.ac.id

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Abstract

In the contemporary landscape, ESG (environmental, social, and governance) performance has emerged as a pivotal concern for capital market investors. Despite its prominence, the ongoing debate in the literature regarding the value relevance of ESG underscores the need for empirical insights. This study addresses this gap by investigating the moderating role of ESG disclosure quality in shaping the relationship between earnings, annual changes in earnings, and stock returns. Drawing on a dataset comprising 254 firm-year ESG reports in Indonesia from 2017 to 2022 and employing panel data regression, the research unveils compelling results. It demonstrates that high-quality ESG disclosure not only reinforces the impact of earnings and annual changes in earnings on stock returns but also signifies a lower risk of future sustainability and long-term growth. These findings substantiate the idea that robust integration of sustainability principles in business practices contributes significantly to the creation of shareholder value. Importantly, this research carries profound implications for Indonesian companies, emphasizing the critical role of ESG disclosure in fostering sustainable business practices and enhancing shareholder value in the evolving landscape of capital markets.

Keywords: ESG disclosure; earnings; annual change in earnings; stock returns; value relevance

INTRODUCTION

The emergence of social and environmental issues in recent years has caused stakeholders to pay more attention to sustainability reports. Regulators and policymakers have encouraged companies to focus their business activities on the pillars of sustainability (Gavrilakis & Floros,

2023; Velte, 2019). Investors who had previously focused more on just information and financial risks, are now also paying attention to the sustainability information published by companies (Eliwa et al., 2021; IMD, 2022).

In an effort to improve the quality of sustainability information, companies in both developed countries (Ellili, 2022; Hoang et al., 2023) and developing countries (PWC, 2023) are increasingly, and more intensively, disclosing their environmental, social, and governance (ESG) performance. ESG disclosure provides holistic and comprehensive sustainability information. In addition, quantitative performance-based ESG disclosures make it easier for stakeholders to assess a company's sustainability commitments (Pan, 2021).

Even though ESG reporting is developing rapidly and is able to improve the quality of sustainability reports, the issue of the relevance of the quality of ESG disclosure to investor decisions is still being debated in the literature (Jadoon et al., 2021; Tan et al., 2023). Some of the evidence from several previous studies shows that quality ESG disclosure can create value (Lee & Suh, 2022) and then, ultimately, through the reaction of the market, it can increase company returns (Friede et al., 2015; Kempf & Osthoff, 2007). On the other hand, some research has found the opposite, namely that ESG information is not relevant for investors in assessing a company's future condition (Tan et al., 2023). The differences between the empirical evidence that has been yielded by previous research have motivated the authors to further investigate the value relevance of ESG disclosure, namely whether the quality of ESG disclosure is used by investors (because it is relevant) in making investment decisions.

This study contributions to the literature in several ways. First, this research contributes to the stakeholder theory by identifying the impact of the sustainability disclosure quality, namely ESG disclosure. ESG disclosures reveal sustainability information in the form of quantitative performance, thus providing more comprehensive and transparent information and making it easier for investors to assess engagement between companies (Jasni et.al., 2020). Moreover, the reliability of qualitative sustainability reports is questionable because they are symbolic, contain excessive information, and do not reflect actual company sustainability performance (Michelon, Pilonato and Ricceri, 2015;

Badia, Bracci and Tallaki, 2020). Therefore, this study focuses on the quality of ESG disclosure rather than sustainability reports in the form of qualitative performance.

Second, previous literature observed magnetism of investor with a short-term by investigating the value relevance of sustainability report disclosures in the period around the reporting date using an event-study design (Kaspereit & Lopatta, 2016). In a short-term perspective, sustainability report is seen as symbolic action and purposed to fulfill the company's legitimacy (Badia, Bracci, & Tallaki, 2020; Michelon, Pilonato, & Ricceri, 2015). Therefore, this study focuses on the quality of ESG disclosures using a panel regression design as has been used in previous studies (Aureli et al., 2020; de Villiers et al., 2017; Jadoon et al., 2021). In line with stakeholder theory, this research capture magnetism of investor with a long-term orientation related to firm’s sustainability commitment.

