The Impact of Sustainability Reporting : A Case Study on the Implementation of POJK No.51 towards Sectoral Energy Firms in Indonesia

Andres Jordan Tjenderasa[1*]; Chici Askotamiya[2]
[1,2]Faculty of Economics and Business
[1,2]Widya Dharma Pontianak University
Jl. Hos Cokroaminoto No.445, Darat Sekip, Kec. Pontianak Kota, Pontianak, West Kalimantan, Indonesia, 78243
[1*]ajtjenderasa@gmail.com; [2]chici@widyadharma.ac.id

Corresponding Author

Abstract— **The purpose of this study is to compare the stock return and firm performance before and after the implementation of Financial Services Authority Regulation No. 51/POJK.03/2017. The population of this study is energy companies listed on the Indonesia Stock Exchange in 2016-2023. From 8 years of data of 92 companies selected through purposive sampling, 46 companies were selected. This study uses quantitative research with a comparative approach where sustainability reports were used as a benchmark to show the impact of POJK NO. 51. The result of this study indicated that the regulation of POJK No. 51 in Indonesia does not affect stock return, but instead affects the return on assets (ROA). While companies that diligently implement the rule shows that sustainability reports don't affect stock return and ROA. The lack of awareness from the investor side and companies not fully disclosing all relevant information to sustainability reports become the main reason for these findings. Future studies could explore the long-term effects of mandatory ESG disclosures on different financial performance metrics, across multiple sectors, in addition to various factors such as investor awareness and the quality of sustainability reports.**

Keywords—Firm Performance; POJK 51; Return ; Sustainability Report

I. INTRODUCTION

In recent decades, attention to sustainability has increased globally due to rising awareness of climate change, natural resource scarcity, and corporate social responsibility [1]. In Indonesia, sustainability-related policy has been implemented which is Financial Services Authority Regulation (POJK) No.51/POJK.03/2017 [2]. POJK No.51, where it is required for companies, including those in the energy sector, to prepare and publish sustainability reports that reveal their performance in environmental, social, and governance aspects (Environmental, Social, and Governance or ESG). This policy encourages transparency, accountability, and more responsible and sustainable business practices in all industrial sectors.

The energy sector plays an important role in the Indonesian economy, but it also has a substantial impact on the environment [3]. The energy industry is responsible for the majority of greenhouse gas emissions and other environmental issues. Therefore, implementing sustainability policies in this sector is vital. Investors nowadays are increasingly considering ESG factors in making investment decisions with a focus on stock returns and firm performance indicators such as profit growth, revenue increases, and management efficiency [4].

In most countries in the world such as Malaysia, ESG reporting has been made mandatory for all public listed companies by Bursa Malaysia since 2016 [5]. The Malaysian government and the Securities Commission Malaysia (SC) encourage ESG reporting through initiatives like the Malaysian Code on Corporate Governance (MCCG). The regulation mandates the disclosure of sustainability policies, practices, and performance in the report, encouraging integrated reporting. Other countries like the United States and South Korea, there is currently no mandatory ESG reporting. However, there are voluntary disclosures which help to improve domestic firms' ability to adapt to the strengthened ESG regulatory environment overseas.

Sustainability report (SR) is a report containing information on the company's performance in the economic, social and environmental fields. Many large companies publish reports, particularly those in socially and environmentally sensitive industries such as oil and gas, mining, chemical, automotive, computer, and electronics industries [6]. These reports are meant to meet the needs of various stakeholders, including investors, creditors, employees, customers, suppliers, governments, activist groups, and the general public. [7] Stakeholder theory explains that a company is not an entity that only operates for its own benefit, but must provide benefits to all its stakeholders. Having good relations with multiple stakeholder groups may lead to increased social sustainability performance in the long term by assisting in developing and maintaining valuable intangible assets (both internal and external benefits). Moreover, it is essential for companies to disclose their environmental performance to show their commitment to addressing environmental issues. This demonstrates their moral responsibility to the environment in which they operate. This is in line with the principles of legitimacy theory, which asserts that companies must disclose specific information to convince society that their activities are acceptable and contribute to social value.

