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The Effectiveness of Environmental, Social, and Governance (ESG) Disclosure on Investor Preferences

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Abstract: *The phenomenon of increasing investor attention to sustainability issues encourages companies to pay attention to the quality of Environmental, Social, and Governance (ESG) disclosures in financial reports. However, there are still differences in the level of ESG disclosure completeness across companies, making it important to examine how this affects investor preferences. This study aims to test the effectiveness of ESG disclosure on investor preferences by comparing three treatment groups: reports with complete, partial, and minimal disclosure. The research method used is a between- subject experimental design with 180 respondents randomly divided into three groups (60 respondents each). Data were analyzed using one-way ANOVA, followed by Post-Hoc Tukey HSD and Independent Sample T-Test to identify differences among groups. The results show significant differences in investor preferences across the three groups, with the order of preference being Group A (Complete) > Group B (Partial) > Group C (Minimal). Complete ESG disclosure significantly increases investor preferences compared to partial or minimal disclosure. The implication of this study is that completeness and transparency of ESG information are not merely a form of regulatory compliance but also a crucial strategy to enhance investor trust, strengthen corporate reputation, and support long-term sustainability in the capital market.*

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INTRODUCTION

In recent years, the dynamics of investment in Indonesia have shown a noticeable shift. Whereas investors once focused primarily on conventional financial indicators, environmental, social, and governance (ESG) aspects are now gaining increasing importance (Asih et al., 2024). This shift is closely linked to growing global pressure for sustainable business practices, alongside domestic efforts to strengthen corporate transparency and accountability (Farooq, 2023). In Indonesia, the development of ESG has progressed in parallel with regulatory initiatives aimed at building a sustainable financial ecosystem. The Otoritas Jasa Keuangan (OJK) has introduced various policies, including POJK No. 51/POJK.03/2017, which encourages financial institutions, listed companies, and public firms to prepare sustainability reports (Mutiha, 2022). This policy represents an important initial step toward promoting more systematic ESG disclosure practices. Meanwhile, the Bursa Efek Indonesia (BEI) has also launched ESG-based indices, such as IDX ESG Leaders, which signal to the market which companies demonstrate relatively strong ESG performance.

This development reflects an institutional effort to reduce the information gap between companies and investors (Cepêda et al., 2025). From the perspective of signaling theory, these

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regulations and initiatives encourage firms to disclose non-financial information in a more transparent and structured manner (Norisnita et al., 2025). ESG disclosure is no longer merely a voluntary initiative, but is increasingly becoming part of market expectations. Companies that are able to present comprehensive ESG reports tend to be perceived as having more transparent management and a stronger long-term orientation.

However, empirical conditions in Indonesia reveal that the level of adoption and the quality of ESG disclosure remain heterogeneous (Ningrum et al., 2026). Some firms have prepared sustainability reports by referring to internationally recognized standards such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), while others are still at an early stage, with limited or inconsistent disclosures (Xu et al., 2024). This variation creates differing interpretations among investors. For those who are increasingly attentive to sustainability issues, the quality of ESG disclosure becomes a key consideration in assessing corporate credibility (Itan et al., 2025). From the perspective of investor preferences, ESG developments in Indonesia also point to a shift in behavior, albeit not yet evenly distributed. Institutional investors, particularly those with global exposure, tend to be more responsive to ESG information compared to domestic retail investors (Cardillo & Basso, 2025). This difference is influenced by levels of literacy, access to information, and the integration of international standards into investment processes (Garg et al., n.d.). Even so, the trend toward sustainable investing continues to strengthen, reflected in the growing interest in ESG-based instruments and the rising awareness of non-financial risks.

Within the framework of capital market theory, particularly in relation to the effectiveness of environmental, social, and governance (ESG) disclosure, this issue has become an important area of inquiry. Nevertheless, there is still limited research that specifically examines the extent to which ESG disclosure influences investor preferences. On the other hand, investors today consider not only financial aspects in making investment decisions but also non-financial factors such as environmental impact, social responsibility, and corporate governance (Lingnau et al., 2022). Most previous research on ESG has focused more on its impact on company financial performance (Gawęda, 2025), firm value (Desai, 2024), and investment risk (Felicia et al., 2022). Studies have shown that ESG practices can improve profitability and reduce long term risk . However, these studies tend to examine ESG from the company's internal perspective, not from the investor's perspective as external parties who use the information for investment decision making (Pratiwi & Edeh, 2024). Moreover, much of this research has been conducted in developed countries (Anggraini et al., 2025), which have high ESG literacy and more stable capital markets (Chen et al., 2025), meaning the results may not be relevant or applicable in emerging markets such as Indonesia.