Finally, this research contributes by providing evidence about the value relevance of the quality of ESG sustainability disclosures in Indonesia by modifies the value relevance model with a return model (changes in monthly stock returns) (Kumar et al., 2016; Ziegler et al., 2007), namely returns in the second month of the following year after the December 31 reporting period. Previous research tends to observe investor reactions three months after the fiscal year because the capital market in Indonesia is efficient in weak form and others find it efficient in semi-strong form (Puspa, 2006; Andrianto & Mirza, 2016; Dwipayana, 2017; Krismiaji, Kusumadewi, 2020; Hadianto, et.al., 2021). Meanwhile, this research assumes that the rapid development of the capital market in Indonesia is currently a reason to observe a more responsive investor reaction due to the emergence of sustainability issues which have become a global corporate agenda. Thus, using stock return in February (second month) is a moderate time to ensure that all publicly available information has been absorbed by the market and reflected in stock prices.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

The growing urgency of social and environmental issues has increased the demands that stakeholders are making of companies. Stakeholders hope that their demands of companies will not only be able to maximize shareholder

value but will also be able to encourage the achievement of sustainability (Kuo et.al., 2021). Therefore, companies that want to continue to be a going concern must transform their business to be more pro-environmental and pro-social (sustainable).

Stakeholder theory offers the view that companies cannot operate only in their own interests or those of shareholders, but must, instead, prioritize the creation of value for all stakeholders (Freeman, 1984; Freeman et.al, 2021; Jensen, 2001). In line with a hypothesis regarding social impact (Chen & Lee, 2017; Porter & Kramer, 2006), the integration of sustainability by companies is reflected in superior performance in the market, long-term growth, and permission to operate by focusing on social and environmental issues that are important to stakeholders. In addition, sustainability information reflects the opportunities and risks associated with business sustainability (Ng & Rezaee, 2020), meaning that sustainability information becomes relevant for investors.

Although there is a different view regarding the trade-off hypothesis which states that sustainability activities sacrifice corporate financial resources and harm shareholder (Alshehhi, Nobanee, & Khare, 2018a; Chen & Lee, 2017), the concept of shared value expressed by Jadoon et al. (2021) nevertheless provides further explanation through the concept of shared value. According to the trade-off concept, a company’s value will increase when it chooses to focus on social and environmental activities and conversely, its value will decrease when it does not choose a combination of social and environmental activities.

Given the importance of sustainability factors, an empirical study is needed that examines the value relevance of sustainability information. Thus, for its theoretical basis, this research includes sustainability disclosure factors using stakeholder theory and the concept of stock returns.

Value Relevance

Value relevance relates to the how useful the information in a financial report is for decision-making. Based on the view argued by the signal theory, a number of studies have assessed value relevance as a relationship between accounting earnings and stock returns (Alford et.al, 1993; Chen & Lee, 2017; Easton & Harris, 1991). Some previous research has found that financial

performance has a significant effect on stock returns (Brian & Kevin, 2016; Heryanto, 2016; Iqbal, Khattak, & Khattak, 2013), especially earnings information (Beaver, 1989). Investors' reactions to companies with good earnings produce positive returns; conversely, investors' reactions to companies with bad earnings produce negative returns (Ball & Brown, 1968).

In contrast to these previous studies, Lev & Zarowin (1999) found that there was a decrease in the use of earnings information for investors due to business changes. Furthermore, other studies found that financial performance has no significant effect on stock returns (Endri et al., 2021; Kurniati, 2019).

There is a consensus that business practices that are environmentally and socially responsible can provide better corporate financial performance. Good relationships with stakeholders will be more appreciated by the market and this will increase benefits enjoyed by investors.

On the other hand, investors also experience risks related to society and the environment. The high risk of sustainability in the future makes investors focus more on sustainability performance because it can affect the level of return on investment (Fatemi et.al, 2015). This indicates that financial information is no longer the only information that underpins investors' decisions, and instead, non-financial aspects, such as sustainability performance, now play an important role in those decisions about investment.

Disclosure of information about sustainability performance is crucial for investors to be able to better assess the extent of a company's efforts to increase value for stakeholders and overcome sustainability problems (Zaid, Wang, & Abuhijleh, 2019). Companies that are able to improve the quality of sustainability performance information will increase investor confidence and reduce information asymmetry with stakeholders (Alshehhi et.al, 2018). Therefore, disclosing information about a good quality sustainability performance is the hope of all stakeholders so that the information becomes relevant in decision-making.