Sustainability reports (SR) have become an important tool for investors to assess how companies manage environmental and social risks that may affect their long-term performance [8]. Sustainability reports that comply with standards will increase stakeholder trust. A quality sustainability report needs and essential information for internal demands (corporate governance) and external guidance (stakeholders) [9] However, there are some companies that disclose SR to carry out CSR activities, it turns out that it does not fully contribute to sustainable development [10]. With POJK No.51, aims for all companies in Indonesia to be more transparent in reporting their sustainability performance, which can increase investor confidence and company competitiveness in the global market.

Hypothesis Development

One way to provide information to investors is with a SR that can provide insight for investors regarding the company's internal conditions accurately. Therefore, the POJK No.51 regulation was issued so that investors can see whether the SR can conclude that there is a stock return. The result of studies by [11] and [12] shows that ESG regulation has a significant difference towards stock return. It indicates that companies that comply with ESG regulations may be seen as more transparent and responsible, boosting investor confidence. This can lead to higher demand for their stocks, potentially increasing stock prices and returns. However, the studies by [13] and [14] shows that ESG regulation has no significant difference towards stock return. The companies may choose not to disclose their activities, as some investors may consider it a waste of resources and a charge against their earnings.

H1: There is a significant difference in the stock return before and after the implementation of POJK No.51

SR disclosures are essential for companies to attract investor interest by demonstrating their commitment to achieving sustainable performance through responsible use of natural resources. The research conducted by [15] and [16] shows that SR affects stock return. The research stated that by reporting sustainability, companies can send a positive signal that can reduce information asymmetry. This can potentially increase the company's stock returns if investors respond positively to the signal. However, the study conducted by [17] and [18] shows otherwise. Companies may not fully deliver the information to the investor's understanding.

H2: There is a significant difference in stock return for companies who diligently publish sustainability reporting before and after the implementation POJK No.51

The rise of POJK No.51 makes some companies believe that the mandatory ESG which include environmental programs by cost savings provide a competitive advantage (using less energy, recycling of wastes etc.) and by achieving higher customer satisfaction, staff loyalty and acquiring a favorable reputation as well as compliance with regulations. The study conducted by [19] and [20] shows that mandatory ESG Disclosure has a significant difference towards ROA. The regulation resulted in increased revenue and higher profits, as customers appreciate corporate social responsibility and sustainability initiatives. This demonstrates that incorporating these efforts into business operations significantly affects consumer purchasing choices. Although, mandatory ESG may be costy for companies to implement, resulting in a net burden on firms. Other studies [21] and [22] also show that ESG does not add value to a firm.

H3: There is a significant difference in the return on assets before and after the implementation of POJK No.51

The information in sustainability reports can ensure the potential of competitive capital resources with a low level of risk to stakeholders. The research conducted by [23] and [24] shows that SR has a significant difference towards ROA. Companies that use SR show that companies care for the environment, with hopes to create and fulfill stakeholders. [23] find that sustainability disclosures benefit all stakeholders and eventually achieve encouraging accounting profitability. In contrast, the research by [25] and [26] shows that sustainability reports have no significant difference towards return on assets. Companies may not consistently publish sustainability reports every year.

H4: There is a significant difference in return on assets for companies who diligently publish sustainability reporting before and after the implementation POJK No.51

II. RESEARCH METHODS

This research uses quantitative research with a comparative approach. This method aims to compare one variable with another variable or one variable with the standard [27]. The purpose of this study is to compare the stock return and firm performance before and after the implementation of POJK No. 51. The population in this research are energy companies listed on the Indonesia Stock Exchange (IDX) from the period of 2016-2023. Four years before 2020 was used as a period when sustainability reporting was still regarded as voluntary disclosure, while 4 years after 2020 is the starting period of the implementation of POJK No.51 in Indonesia which caused sustainability reporting to become mandatory disclosure.