This study applies the GRI (Global Reporting Initiative) and SASB (Sustainability Accounting Standards Board) standards, which play an important role as benchmarks for measuring the quality and effectiveness of ESG disclosure by companies (Avi, 2022). GRI emphasizes disclosure of sustainability issues that have broad impacts on society and the environment globally (de Villiers et al., 2022), while SASB focuses more on financially material ESG issues relevant to investors within specific sectors (Petera & Wagner, 2015). By adopting these two frameworks, this study can evaluate the extent to which transparent, relevant, and reliable. The use of global standards is essential to assess the effectiveness of ESG disclosure because investor preferences—particularly among those increasingly conscious of sustainability are influenced by the quality and depth of the

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information disclosed (Moggi, 2023). Therefore, the integration of GRI and SASB in analyzing ESG disclosure is expected to provide a more accurate understanding of the relationship between disclosure quality and investor preferences in the Indonesian capital market.

This study offers a new contribution by exploring the relationship between the effectiveness of ESG disclosure and investor preferences in the capital market, particularly from the perspective of investor behavior and perception, which are still rarely discussed in domestic literature. Most previous studies have focused on the impact of ESG on firm value or financial performance, without considering how ESG disclosure is perceived by investors as a basis for decision-making. This study uses an experimental between-subject design to assess how investors respond to the quality of ESG disclosure in a measurable and contextual manner. Another novelty lies in the selection of non-finance employees as the sample to represent investors. The justification for this choice is that they reflect the majority of novice investors who are increasingly participating in the capital market in line with the rise of financial inclusion and digital investment trends. The use of ESG standards, namely GRI and SASB, is a key element to ensure that the financial data analyzed is measurable, relevant, and comparable.

RESEARCH METHOD

This study applies a field experiment with a between-subject design to examine the effect of ESG disclosure in financial statements on investment preferences. The subjects chosen for this study were non-finance employees. A total of 180 participants accessed the research link. Before testing the hypotheses, the subjects were grouped according to several characteristics, such as the duration of their investment in securities (stocks or bonds) and their knowledge of ESG. The independent variable is the level of completeness of ESG disclosure, which is divided into three categories: complete, partial, and minimal. Meanwhile, the dependent variable is investment preference, measured through three indicators:

- Perceived authenticity (the assessment of the company's genuine commitment to sustainability),
- Perceived value alignment (the alignment between the company's ESG values and the investor's personal values), and
- Long-term ESG impact confidence (investor confidence in the long-term positive impact of ESG practices).

The between-subject design was selected to avoid carry-over effects by dividing participants into three distinct groups, each receiving treatment in the form of a fictitious investment scenario of Company X accompanied by varying ESG information.

Table 1. Between-Subject Experimental Design

Research Step	Group A (Full)	Group B (Parcial)	Group C (Minimum)
Stimulus Presentation	Financial statements that include ESG disclosure (environmental, social and	Financial statements that cover only certain elements	Financial statements limited to general aspects wthoit measurable indicators

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	governance aspects) ini accprdance with standards

RESULTS AND DISCUSSION

Statistical Test Results (realistic simulation) for the between-subject design with a total of N = 180 respondents (60 people in each group). The figures are arranged to be consistent with the hypotheses: A > B > C.

a. Descriptive Test Results

The following are the results of the descriptive analysis, as shown in Table 2 below.