Value Relevance of ESG

The increasing urgency felt by all stakeholders regarding corporate sustainability activities has made ESG issues the center of attention for investors in the capital market. ESG reflects a company's ability to fulfill social responsibilities (Campbell, 2007; Rezaee & Tuo, 2017),

environmental responsibilities (Bansal & Roth, 2000; Rezaee & Tuo, 2019), sustainability-oriented corporate governance (Jensen, 2001; Rezaee, 2016), and its ability to provide sustainable solutions (Porter et.al, 2019; Weber, 2008).

Through ESG disclosure, companies can communicate with the users of their sustainability performance reports that are more holistic and comprehensive, so that investors can better assess company risks and their impact on company value. Presenting ESG sustainability performance data in a quantitative form also makes it easier for investors to assess a company's actions in creating value for stakeholders and to compare sustainability performance among companies involved in ESG (Friede et al., 2015; Jamali et al., 2017).

Existing research shows support for companies' involvement in ESG and reports its positive impact on company value. Increasing the availability and quality of data reduces information asymmetry between companies and stakeholders, which has implications in terms of lowering agency costs and lowering corporate capital constraints (Ping & Gaofeng, 2018). A study by Trisnowati et al. (2022) revealed that companies in Indonesia that have high ESG disclosure are more able to increase stock returns than companies that are not involved in ESG.

While most research recommends ESG disclosure, some evidence in developing countries finds that ESG can harm investment performance. Studies on companies in the Middle East and North Africa (MENA) region reveal that environmental performance and social performance impose additional costs on sustainability investments and have a negative effect on company performance (Buallay & Al-Ajmi, 2019; Duque-Grisales & Aguilera-Caracuel, 2021). Meanwhile, Junius et al. (2020) have revealed that management's commitment and ability to integrate ESG is still low and has a negative impact on company performance in Indonesia. The failure of ESG investment to improve company performance is also related to the government's low level of governance regarding ESG implementation (Lubis & Rokhim, 2021).

Evidence from previous research suggests that the issue of whether quality sustainability performance (ESG) disclosure can help or harm investment performance has not been resolved. In addition, the existing literature on the relevance of sustainability values focuses on the

individual dimensions of corporate sustainability (Atan et al., 2018; Jadoon et al., 2021). Most focus on socially and environmentally responsible investment behavior, but ignore the importance of the governance dimension because it relates to management, control, and reporting, so it is considered less directly related to sustainability efforts. The hypothesis development for each research variable relationship can be explained in the sub-sections below.

Earnings information describes the company's past and present financial performance, as well as potential future performance (Farhana & Adelina, 2019). One of the types of earnings information that has been widely used in previous research is earnings per share (EPS) (Lev & Zarowin, 1999). EPS is considered the most complete measure for assessing the achievement of company goals in maximizing company value and shareholder wealth (Jasman & Kasran, 2017). A number of studies have shown that EPS has a positive effect on stock returns (Dewi, Rahyuningtyas, Anwar, Ramadhan, & Sukmawati, 2020; Dimitropoulos & Asteriou, 2009; Farhana & Adelina, 2019; Jadoon et al., 2021). This research shows that the higher the EPS, the higher the rate of return obtained by investors, so it can improve investors' investment decisions which have an impact on increasing a company's stock returns (Dewi et al., 2020; Dimitropoulos & Asteriou, 2009; Farhana & Adelina, 2019; Jadoon et al., 2021). Thus, the hypothesis in this research is formulated as follows.

H_1: EPS has a positive effect on stock returns.

The Effect of Changes of Earnings on Stock Returns

Stakeholder theory describes how users of financial reports need financial information about a company to help them make investment decisions. Investors will react positively to an increase in earnings which will have an impact on increasing stock returns. Earnings information can be determined using the difference between earnings in period-t and earnings in period t-1 (Lev & Zarowin, 1999. A number of studies have shown that earnings information has a positive influence on stock returns (Farhana & Adelina, 2019; Puspa, 2006; Jadoon et al., 2021). Investors believe that a company will perform well and offer high returns, or in other words, stock returns will increase along with increasing changes in earnings (Farhana & Adelina, 2019; Fitri

Puspa, 2006; Lev & Zarowin, 1999). Thus, the hypothesis in this research is formulated as follows.

H_2: Changes in earnings have a positive effect on stock returns.