The variables in this research are secondary data that was obtained from Yahoo Finance, the Indonesia Stock Exchange Website, and the company's website according to the following criteria: (1) Companies that have conducted an Initial Public Offering (IPO) on the IDX before 2016. (2) Companies that have historical data on daily stock price (Adjusted closing price) from 2016 -2023. (3) Companies that published continuous financial statements for the period 2016-2023. (4) Companies that during the period 2020-2023 always issued a sustainability report.

Table 1. Table of Sampling

	Criteria	N
1	Energy Companies listed on Indonesia Stock Exchange	87
2	Companies that did not conduct an Initial Public Offering (IPO) after 2016	(34)
3	Companies that did not publish financial statements for the period 2016-2023	(7)
4	Companies that did not publish sustainability report during the period 2020-2023	(10)
5	Total Companies	36

Source: Secondary Data Processed (2024)

The sampling technique utilized is purposive sampling. The number of samples in this study is 46 companies which consists of 4,784 observations. These criteria ensure comparability among the selected companies and are tested. Subsequent research will use sustainability reports as a benchmark, resulting in a reduction in both sample size and the observation data to 36 companies and 4,684 observations. The data were processed by the SPSS version 26 Program.

The technique analysis data used were the Descriptive Statistics test, Normality test, and the Man-Whitney U test. Descriptive statistics can be used to enrich the discussion. Through statistical description, the development or growth of the data being studied can be understood. The Normality test used was Kolmogorov-Smirnov test, a data normality testing technique, to see whether a data distribution is following a normal distribution or not. The Mann-Whitney U test is a non-parametric statistical test that is used on ordinal or interval data, if the data does not meet one or more hypothesis prerequisite tests. This test can also be used to analyze whether there is a difference between the means of two independent data. The independent samples utilized consist of stock return and firm performance which is ROA.

Return on Assets

The measure of firm performance is the return on assets (ROA). Return on asset is one of profitability ratios that measure the income or operating success of a company for a given period [28]. The formula is as follows:

$$Return\ on\ Assets\ (ROA) = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

Stock Return

Stock return is one of the factors that motivates investors to invest and is also a reward for the courage of investors to bear the risk of investments made [29]. Stock return can be calculated with this formula as follows:

$$\mathrm{R_t} = \frac{\mathrm{P_t} - \mathrm{P_{t-1}}}{\mathrm{P_{t-1}}}$$

Description:
Rt = Stock Return
Pt = Stock price on year t
Pt-1 = Stock price before year t

III. RESULT AND DISCUSSION

Research Result:

Descriptive Statistics Analysis

Table 2. Descriptive Statistics Analysis for Stock Return

Period	N	Minimum	Maximum	Mean	Std. Deviation
ENRG Before	2208	-0.6521	1.6879	0.013258	0.1487375
ENRG After	2208	-0.5228	1.6263	0.024880	0.1666668
SR Before	2198	-0.6521	1.6879	0.013388	0.1489490
SR After	2198	-0.5228	1.6263	0.024993	0.1670003

Source: Data Processed with SPSS (2024)

As shown in Table 2, in ENRG, the minimum value of -0.6521 occurred before POJK No.51. The highest maximum value of 1.6879 before POJK No.51. The highest average value of 0.024880 occurred after POJK No.51. This shows that based on the average stock return after the POJK No.51, the rate of stock return received is positive (experiencing a profit) better than before the implementation of POJK No.51 with an average of 0.013258. The value of the standard deviation of stock return is 0.1487375 (above average), it means that the stock return rate has a high level of data variation.

The result of descriptive statistics in SR, the minimum and maximum show the exact result on the previous explanation which is -0.6521 and 1.6879 occurred before POJK No.51. Based on this result, the reason behind it is because there are some companies which had their stock price touching the lower limit which is IDR 50 in the stock exchange. Since they essentially measure the same data, they cannot change independently. Returning to a reasonable price requires significant performance, so the minimum and maximum stock returns will naturally be equal. Several reasons why the stock price reached the lower limit among them are poor fundamental performance, negative equity, being sued for bankruptcy, not yet issuing financial statements, the process of liquidation and postponement of debt payment obligations [30]. However, the highest average value of 0.024993 occurred after POJK No.51. This shows that based on the average stock return after POJK No.51, it was better than before the POJK No.51 with an average of 0.013388. The value of the standard deviation of stock return is 0.1670003, which means that the stock return rate has a high level of data variation.