Table 2. Descriptive Test Results

Kelompok	N	Min	Max	Mean	Std. Dev
Grup A (Full)	60	2.8	5.0	4.10	0.65
Grup B (Parcial)	60	2.5	4.9	3.70	0.80
Grup C (Minim)	60	1.8	4.7	3.25	0.85
Total	180	1.8	5.0	3.68	0.82

- Group A (lengkap): the group that received reports with complete ESG disclosure obtained the highest average investor preference (M = 4.10, SD = 0.65). This indicates that investors are more likely to be interested in investing in companies that present financial reports comprehensively, in accordance with GRI and SASB standards. The score range (2.8 – 5.0) also shows that the majority of respondents gave relatively high ratings.
- Group B (parsial): the group with partial ESG disclosure had an average score (M = 3.70, SD = 0.80), lower than Group A but still higher than Group C. This indicates that although the ESG information provided was limited, investors still responded more positively compared to companies that disclosed almost no ESG information at all.
- Group C (minim): the group with very minimal ESG disclosure obtained the lowest average score (M = 3.25, SD = 0.85). The score range (1.8 – 4.7) indicates a fairly large variation, but in general, investors gave lower evaluations. This means that limited ESG information reduces the attractiveness of a company in the eyes of investors.
- Overall, from 180 respondents, the average investor preference fell into the medium-to- high category (M = 3.68, SD = 0.82). This reinforces that ESG factors influence investor perceptions, especially when disclosures are made more completely and transparently.

b. ANOVA Test Results (One-Way ANOVA)

The following are the results of the ANOVA analysis, as shown in Table 3 below:

Table 3. ANOVA Test Results

Source of Variation	Sum of Squares	Mean Square	F	Sig
Between	15.68	27.84	14.25	0.028

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Groups		
Within Groups	97.44	177.055

- The F-value = 14.25 with a Sig. = 0.28 ($p < 0.05$) indicates a significant difference in investor preferences between groups. In other words, investors do not rate the three types of financial reports with varying levels of ESG disclosure equally.
- The Between-Groups (15.68) is smaller than the Within-Groups (97.44), indicating that the variation in preferences remains largely influenced by individual differences within the groups. However, the significant F-value confirms that the differences between groups remain statistically significant.

A further Tukey HSD test shows that all comparisons between groups are significant. Group A is significantly higher than Group B and Group C, while Group B is also higher than Group C. This indicates that the order of investor preferences is consistent, i.e., A > B > C.

The test results can be seen in Table 4 below:

Table 4. Tukey HSD Post-Hoc Test

Comparison	Mean Difference (ΔM)	Sig.	Hypothesis Conclusion
Grup A – Grup B	0.40	0.02	H1a accept (A >B)
Grup A – Grup C	0.85	0.00	H1b accept (A>C)
Grup B – Grup C	0.45	0.01	H1c accept (B>C)

The results of these statistical tests support all research hypotheses. First, hypothesis H2 is accepted because the ANOVA showed a significant difference between groups. Second, hypotheses H1a, H1b, and H1c are also accepted because the post-hoc test results show significant differences in all pairs of groups in the predicted direction (A > B, A > C, B > C). Substantively, these findings confirm that the more comprehensive ESG disclosure in financial reports, the higher investor preference. Companies with comprehensive ESG disclosure are more trusted and more attractive to investors than companies with partial or minimal disclosure.

Discussion

Investors in Group A (Complaate) will Exhebit Highier Investment Preferences Compared to Groups B (Partial)

The results of the H1a hypothesis test indicate a significant difference between investor preferences in Group A (Complete) and Group B (Partial). The Tukey HSD test showed a mean difference of 0.40 with a Sig.=0.02 (<0.05), indicating that investors in Group A rated their investment preferences higher than those in Group B. This result was supported by the Independent Sample T-Test with a t(118)=2.35; Sig.=0.02, reaffirming the statistical significance of the difference. This finding indicates that investors are more interested in financial reports with complete ESG disclosures because they obtain more comprehensive information about the company's commitment to environmental, social, and governance aspects. Full transparency in ESG reporting is perceived as a positive signal regarding a company's commitment to sustainability practices and compliance with international standards such as GRI or SASB.

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Practically, this finding suggests that companies with only partial disclosures will still receive appreciation from investors, but not as well as companies that provide complete reports. In other words, the more comprehensive and transparent the published ESG information, the greater the investor's. willingness to invest. This can be an important consideration for company management, demonstrating that investing in a more comprehensive ESG reporting system is not simply an administrative obligation, but rather a strategy to increase investor confidence, strengthen the company's reputation, and ultimately enhance its investment attractiveness in the capital market.

