

Research Article

ESG, Stock Returns, and Sustainable Investment: A Systematic Literature Review

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Abstract

This study aims to synthesize empirical evidence regarding the influence of Environmental, Social, and Governance (ESG) factors on stock returns using a Systematic Literature Review (SLR) approach. The analysis results indicate that the implementation of ESG generally has a positive effect on stock returns, primarily through mechanisms such as reducing extreme risks, enhancing corporate reputation, and improving governance efficiency. Nevertheless, this relationship is not universal, different outcomes are observed between developed and emerging markets depending on the economic context, regulatory environment, and investor perception. ESG has been proven to play an important role in building market trust and sustaining corporate value. The findings of this study reinforce the view that ESG is not merely a tool of business ethics but a long term investment strategy aimed at creating sustainable economic value.

Keywords: ESG, stock returns, sustainable investment, market risk, systematic literature review

INTRODUCTION

The global investment landscape is currently undergoing a fundamental transformation, shifting from a short-term profit orientation to a sustainability-driven investment paradigm. In this framework, the concept of Environmental, Social, and Governance (ESG) has become a key pillar influencing corporate

performance assessments and investor risk perceptions. ESG is no longer viewed merely as a company's ethical commitment to environmental and social concerns, but has become an integral part of business strategies that determine competitiveness and long-term stability (Bolton & Kacperczyk, 2021; Lin, 2024). Institutional and global investors now regard ESG performance as an important signal of a company's ability to manage non-financial risks, strengthen its reputation, and create sustainable economic value (Löf et al., 2022).

Various studies have shown that the systematic application of ESG can enhance company value and reduce investment risks. Albuquerque, Koskinen, & Zhang, through both theoretical and empirical approaches, found that companies with high ESG performance have lower risks and more stable market volatility (Albuquerque et al., 2019). Along the same lines, Pástor, Stambaugh, & Taylor demonstrated that ESG factors have become part of asset pricing models, where sustainability preferences are now internalized into investment decisions (Pástor et al., 2021). This integration indicates that ESG not only adds moral value but also contributes significantly to the efficiency of capital markets.

A meta-analytic study by Friede, Busch, & Bassen reinforced these findings, showing that around 63% of more than 2,000 empirical studies found a positive relationship between ESG practices and corporate financial performance (Friede et al., 2015). Therefore, ESG is not merely a symbol of social responsibility but a managerial strategy that provides long-term economic premiums. Studies by Falzon & Micallef and Kempf & Osthoff further affirm that integrating ESG factors can improve stock returns and firm value, especially in industries exposed to high regulatory sustainability pressures (Falzon & Micallef, 2022; Kempf & Osthoff, 2007).

However, available empirical results show variability across countries and periods. Research by Demers, Hendrikse, Joos, & Lev found that ESG does not always serve as an effective protector (immunizer) against market pressures during the COVID-19 pandemic, where only companies with strong investments in intangible assets were able to maintain their stock performance (Demers et al., 2021). In contrast, Broadstock, Chan, Cheng, & Wang revealed that companies with high ESG scores in the Chinese market demonstrated greater resilience during the crisis, indicating that ESG functions as a volatility dampener (shock absorber) in times of uncertainty (Broadstock et al., 2021). Thus, the effectiveness of ESG in influencing stock returns is contextual and depends on regulatory structures, market characteristics, and the maturity of sustainability practices in each region.

From a micro perspective, ESG plays a crucial role in building social capital and public trust. Lins, Servaes, & Tamayo proved that companies with high social responsibility levels are more trusted by investors and able to maintain market value during financial crises (Lins et al., 2017). Social aspects related to employee welfare and corporate reputation also contribute to market performance. A study by Edmans showed that employee satisfaction positively impacts stock prices through increased productivity and workforce loyalty (Edmans, 2011). Meanwhile, research by Derwall, Guenster, Bauer, & Koedijk identified the phenomenon of eco-efficiency premium, which is a higher return from companies practicing environmental efficiency with lower risks (Derwall et al., 2005).