The Influence of the Quality of Sustainability Reporting on the Relationship between Earnings and Changes of Earnings on Stock Returns

Stakeholder theory shows that stakeholders also use non-financial information to make economic decisions about a company. Sustainability information shows that companies do not only optimize resources to gain short-term profits but also consider long-term factors to maintain a company's business continuity (Nugroho & Hersugondo, 2022; Setyahuni & Handayani, 2020). Investors' confidence in a company's ability to continue to be a going concern can increase demand for company shares which has an impact on the amount of capital that management can use to increase profits so that the company's share returns will also increase (Düz Tan & Taş, 2019; Gavrilakis & Floros, 2023; Han et al., 2016; Lööf et al., 2022; Luo, 2022; Setyahuni & Handayani, 2020).

One way a company pays attention to sustainability is through sustainbility disclosure. Sustainability disclosure are a means of delivering information to a company's stakeholders and showing that it has a positive image, competitive advantage, and good relations with the community (Farhana & Adelina, 2019). In accordance with stakeholder theory, a company will try to provide all the information needed by stakeholders, including information about the attention the company has paid to sustainability issues.

Several studies have stated that the quality of sustainability disclosure has a positive effect on stock returns (Farhana & Adelina, 2019; Gavrilakis & Floros, 2023; Jadoon et al., 2021; Luo, 2022; Tan et al., 2023; Xu, Chen, Zhou, Dong, & He, 2023). Companies that produce sustainability disclosure will be considered superior and have greater potential as a going concern (Han, Kim, & Yu, 2016; Lööf, Sahamkhadam, & Stephan, 2022; Nugroho & Hersugondo, 2022). This assessment leads to many investors being encouraged to invest in a company, so its stock return will also increase (Gavrilakis & Floros, 2023; Luo, 2022; Tan et al., 2023; Xu et al., 2023). Thus, the hypothesis in this research is formulated as follows. Thus, the hypothesis in this research is formulated as follows.

H_3: The quality of sustainable disclosure strengthens the influence of earnings on stock returns.

H_4: The quality of sustainability disclosure strengthens the influence of changes in earnings on stock returns.

METHOD

To investigate whether investors assess the quality of corporate sustainability disclosure, this study uses the market value relevance model developed by Lev & Zarowin (1999). This model postulates that stock market value is a function of earnings and changes of earnings only. We modify the model proposed by Lev & Zarowin (1999) including the variable quality of sustainability reporting which is proxied by ESG. The reason behind this is that ESG presents higher quality sustainability performance than sustainability reporting which tends to present data qualitatively and tends to be symbolic (Anugerah et al., 2018; Dewi et al., 2023; Michelon et al., 2015; Muhammad Nasution & Adhariani, 2016)

ESG disclosure adds credibility and reliability to a company's sustainability performance information, thereby increasing stakeholder trust in the information provided (Choi & Wong, 2007; Frias-Aceituno et al., 2013; Simnett et al., 2009), meaning that investors can accurately measure a company's market valuation by reducing information asymmetry (Schadewitz & Niskala, 2010). In addition, ESG disclosure can also reduce economic uncertainty and risk for investors while increasing the predictability of earnings by improving relationships and reducing the costs of conflict with stakeholders (Ng & Rezaee, 2020), creating a good reputation for sustainability (Gallego-Álvarez et al., 2010) and provide sustainability solutions (Porter et al., 2019).

Data Sources

This study used sample of non-financial companies on the Indonesian stock exchange that disclosed ESG information indicators during the 2017-2022 period. This research extracted financial data and ESG disclosure from the Refinitiv database. Refinitiv is one of the largest providers of financial data and financial market infrastructure in the world that has demonstrated its trustworthiness and the reliability of its sustainability proxies (Li et al., 2018; Refinitiv, 2022; Semenova & Hassel, 2015). The panel data regression structural equation

developed to test company stock returns is presented as follows.

$$RET_{it+1} = \beta 0 + \beta 1EPS_{it} + \beta 2DEPS_{it} + \beta 3ESGQ_{it} + \beta 4EPS_{it}*ESGQ_{it} + \beta 5DEPS_{it}*ESGQ_{it} + \sum_{i=1}^{J} yjVK\sum_{i=1}^{J} yjVK_{it} + \varepsilon_{it} \quad (1)$$

Where:

i represents the company, t is the year, RET is the second month stock return of company i ending two months after December 31, EPS is earnings per share, DEPS is the change in earnings per share, and ESGQ is the sustainability disclosure of the company.

Stock return is the difference between the stock price in a particular month and the previous month's price divided by the previous month's price. Stock returns in this study use company returns in the second month to determine the impact of ESG disclosure on December 31 on investor reactions which are reflected in the difference in stock prices in January and February (second month returns).