From a signaling theory perspective, ESG disclosure is more than simply providing information it serves as a strategic mechanism through which companies convey their quality and long-term prospects to the market. Disclosed information, especially when it is comprehensive, involves costs, ranging from data collection and verification to maintaining consistency in reporting. Since not all companies are able or willing to bear these costs, more complete ESG disclosure tends to function as a more credible signal compared to limited disclosure. This credibility is what makes the difference. Investors often view firms that consistently present comprehensive ESG information as having strong confidence in their internal quality reflected in governance structures, risk management practices, and readiness to respond to regulatory pressures and stakeholder demands. In this sense, ESG signals are not isolated; they are closely tied to perceptions of firm quality and management integrity. The stronger the signal, the greater its ability to shape investor expectations regarding future cash flows and overall corporate stability.

Comprehensive ESG disclosure works as a practical way to narrow information gaps. Investors rarely get a clear view of what happens inside a company especially when it comes to non-financial risks like climate exposure, social issues, or governance practices. When firms present ESG information in a detailed and well-structured manner, investors gain a clearer footing to assess those risks. That added clarity gives them an informational edge. It helps sharpen risk evaluation, reduces perceived uncertainty, and, in turn, strengthens confidence when making investment decisions.

From a decision-quality standpoint, comprehensive ESG information makes investment analysis more useful by widening the lens investors rely on. Instead of focusing solely on traditional financial metrics, they can bring sustainability factors into their valuation models such as exposure to environmental risks, the likelihood of social conflict, and how effective internal oversight mechanisms are. When these elements are considered together, the assessment becomes more well rounded. It’s no longer just about numbers on a balance sheet, but about how resilient and responsible a company is across different dimensions. As a result, investors tend to lean toward firms that demonstrate transparency beyond financial performance alone.

The findings of this study move in step with earlier empirical research. Work by (Khamisu & Paluri, 2024), for instance, shows that voluntary ESG disclosure is linked to a lower cost of capital something that often signals growing investor trust. Later, a meta analysis by Gordon (Shan et al., 2025) points to a positive connection between ESG performance and a company’s financial outcomes. (Aydoğmuş et al., 2022) arrive at a similar conclusion, noting that most empirical studies report a positive correlation between ESG practices and investment returns. What stands out, though, is the angle. Much of the earlier research leans toward financial consequences cost of capital, returns, performance

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metrics. This study shifts the focus slightly, looking at how investors actually respond to how complete ESG disclosures are. Put together, both strands tell a more complete story: ESG transparency doesn't just shape perceptions it carries real weight in investment decisions and, ultimately, in how companies perform in the capital market.

Investors in Group a (Complate) will how Higher Investment Preferences Compared to Group C (Minimal)

The results of the H1b hypothesis test indicate that there is a very significant difference between investor preferences in Group A (Complete) and Group C (Minimal). The Tukey HSD test shows an average difference of 0.85 with a Sig.=0.00 (<0.05), which means that investors in Group A give a much higher investment preference assessment compared to Group C. This result is supported by the Independent Sample T-Test which produces a value of t(118)=5.50; Sig.=0.00, thus confirming that the difference is very significant and does not occur by chance. Thus, the H1b hypothesis is accepted, which means that complete ESG disclosure is proven to be able to significantly increase investor preferences compared to minimal ESG disclosure. This finding indicates that financial reports with minimal ESG disclosure are considered less transparent, do not provide adequate information, and raise doubts about the company's commitment to sustainability. Conversely, complete ESG disclosure is perceived as a positive signal regarding the company's credibility, accountability, and seriousness in integrating environmental, social, and governance principles, thus being more able to attract investor interest and trust.

From a signaling theory perspective, the strength of the signal investors receive depends heavily on how complete and well-crafted the disclosed information is. When ESG disclosure is thorough, it goes beyond being a simple add-on it becomes a high quality signal that reflects a company's readiness to manage non-financial risks in a structured and deliberate way. This kind of signal tends to carry more weight. It is usually backed by consistent reporting, clear standards, and not-insignificant implementation costs factors that make it harder to imitate without real commitment. On the other hand, minimal ESG disclosure often comes across as a weak signal. With limited information, investors are left without a full picture of the company's risk exposure or its approach to sustainability, making it harder to form confident judgments.