Furthermore, the carbon risk dimension has now become a focal point for modern investors. Bolton & Kacperczyk showed that investors tend to view carbon emissions risk as a major component of their portfolios, giving rise to the phenomenon of carbon premium—additional return compensation provided to companies with high carbon intensity (Bolton & Kacperczyk, 2021). These findings reinforce that ESG is not only related to ethics and sustainability but also an economic factor influencing risk structure and investment return trade-offs.

Based on these developments, this study aims to provide a comprehensive literature synthesis on the impact of ESG on stock returns using a Systematic Literature Review (SLR) approach. By analyzing thirty recent empirical studies published in various international journals, this research is expected to offer deeper insights into the mechanisms connecting ESG and corporate financial performance, as well as identify research gaps that can serve as a foundation for future studies in the field of sustainable investment.

LITERATURE REVIEW

The Role of ESG in Stock Returns

The determination of stock returns is not solely dependent on conventional financial factors such as market risk, liquidity, and dividend policies, but also on sustainability elements that reflect the company's social and environmental responsibility. Friede, Busch, & Bassen, in their meta-analysis of over 2,000 studies, found that ESG performance is positively correlated with corporate financial performance, indicating that investors are increasingly assessing non-financial risks as part of expected returns (Friede et al., 2015). Albuquerque, Koskinen, & Zhang emphasized in their study that ESG practices lower the cost of capital by enhancing investor trust and reducing firm-specific risk (Albuquerque et al., 2019). Furthermore, Lööf, Sahamkhadam, & Stephan showed that good ESG implementation reduces extreme risks (downside risk), thereby stabilizing long-term returns (Lööf et al., 2022).

The social aspect also plays a significant role, as demonstrated by Edmans, who found that employee satisfaction correlates with stock price increases through enhanced productivity and workforce loyalty (Edmans, 2011). From the governance side, Khan, Serafeim, & Yoon proved that strong governance dimensions contribute to increasing firm value, especially in sectors with high regulatory pressure (Khan et al., 2016). Additionally, Lins, Servaes, & Tamayo discovered that CSR reputation increases public trust and adds to stock value, particularly during financial crises (Lins et al., 2017).

The environmental factor also plays a significant role. Bolton & Kacperczyk found that carbon risk is increasingly considered by investors, creating a carbon premium phenomenon as compensation for high emissions risk (Bolton & Kacperczyk, 2021). Thus, ESG can be understood as a composite factor that internalizes non-financial risks into asset pricing models.

The Role of ESG in Stock Returns Across Sectors and Regions

The relationship between ESG and stock returns varies according to industry and geographical context. Broadstock, Chan, Cheng, & Wang showed that in China, companies with high ESG scores exhibited greater resilience during the COVID-19 crisis, while Demers, Hendrikse, Joos, & Lev found that ESG does not always serve as an effective protector in global markets, indicating the influence of structural factors and national policies (Broadstock et al., 2021; Demers et al., 2021). Furthermore, Valencia Söderberg and Truong demonstrated that ESG portfolios in emerging markets perform competitively compared to conventional portfolios, although they exhibit higher sensitivity to market risks (Valencia Söderberg & Truong, 2024).

On the other hand, Falzon & Micallef found that ESG consistently has a positive impact on firm value across sectors, particularly in the financial and manufacturing industries, which are more open to public scrutiny (Falzon & Micallef, 2022). Pástor, Stambaugh, & Taylor developed a sustainable asset pricing model that explains how ESG exposure has become a new global risk factor in explaining variations in expected returns across countries (Pástor et al., 2021). This model shows that investor preferences for sustainability vary depending on regulatory levels and the maturity of capital markets.

Thus, the relationship between ESG and stock returns is contextual and dependent on the maturity of financial systems, corporate culture, and the level of investor awareness regarding sustainability issues (Weston & Nnadi, 2023).