Based on the explanation above, it can be concluded that even if companies that are diligent or not diligent in publishing sustainability reports and complying or not complying with OJK rules, it turns out to be the same thing. This could be due to a combination of market-wide reactions, external economic factors, variability in report quality, investor perceptions, and enforcement consistency.

Table 3. Descriptive Statistics Analysis for Return on Assets

Period	N	Minimum	Maximum	Mean	Std. Deviation
ENRG Before	184	-0.5790	0.4556	0.024017	0.1327171
ENRG After	184	-3.5400	0.6163	0.050456	0.3081645
SR Before	144	-0.5790	0.4556	0.041619	0.1356339
SR After	144	-0.4106	0.6163	0.092097	0.1566424

Source: Data Processed with SPSS (2024)

As shown in Table 3, in ENRG, the minimum value of ROA before the implementation of POJK No.51 is smaller than the minimum value of ROA for after the implementation of POJK No.51 which is -3.5400. The minimum value of ENRG after the implementation of POJK No.51 shows that some companies had their net profit loss. This happens when a company' total expenses exceed its total revenue over a period of time. This means that after the implementation of POJK No.51, during that time when the COVID-19 pandemic was still ongoing, companies were struggling to recover. Most of their costs were being used to survive longer, and as a result, there was uncertainty about whether companies would be able to produce sustainability reports.

The highest maximum value of 0.6163 after the implementation of POJK No.51 is greater than before the implementation of POJK No.51. The highest average value of 0.050456 occurred after the implementation of POJK No.51. This shows that based on the average ROA after the implementation of POJK No.51, it was better than before the implementation of POJK No.51 with an average of 0.024017. The value of the standard deviation of ROA is 0.3081645 (above average), it means that the ROA rate has a high level of data variation.

As a result of descriptive statistics in SR, the minimum value of -0.5790 before the implementation POJK No.51 is greater than the minimum value after the implementation of POJK No.51. However, the maximum value after the implementation of POJK No.51 is 0.6163 which is greater than the period before the implementation of POJK No.51. The highest average value of 0.092097 occurred after POJK No.51. This shows that based on the average ROA after the implementation of POJK No.51, it was better than before the implementation of POJK No.51 with an average of 0.041619. The value of the standard deviation of ROA is 0.1566424 (above average), it means that the ROA rate has a high level of data variation.

Table 4. Mann-Whitney U Test

Period	Variable	Asymp.Sig. (2-tailed)
Companies not include SR (2016-2023)	Stock Return	.076
	ROA	.044
Companies with Sustainability Reports (2016-2023)	Stock Return	.072
	ROA	.084

Source: Data Processed with SPSS (2024)

Based on the table 3, the test results of the POJK No.51, the significance value of Asymp.Sig (2-tailed) of 0,076 is greater than the significance level of 0,05, it can be concluded that the POJK No.51 has no significant difference towards stock return. The test results of the POJK No.51 with companies publish sustainability reports, the significance value of Asymp.Sig (2-tailed) of 0,072 is greater than the significance level of 0,05, it can be concluded that the sustainability report has no significant difference towards stock return. The test results of the POJK No.51, the significance value of Asymp.Sig (2-tailed) of 0,044 is smaller than the significance level of 0,05, it can be concluded that the POJK No.51 has a significant difference towards return on assets. The test results of the POJK No.51 with companies publish sustainability reports, the significance value of Asymp.Sig (2-tailed) of 0,084 is greater than the significance level of 0,05, it can be concluded that the sustainability report has no significant difference towards return on assets.