In investment decision-making, differences in signal strength directly shape how investors perceive risk and how much confidence they place in a firm. Limited disclosure tends to widen ambiguity and leave noticeable information gaps, making it harder to gauge environmental, social, and governance risks that could affect long-term performance. Faced with that uncertainty, investors often take a more cautious stance either by holding back on investment or by demanding a higher risk premium. By contrast, more comprehensive ESG disclosure offers greater informational clarity. It helps investors form a clearer, more grounded view of a company's sustainability and resilience, which in turn supports more accurate risk assessments and strengthens their confidence when making investment decisions.

Looking more closely, the wide gap between Group A (Complete) and Group C (Minimal) suggests that investor responses to ESG are not linear. Instead, they tend to rise sharply once disclosure reaches a certain level of completeness. This points to a threshold effect: minimal disclosure doesn't quite move the needle in shaping positive perceptions,

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while more comprehensive reporting can shift investor judgment in a meaningful way. In that sense, full ESG disclosure does more than simply attract investment. It helps build a stronger corporate reputation, reinforces management credibility, and positions the company more competitively in the capital market.

Research by (Wu et al., 2025) shows that firms disclosing material ESG information meaning it is both relevant and aligned with key industry issues tend to achieve better stock performance than those with incomplete or less relevant disclosure. In a similar vein, (Yu et al., 2024) find that ESG transparency plays a meaningful role in shaping institutional investors' decisions. Investors are more inclined to increase their allocations to companies with higher levels of ESG disclosure, as these firms are seen as better equipped to manage long term risks. (Hijazin et al., 2025)also highlight that the quality of ESG disclosure is linked to improved investment decision-making. Against this backdrop, the present study adds another layer by focusing on investor behavior—specifically, how investors respond to different levels of ESG disclosure completeness. While earlier research largely emphasizes outcomes such as firm performance or market effects, this study zooms in on the decision-making stage itself. It shows that investors clearly distinguish between comprehensive and minimal information, and they show a much stronger preference for companies that are more transparent.

Investors in Groups B (Partial) will Show Highier Investment Prefrences Compared to Group C (Minimal)

The results of the H1c hypothesis test indicate that there is a significant difference between investor preferences in Group B (Partial) and Group C (Minimal). The Tukey HSD test shows an average difference of 0.45 with a Sig.=0.01 (<0.05), which means that investors in Group B give a higher investment preference assessment compared to Group C. This result is also supported by the Independent Sample T-Test which produces a value of t(118)=2.60; Sig.=0.01, so it can be confirmed that the difference is significant. Thus, the H1c hypothesis is accepted, which means that even though the ESG disclosure made by the company is only partial, it still has a positive influence on investor preferences when compared to minimal disclosure. Substantively, this shows that some of the disclosed ESG information is sufficient to provide a positive signal to investors regarding the company's concern and responsibility towards environmental, social, and governance aspects, thereby increasing investment interest. However, it should be noted that although better than minimal disclosure, partial disclosure still cannot achieve the same level of preference as full disclosure, so full transparency remains the best strategy to attract investor confidence.

Within a signaling theory framework, partial ESG disclosure can be seen as an initial signalan early indication that a company is beginning to commit to sustainability practices. It may not capture the full picture, but it already does more than minimal disclosure in easing uncertainty. With at least some information on the table, investors gain a starting point to assess non-financial risks. That initial footing can shift perceptions in a more positive direction and, in many cases, make the company a more attractive option when investment choices are being made.

That said, the signal coming from partial disclosure still has its limits. When the information isn't complete, gaps remain and those gaps can make investors hesitate. It becomes harder to fully trust the quality of management or the consistency of the

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company's sustainability commitment. In this kind of situation, investors usually tread carefully. They weigh things more cautiously, aware that some pieces of the puzzle are still missing. So while partial disclosure does help reduce information asymmetry, it doesn't quite reach the level of completeness needed to build strong, full confidence.

Looking further, when compared with the earlier variables, the H1c results reveal a step-by-step pattern in how ESG disclosure completeness relates to investor preference. Minimal disclosure sends a weak signal, partial disclosure creates a moderate one, and comprehensive disclosure delivers a strong signal. This pattern suggests that investor responses don't fall into a simple yes-or-no reaction. Instead, they grow progressively as the quality and completeness of information improve. So, while partial disclosure already brings some positive effect, it's the comprehensive disclosure that really makes a difference strengthening trust, reducing uncertainty, and more noticeably shaping investment preferences.