The earnings per share variable is calculated based on net profit after the tax is divided by the number of ordinary shares outstanding. Meanwhile, changes in earnings reflect changes in earnings per share from year t to t-1. Furthermore, the quality of sustainability reports is proxied by ESGQ as a measure of sustainability performance which has an ESG value range of 0-100, where the higher the ESG value, the better the company's environmental, social, and governance disclosure quality.

Following prior literature, this research include several control variables that are documented to be correlated with stock return. Control variables included are $INDS_{it}$, $SIZE_{it}$, ROA_{it}, LEV_{it}, $BETA_{it}$, and $AVGP_{t}$. $INDS_{it}$ included as a proxy for companies that operate in sensitive industry 4 associated with low return (Raar, 2002). A value of 1 is given to the most sensitive industry and a value of 4 is given to the least sensitive industry. A value of 1 is given to companies that have high risks to the environment, a value of 2 is given to companies that focus on consumer needs, a value of 3 is given to companies in the industrial sector; and a score of 4 is given to companies operating in the services and communications sector. $SIZE_{it}$ included as a measurement of firm size and is computed as logarithm (ln) of total assets. ROA_{it} included as a proxy of financial performances associated with high return and computed as the ratio of net income divided to total assets. LEV_{it} is included as a proxy for risk associated with high leverage and is computed as

Table 1. Number of Observations (Firm Years) between 2017 and 2022

Observation Period	Frequency	Percentage (100%)
2017	34	13,39
2018	36	14,17
2019	36	14,17
2020	40	15,75
2021	49	19,29
2022	59	23,23
Total Observations	254	100

the ratio of total debt to total assets. $BETA_{it}$ is included as a measurement to control for systematic risk and is estimated using capital asset pricing model (CAPM). The average stock price for 5 years ($AVGP_t$) is included as a proxy of the value of the average stock price for 5 years.

Sample Selection

This research involves panel data comprising 254 firm-years during 2017-2022 (Table 1). This research period was chosen because it coincides with the Indonesian Government's declaration about its participation in achieving the 17 UN Sustainable Development Goals (SDGs) by 2030 (Presidential Decree No. 59 of 2017 concerning Implementation of the Achievement of Sustainable Development Goals). This declaration has had consequences for all corporate issuers of shares in the capital market to disclose their sustainability performance and report on it in their sustainability report.

According to Table 1, the lowest number of observations that meet the sample criteria, namely reporting and having complete financial report data, is in 2017 (13.39%) and the most that meet the sample criteria is in 2022 (23.23%). In line with sustainable development goals, there is an increasing trend in the amount of ESG disclosure from year to year in Indonesia. This shows that companies in Indonesia are increasingly committed to sustainability issues. EPS and BPS being 16,621.86 and 10,441.78 respectively. The company with the lowest EPS and DEPS is ADRO from the energy sector which is a sensitive industry group, while the company with the highest EPS and DEPS is MTDL from the information technology sector which is a non-sensitive industry group. This shows that companies that are more

Table 2. Descriptive Statistics Test Results

Variable	Minimum	Maximum	Average	Standard Deviation
EPS	-481.863	16621.86	508.676	1370.209
DEPS	-1795.787	10441.78	99.563	852.163
ESGQ	0.081	0.854	0.469	0.195
EPS* ESGQ	-225.423	14082.84	277.510	1020.433
DEPS* ESGQ	-1374.69	8846.775	73.789	668.273
INDS	1	4	2.216	1.123
ROA	-0.057	0.557	0.079	0.110
SIZE	15.842	33.655	31.171	1.627
LEV	0.000	0.796	0.264	0.189
BETA	-0.122	3.458	1.489	0.753
AVGP	109.328	58405	5844.843	9861.233

sensitive to social and environmental issues have lower returns compared to companies that are less sensitive to social and environmental issues.

Next, Table 2 shows the results of the descriptive statistics test. The average value of the companies' earnings per share (EPS) and book value equity (DEPS) between 2017 and 2022 was 508.676 and 99.563 with the maximum values of EPS andBPS being 16,621.86 and 10,441.78 respectively. The company with the lowest EPS and DEPS is ADRO from the energy sector which is a sensitive industry group, while the company with the highest EPS and DEPS is MTDL from the information technology sector which is a non-sensitive industry group. This shows that companies that are more sensitive to social and environmental issues have lower returns compared to companies that are less sensitive to social and environmental issues.