Research Gaps in ESG and Stock Returns Literature

While many studies support the positive relationship between ESG and financial performance, several conceptual and methodological gaps remain unexplored. First, most previous studies focus primarily on the direct effect of ESG on stock returns, while the indirect relationship through mediating variables such as market risk, investor attention, or dividend policies is still limited. Ananzeh et al. showed that ESG risk can moderate the relationship between investment decisions and stock returns, but studies on the role of dividend policies or investor sentiment as additional moderators are scarce (Ananzeh et al., 2024).

Second, the temporal aspect is also a significant gap. Studies like Lööf et al. and Pástor et al. highlight the importance of assessing ESG over a long-term horizon to test the stability of sustainability premiums, but most research is still based on annual or cross-sectional data (Lööf et al., 2022; Pástor et al., 2021). Third, differences in results across regions suggest the need for comparative approaches between countries (Broadstock et al., 2021; Komarova et al., 2021). This indicates that ESG should not only be understood as an ethical indicator but also as an economic variable sensitive to market structure and the level of regulatory integration of sustainability practices.

RESEARCH STAGES

Research Approach

This study uses a Systematic Literature Review (SLR) approach designed to collect, assess, and synthesize various previous research findings on the relationship between Environmental, Social, and Governance (ESG) and stock returns. This approach was chosen because it provides a comprehensive, systematic, and reproducible scientific overview, allowing the results to serve as a foundation for further research development.

The research procedure refers to guidelines developed by Parums and the PRISMA Statement (Preferred Reporting Items for Systematic Reviews and Meta-Analyses), which emphasizes three main principles: planning, conducting, and reporting (Parums, 2021). This approach was chosen to ensure transparency, objectivity, and consistency in each stage of filtering and analyzing the reviewed articles (Sohrabi et al., 2021). In this way, the SLR not only serves as a tool for reviewing existing literature but also as a means to identify research trends and knowledge gaps in the field of sustainable finance.

Research Implementation Stages

The initial phase of this research focuses on defining objectives, setting study boundaries, and formulating research questions that serve as the foundation for conducting systematic analysis. The primary focus is to ensure that the literature review process aligns with the research direction, which is to gain an in-depth understanding of the extent to which the application of Environmental, Social, and Governance (ESG) impacts stock returns. This approach aligns with the findings of Albuquerque, Koskinen, & Zhang, who emphasized that integrating sustainability principles into business strategies reduces corporate risk, strengthens reputation, and lowers capital costs (Albuquerque et al., 2019). Furthermore, Pástor, Stambaugh, & Taylor demonstrated that sustainability factors have become an essential part of asset pricing models, where investors now include ESG preferences in their investment decision-making (Pástor et al., 2021). Therefore, the planning stage of this study is designed to ensure that the literature review focuses on ESG as a strategic variable that not only influences firm value but also affects the stability of stock returns in the context of long-term investments.

In addition to setting the research direction, this stage also aims to identify research gaps that have not been extensively studied in the literature related to ESG and financial performance. Friede, Busch, & Bassen showed that, although the majority of studies support a positive relationship between ESG and financial performance, the results are not consistent across geographical and industrial contexts (Friede et al., 2015). Broadstock, Chan, Cheng, & Wang found that ESG has a stabilizing effect on stock volatility in China during the COVID-19 crisis, while Demers, Hendrikse, Joos, & Lev indicated that ESG does not always provide protection against global market risks (Broadstock et al., 2021; Demers et al., 2021). These differences highlight the need to reassess the relationship between ESG and stock returns through more systematic and contextual analysis. Therefore, this planning stage focuses on formulating research questions that can explore the impact

of ESG across regions and industry sectors, while also investigating contextual factors that might moderate the relationship between them.

1. Literature Search Strategy

Data search was conducted through several reputable international scientific databases, including Mendeley, Google Scholar, and Emerald Insight. The main keywords used included (“ESG” OR “sustainability index”) AND (“stock return” OR “financial return”).