Discussion of the research result:

The descriptive statistics table shows that after the implementation of POJK No.51, stock returns have improved on average, but there is also greater variability. This suggests that the impact of the regulation is not consistent across all companies, and external factors may influence the overall market reaction. While the ROA statistics reveal that despite some companies experiencing significant losses after the regulation, the overall profitability of companies has improved on average. This indicates that while the regulation has positively influenced company performance, the variability suggests differences in how companies have adapted to and benefited from the regulation.

The result of this study shows that there is no significant difference between stock returns before and after the company's implementation of POJK No.51. The result of this study does not support the first hypothesis, where it contrasts with the result done by [11] and [12], which found that the regulation can make companies comply, thereby increasing their stock price and return. The regulation of POJK No.51 stated that if companies fail to comply with the specified regulation, companies are subject to administrative sanctions. This light sanction makes the company less concerned about following the regulation and publishing an SR. Companies may be concerned about implementing and maintaining comprehensive ESG disclosure based on the regulation that may be costly. Expenses such as gathering data, hiring specialized consultants and others can reduce a company's profitability, negatively impacting stock returns. The result of this research is consistent with the research conducted by [13]. One possible explanation for this difference is that the perceived seriousness and enforcement of sanctions play a crucial role in influencing corporate behavior. The relatively mild administrative sanctions specified in POJK No.51 might not be strong enough to force companies to take significant actions towards compliance. As a result, companies may prioritize saving money over the costs of comprehensive ESG disclosure. These costs can involve collecting extensive data, hiring specialized consultants, and implementing sustainable practices, all of which can be expensive and reduce a company's profitability. Therefore, the expected positive impact on stock returns may not occur [14].

The findings of this study shows that there is no significant difference in stock return for companies who diligently publish sustainability reporting before and after the implementation POJK No.51, thus the second hypothesis is rejected. The findings of this study contradict the research conducted by [15] and [16], [18], which found that sustainability report (SR) has a significant difference on stock returns. This contradiction arises from companies not adhering to the regulations and a lack of awareness regarding the significance of social responsibility. The result of this study is consistent with the research conducted by [18] which states that sustainability reports have no significant difference in stock return. The information disclosed by the company is not fully maximized or is less open, often focusing on certain aspects of disclosure. This indicates that the company's disclosure efforts are aimed more at gaining legitimacy rather than seeking improvement. Moreover, investors in the Indonesian capital market are not yet fully aware of the importance of sustainable management and still do not have the enthusiasm for sustainable information. As a result, a high intensity of disclosure does not necessarily attract investors to invest or increase the company's stock returns. In addition, this discrepancy is due to the speculative nature of stock prices, which are always changing, making the effects of high performance on the company's performance only temporary. [31] Although the adoption of sustainable practices and reporting is becoming increasingly popular among firms, investors still find it difficult to define and quantify the impact of these practices on sustainable returns that they will receive [17].

The result of this study shows that there is a significant difference in the return on assets before and after the implementation of POJK No.51. Therefore, the results of this study support the third hypothesis. This result is consistent with studies conducted by [19] and [20] which show that mandatory ESG Disclosure has a significant difference towards ROA. The issue of POJK No.51 causes companies to increase transparency and reporting on ESG practices leading to improved financial performance which is ROA. Companies that comply with ESG regulation are better at managing resources and generating profits, demonstrating the positive impact of sustainability efforts on overall firm performance. One of the main reasons for this improvement is that mandatory ESG disclosure encourages firms to adopt more sustainable and efficient practices. By adhering to ESG regulations, companies are often required to optimize their use of resources, reduce waste, and implement energy-efficient processes. These operational improvements can lead to cost savings, thereby enhancing the firm's profitability and improving return on assets (ROA). It is important to remember that mandatory ESG disclosures can improve risk management. Companies that take proactive steps to manage their environmental and social risks are better prepared to anticipate and address potential issues that could disrupt operations or cause financial losses. This proactive risk management can lead to more stable and predictable financial performance and have a positive impact on Return on Assets (ROA) [20].