The quality of sustainability reports as proxied by ESG disclosure shows that the average company has an ESG score of 0.469 with a standard deviation of 0.195 smaller than the average, which means there is no gap in the quality of sustainability reports between companies. As for the ESG ranking, ESG disclosure with an average of 0.469 shows that the performance of companies in Indonesia obtained a 'C' grade, which means relatively satisfactory ESG disclosure and a moderate level of transparency in reporting important ESG data publicly (Refinitiv, 2022).

The maximum value of 0.854 was obtained by MTDL from the

information technology sector which is classified as the least sensitive sector, while the minimum value of 0.081 was obtained by ADRO from the energy sector which is classified as the most sensitive sector. This shows that companies that are more sensitive to the social and environmental sectors have a lower sustainability performance because there are several controversial issues related to sustainability that the company has not been able to follow up on, causing the company's ESG value to be degraded. Meanwhile, companies in less sensitive sectors have higher ESG scores because they are better able to fulfill environmental, social, and governance transparency compliance.

Data were analyzed using panel regression analysis. The Hausman test in the research model estimation shows that p-value of 0.023 <0.05, which means that the appropriate method for analysis data is to use the Random Effect Model (REM). Model A included all predictor variables (EPSt and DEPSt) as value relevance of return model by Lev & Zarowin (1999) followed by control variables ($INDS_{it}$, $SIZE_{it}$, ROA_{it}, LEV_{it}, $BETA_{it}$, and $AVGP_{it}$.) Model B showed the direct effect of moderating variable (ESGQ), and Model C provided the result of interaction between EPS_{it}, $DEPS_{it}$, and $ESGQ_{it}$ to RET_{it+1}.

Empirical Results

This research focuses on the value relevance of the quality of ESG disclosure in investment decision making by adopting and developing the value relevance by Lev & Zarowin (1999). Specifically, this study examines the quality of sustainability disclosure as proxied by ESG disclosure in moderating the relationship between earnings and changes in earnings on stock returns in the second month (Ashwin Kumar et al., 2016; Ziegler et al., 2007).

The results showed that the R^2 value above 19.00% for all model. This implies that the predictor variables explain about 19.00% of the variation in the predictor variables. Earning per share (EPS) and changes in earnings (DEPS) on stock returns show consistent results in all three models. These results supported previous research (Farhana & Adelina, 2019; Fitri Puspa, 2006; Jadoon et al., 2021), EPS and DEPS have a positive and significant effect on stock returns (p-values of 0.013<0.05 and 0.044<0.05 respectively). This reveals that investors consider company earnings and changes of earnings information, meaning that this information is relevant to investor.

Table 3. Moderation Test Results

	Model A	Model B	Model C
Intercept	0.012 (0.478)	0.006 (0.489)	0.014 (0.489)
EPS	0.00005 **(0.013)	0.00005** (0.013)	0.00011*** (0.006)
DEPS	0.0000471** (0.044)	0.0000473** (0.043)	0.00021*** (0.0005)
ESGQ		0.0468 (0.263)	0.0562 (0.228)
EPSxESGQ			0.00014 **(0.015)
DEPSxESGQ			0.00028 **(0.042)
INDS	-0.020* (0.06)	-0.019* (0.083)	-0.024 (0.4415)
ROA	-0.110 (0.233)	-0.138 (0.191)	-0.024 (0.386)
SIZE	0.002 (0.355)	0.002 (0.389)	0.002 (0.1885)
LEV	0.058 (0.222)	0.063 (0.205)	0.068 ** (0.0385)
BETA	-0.025 (0.101)	-0.025 (0.101)	-0.025 (0.105)
AVGP	-0,000004 **(0.019)	-0,00000459 **(0,024)	-0,00000687 ***(0,008)
R^2	0.1900	0.1914	0.2258
Number of Observations	254	254	254
No. of companies	59	59	59

Note: *, **, and *** represent significance level at 10, 5, and 1%, respectively.