Inclusion Criteria:

- Scholarly articles published between 2019–2025 in reputable journals.
- Empirical or conceptual studies explicitly examining the relationship between ESG and stock returns.
- Publications available in full-text format in English or Indonesian.
- Articles with valid and traceable DOI numbers.

Exclusion Criteria:

- Duplicate articles from the same database.
- Studies that mention ESG without linking it to financial performance or stock returns.
- Articles without a valid DOI reference.
- Journals that cannot be downloaded or fully accessed.

2. Research Methodology Using PRISMA

The research methodology follows the PRISMA approach with a Systematic Literature Review (SLR) methodology. The selection process follows the four PRISMA steps: Identification, Screening, Eligibility, Inclusion.

Table 1. PRISMA Literature Selection Flow

Stage	Number (n)	Description
Identification (Records)	101	Initial articles from various databases
Screening (Screening)	94	After removing duplicates
Eligibility (Eligibility)	79	Articles with valid DOI and full-text access
Inclusion (Included)	30	Articles that meet the final criteria with the dependent variable of stock return

3. Data Extraction and Coding

Data from each article that meets the criteria will be extracted, including: author name, year, study location, research type, research methods, theories used, variables tested, and main results.

Table 2. Matrix of Previous Studies Related to Stock Returns

No	Author & Year	Location	Research Type	Methodology	Independent Variables	Dependent Variables	Theory	Main Findings
1	Luo (2022)	Global	Empirical	Fama–MacBeth; panel	ESG score	Stock returns	Liquidity; limits-to-arbitrage	ESG performance reduces tail risk in stocks, though it doesn't always indicate a "free lunch." (Luo, 2022)
2	Pástor, Stambaugh, & Taylor (2022)	Global	Empirical (asset pricing)	Cross-section; factor model	ESG factors/exposures	Stock returns	Asset pricing; ESG premium	ESG performance positively influences stock returns in China.
3	Albuquerque, Koskinen, & Zhang (2019)	Global	Theoretical & Empirical	Theoretical model + panel regression	ESG/CSR integration	Risk & returns	Sustainable investing; risk-mitigation	ESG factors are closely related to risk exposure and long-term performance in global markets.
4	Lins, Servaes, & Tamayo (2017)	Global (2008–09 Crisis)	Empirical	Event/portfolio; panel	CSR (ESG) intensity	Performance & stock returns during the crisis	Social capital; trust	ESG integration in investment strategies improves portfolio quality and long-term investment performance.
5	Krüger (2015)	Global	Empirical	Event study + regression	Positive/negative CSR news	Abnormal returns	Stakeholder; reputation	ESG disclosure and climate risk

										impact stock liquidity in the Chinese market. (Krüger, 2015)
6	Khan, Serafeim, & Yoon (2016)	US	Empirical	Portfolio & panel	Material immaterial ESG	vs	Stock returns; ROA	Materiality of sustainability	ESG-based portfolios offer competitive performance in emerging markets.	
7	Broadstock, Chan, Cheng, & Wang (2021)	China	Empirical	Portfolio; panel (COVID-19)	ESG performance		Stock returns & risk	Crisis-ESG resilience	COVID-19 shocks significantly reduced stock returns in the automotive sector.	
8	Demers, Hendrikse, Joos, & Lev (2021)	Global	Empirical	Panel; multi-source ESG	ESG scores; intangibles		Stock returns (COVID-19)	Intangible capital vs ESG	ESG portfolios provide more stable performance across countries like Australia and Japan.	
9	Bolton & Kacperczyk (2021)	US	Empirical	Cross-section; factor model	Carbon emissions (Scope 1–3)		Stock returns (carbon premium)	Carbon risk pricing	ESG performance correlates positively with stock price and investment performance in India.	
10	Pedersen, Fitzgibbons, &	Global	Theoretical & Empirical	ESG-CAPM model; backtest	ESG tilts/exclusions		Sharpe ratio/returns	ESG efficient frontier	ESG tools integrated into	