The finding of this study shows that there is no significant difference in return on assets for companies who diligently publish sustainability reporting before and after the implementation POJK No.51. This means the fourth hypothesis is rejected. The research conducted by [23] and [24] doesn't agree with the result. The reason behind this is because the costs of implementing sustainability and producing detailed reports can be expensive. Companies often need to hire specialized consultants to ensure the report is in line with the sustainability standards such as GRI or SASB. Focusing on SR may initially reduce the focus on core business activities, potentially impacting financial performance. The previous research by [25] shows that sustainability reports have no significant difference towards return on assets. This is likely due to the fact that several companies don't consistently publish sustainability reports every year. Additionally, not all companies listed on the IDX issue sustainability reports, resulting in a relatively small number of companies that publish these reports consistently each year. Another explanation is that because of the unavailability of data that is on the company's website, occasionally the company's web can neither be accessed or error. Other cases also show that companies that publish sustainability reports but not based on the GRI standard which result that SR has no significant difference.

IV. CONCLUSION

The conclusion of this study is that the regulation of POJK No.51 has no significant difference towards stock returns, but has a significant difference towards ROA. However, companies that comply with POJK No. 51 and publish a sustainability report have no significant difference towards both stock returns and ROA. The reason behind it is because of a combination of market perception, the quality of reporting, investor focus, external market conditions, and the resource capabilities of companies. Even though these reports are mandated by POJK No.51, the awareness and understanding among investors might still be low, leading to minimal impact on their investment decisions and thus on stock returns. Additionally, stock prices can be influenced by a multitude of factors such as market conditions, economic indicators, and other financial news, which might overshadow the effects of sustainability reporting. Several companies are also not complying with the regulation which results in them not publishing their sustainability reports. Even if companies publish their SR, there is a chance that companies don't fully disclose all relevant information due to several reasons such as reputational risk or regulatory ambiguity.

The findings of this research have several important theoretical implications. Firstly, the data support the validity of stakeholder theory in the context of sustainability reporting, demonstrating that companies that align their practices with the interests of all stakeholders tend to achieve more sustainable financial performance. Secondly, the connection between legitimacy theory and the necessity for strong regulatory frameworks highlights the significance of not only requiring disclosures but also guaranteeing that these disclosures are impactful and clearly conveyed. Firms need to move past simple compliance to genuinely embed sustainability into their fundamental operations, thereby strengthening their legitimacy and earning the trust and backing of their stakeholders. Thirdly, the results challenge the assumption that mandatory ESG disclosures automatically lead to improved stock returns, suggesting that investor awareness and engagement play critical roles. Lastly, this research extends the understanding of how regulatory compliance impacts corporate governance, highlighting the need for stronger enforcement mechanisms and clearer guidelines to ensure the effective implementation of sustainability practices. The regulation of POJK No. 51 needs to be tightened. Mandatory ESG disclosure in other places like Malaysia or Europe plays a vital role in boosting their financial performance. Policymakers should consider stronger enforcement mechanisms and incentives to ensure better compliance and transparency.

The significance of this study contributes to important knowledge in a research area that is relatively uncommon in Indonesia. Most similar studies have been carried out abroad, where this topic has been extensively researched. Considering the significant and hazardous impact of environmental issues, this research will help in raising awareness among companies. By adhering more closely to regulations, companies may experience positive effects on the smoothness and efficiency of their operations. Future studies could explore the long-term effects of mandatory ESG disclosures on different financial performance metrics and across various sectors. Additionally, investigating the role of investor awareness and the quality of sustainability reports could provide deeper insights into the observed relationships.

V. ACKNOWLEDGMENTS

The author would like to express his deepest gratitude to the individuals and institutions whose support and contributions have been instrumental in the completion of this research, mainly to the Asia Pacific Management Research Conference (APMRC) as the organizer and the Widya Dharma University Pontianak for providing the opportunity to participate in the 5th APMRC 2024. Their commitment to fostering academic excellence and research innovation has been a significant source for inspiration and motivation for the author.

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