Model B shows that the ESG variable partially has no significant effect on stock returns (with a p-value of 0.263> 0.05), while the EPS and DEPS variables have a positive and significant effect on stock returns. On the other hand, Model C shows that the interaction between the ESGQ variable and the EPS and DEPS variables on stock returns yields positive and significant results. If the results of each model are compared, model C showed that the interaction of EPS and ESGQ (EPS*ESGQ) has a positive and significant (p-value 0.015 <0.05; R^2=19.14%) and EPS has a stronger significance level and a larger coefficient (coefficient = 0.00011; p-value=0.006) than EPS and DEPS in model A (coefficient=0.00005; p-value=0.013). The interaction of DEPS and ESGQ (DEPS*ESGQ) has a positive and significant effect (p-value=0.042<0.05; R^2=22.58%) and DEPS has a stronger significance level and a larger coefficient (coefficient=0.00021; p-value=0.0005) than EPS and DEPS in model A (coefficient=0.0000471; p-value = 0.044). This implies that good quality sustainability disclosure can strengthen the relationship between EPS and DEPS on stock returns.

The quality information is closely related to reducing information asymmetry (Düz Tan & Taş (2019), Gavrilakis & Floros (2023), Han et al. (2016), Lööf et al. (2022), Luo (2022), Setyahuni & Handayani (2020), thereby reducing agency costs increasing investor confidence, and ultimately resulting in lower capital constraints and increased company value (Ping & Gaofeng, 2018; Schadewitz & Niskala, 2010). Company involvement in ESG disclosure will increase transparency because ESG provides quantitative sustainability performance data related to environmental, social, and governance aspects, making it easier for investors to assess and compare the sustainability performance of companies (Jasni et.al., 2020). Transparent presentation of data allows investors to better assess a company's future sustainability opportunities and risks that could threaten it as a going concern. Thus, the influence of earnings and changes in earnings on stock returns can be strengthened by improving the quality of sustainability performance information.

The results of this research supported stakeholder theory which suggests that companies should increase their sustainability activities and disclose them in sustainability reports in order to meet the expectations of all stakeholders (Freeman, 1984; Freeman et al., 2021; Jensen, 2001). Companies that integrate sustainability aspects into their business activities will strive for those activities that can produce environmentally friendly products, establish good relationships with suppliers, and improve the welfare of employees and society (Porter et al., 2019; Rezaee, 2019; Weber, 2008). In addition, companies that have high-quality sustainability disclosures reflect good support and supervision from the governance board to commit to sustainability (Jensen, 2001; Rezaee, 2016).

Test results on control variables control provide varying results. ROA, SIZE, LEV, and BETA, do not have a significant effect in the three models, while variables related to industry factors (INDS) have a negative and significant effect in models A and B, but do not have a significant effect in model C. Meanwhile, the AVGP variable consistently has a significant negative effect on stock returns in the three models. The average price for five years can be influenced by various external factors that have an impact on market conditions, for example, the economic crisis following the global pandemic that occurred during

2020-2021 and post-pandemic conditions in 2022. During the pandemic, people in Indonesia began to carry out massive stock trading and this caused share prices to increase. However, the market responded negatively to this price increase due to investors' pessimistic sentiments regarding future returns and fear of uncertainty. In line with Li et al (2021), most Asian countries experienced more negative abnormal returns than other countries during the crisis caused by the pandemic.

CONCLUSION, IMPLICATIONS AND LIMITATION

The results of this research indicate that the quality of sustainability disclosure is able to strengthen the influence of earnings and changes of earnings on stock returns. Disclosure of sustainability performance using the ESG dimensions can improve the quality of disclosure because it is able to provide holistic and comprehensive sustainability information, making it easier for investors to assess sustainability opportunities and risks in the future.

Improving the quality of sustainability disclosure will reduce information asymmetry between companies, investors, and all stakeholders, as well as increase trust and maintain a company's good reputation; therefore, it will be able to increase company value as reflected in stock returns. Thus, the results of this research conclude that information about sustainability performance is relevant for investors, and so companies need to improve the quality of sustainability reporting, especially ESG disclosure.

The findings of this research support the belief that integrating sustainability principles can provide benefits for companies themselves, their investors, and all stakeholders. The results of this research will be useful for regulators and policy-makers to review the regulatory basis for implementing ESG (whether it is voluntary or compulsory) for all companies in the capital market. The findings of this research will help management to understand the role of sustainability so that their companies will be valued by investors when making investment decisions.

Finally, this study has a limitation. ESG disclosure in this study does not include controversial factors, such as questionable activities and corporate product scandals in the media that can influence the company's reputation so it has negative impact on company performance. Therefore, further research could investigate the value of

ESG controversy to see its impact on company stock returns.

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