Research by (Pereira da Silva, 2024) demonstrates that the quality and extent of information disclosure exert a direct influence on investor perceptions and market efficiency. (Moridu & Posumah, 2025) emphasize that transparency in sustainability aspects, even at an early stage, can enhance corporate reputation and attract investor attention. (Alviana et al., 2025) finds that markets respond to CSR/ESG information disclosed by firms, whether the reaction is positive or negative. In comparison, prior studies have generally focused on the relationship between the level of disclosure and market quality or firm performance. In contrast, this study provides more specific empirical evidence at the level of investor preference. The findings highlight a graded effect of ESG disclosure minimal → partial → comprehensive where each incremental increase in disclosure is followed by a corresponding rise in investor preference. This underscores that ESG disclosure completeness is not merely a supplementary component of reporting, but a strategic factor that directly influences investment decision-making.

There are significant differences in investor preferences among the groups that received reports with complete, partial, and minimal ESG disclosure

The hypothesis testing results for H2 indicate that there are significant differences in investor preferences among the groups that received reports with complete, partial, and minimal ESG disclosure. This was confirmed through the ANOVA test, which produced a value of $F(2,177) = 14.25$; Sig. = 0.00 (< 0.05), thereby ensuring that the average investor preferences were not the same across the three treatment groups. Thus, hypothesis H2 is accepted.

These findings suggest that the level of completeness of ESG disclosure in financial statements has a significant effect on investor preferences. The group with complete ESG disclosure obtained the highest preference scores, followed by the group with partial disclosure, while the group with minimal disclosure obtained the lowest scores. This result is consistent with the theory that the more transparent and comprehensive a company is in disclosing non-financial information, particularl regarding environmental, social, and governance aspects, the greater the trust and interest of investors to invest.

When viewed through the lens of signaling theory, these findings suggest that different levels of ESG disclosure convey signals of varying strength to investors. Comprehensive ESG disclosure functions as a strong signal, indicating that a company demonstrates a high level of commitment to transparency, accountability, and sustainability. Such a signal reduces uncertainty and enhances

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perceptions of firm quality, leading investors to respond with stronger investment preferences. In contrast, partial disclosure can be viewed as a moderate signal. The information provided does indicate that the company is making an effort to report on ESG aspects, yet it is not sufficiently comprehensive to inspire full investor confidence. As a result, the investor response tends to be positive, but not as strong as in the case of comprehensive disclosure.

Minimal disclosure, on the other hand, reflects a weak signal—or even approaches the absence of a signal altogether. With such limited information, investors face difficulty in assessing the company's commitment to environmental, social, and governance aspects. This situation heightens uncertainty and risk perception, which in turn leads to lower investor preference. Within the signaling theory framework, these differences in investor preference can be understood as a rational response to the quality of information received. The stronger the signal conveyed through ESG disclosure, the greater the level of investor confidence in the company's prospects and credibility. Conversely, weaker signals are less effective in reducing information asymmetry, and therefore insufficient to significantly stimulate investment interest.

These findings reinforce the view that ESG disclosure is not merely a supplementary element of reporting, but a strategic communication instrument between companies and investors. The level of disclosure completeness determines the strength of the signal conveyed to the market. Accordingly, companies seeking to enhance their investment appeal need to ensure that ESG disclosure is carried out in a comprehensive, consistent, and transparent manner, so that the signal received by investors truly reflects the company's overall quality and commitment.

CONCLUSION

Based on the analysis conducted, it can be concluded that all hypotheses in this study are accepted. First, investors in Group A, who received reports with complete ESG disclosure, showed higher investment preferences compared to Group B, which only received partial disclosure (H1a). Second, investors in Group A were also proven to have much higher investment preferences compared to Group C, which received reports with minimal ESG disclosure (H1b). Third, investors in Group B still demonstrated higher investment preferences compared to Group C (H1c). Thus, although partial disclosure is not as strong as complete disclosure, it remains better than minimal disclosure.

Fourth, the ANOVA test results confirmed that there are significant differences in investor preferences among the three treatment groups (H2), with a consistent pattern: Complete > Partial > Minimal. Overall, this study demonstrates that the more complete the ESG disclosure in financial statements, the greater the investor preference. Therefore, transparency and completeness of ESG information can serve as an important strategy for companies to increase trust and investment attractiveness.

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