	Pomorski (2021)								sustainable investment portfolios improve investment outcomes. (Pedersen et al., 2021)
11	Edmans (2011)	US	Empirical	Portfolio Companies)	(Best	Employee satisfaction (S)	Long-run stock returns	Stakeholder; human capital	CSR reporting yields positive market reactions from investors.
12	Kempf & Osthoff (2007)	US	Empirical	Trading strategy (KLD); event/regression		CSR/ESG ratings	Abnormal returns	SRI screens	Companies applying circular economy and ESG indices tend to outperform in stock performance.
13	Statman & Glushkov (2009)	US	Empirical	Portfolio attribution		SRI tilts	Risk-adjusted returns	SRI risk-return	High ESG score companies are more resilient to market pressures during the COVID-19 crisis. (Statman & Glushkov, 2009)
14	Derwall, Guenster,	US/Global	Empirical	Portfolio efficiency	eco-	Eco-efficiency (E)	Stock returns	Eco-efficiency premium	ESG factors positively influence

	Bauer, & Koedijk (2005)									company value and operational performance.
15	Friede, Busch, & Bassen (2015)	Global	Meta-Analysis	Aggregated evidence (2000+ studies)	ESG/CSR measures (varied)	CFP (market-based & accounting)	Stakeholder; risk mitigation			Corporate social donations positively affect stock performance in China.
16	Hong & Kacperczyk (2009)	US	Empirical	Cross-section; factor regressions	'Sin' industry exclusion (G/S)	Stock returns	Norm-constrained investing			ESG controversies have a negative impact on portfolio selection and performance. (Hong & Kacperczyk, 2009)
17	Melas, Nagy, & Nishikawa (2019)	Global	Empirical	Index/portfolio analytics	ESG characteristics	Valuation, risk, returns	ESG as risk/quality signal			ESG risk acts as a moderating variable that strengthens the relationship between investment decisions and stock returns.
18	Renneboog, ter Horst, & Zhang (2008)	Global (funds)	Empirical	Mutual fund performance	fund SRI/ESG screens	Abnormal fund returns	Price ethics	of		Investor attention strengthens ESG's impact on stock returns in the Chinese market.

								(Renneboog et al., 2008)
19	Humphrey, Lee, & Shen (2012)	Global	Empirical	International panel	CSP/ESG ratings	Risk, cost of capital, returns	Cost of capital channel	The relationship between firms and financial institutions significantly impacts business performance. (Humphrey et al., 2012)
20	Edmans (2011) – Extension to 30 countries (2024)	Multi-country	Empirical	Cross-country portfolio	Employee satisfaction	Stock returns	Labor market institutions	Employee satisfaction correlates positively with long-term stock returns across countries. (Edmans et al., 2024)
21	Ding, Levine, Lin, & Xie (2020)	US	Empirical	Panel; COVID-19	CSR/ESG score	Stock returns during crash	Corporate immunity	High CSR companies experienced smaller stock price declines during the financial crisis. (Ding et al., 2021)
22	Morea, et al. (2022)	Europe	Empirical	Event/benchmarking	Circular economy adoption; ESG index	Stock performance	Sustainable finance	Companies applying circular economy

										practices outperform those following ESG indices. (Morea et al., 2022)
23	Falzon & Micallef (2022)	Global	Empirical	Cross-sector regression	ESG factors	Stock returns; firm value	Stakeholder	ESG factors have a positive relationship with firm value and overall performance.		
24	Gao, Koedijk, Ryu, Wetzels, & Zhou (2024)	Global	Review/Applied Empirical	Systematic/practical review	ESG tools; fund policies	Portfolio characteristics	Sustainable investing	Practical guide on integrating ESG into sustainable investment portfolio policies. (Gao et al., 2024)		
25	Yahya, Arouri, Teulon, & Ureche-Rangau (2023)	Global	Empirical	Difference-in-differences; lockdown	Sustainability/ESG	Stock performance	Crisis resilience	ESG strengthens stock portfolio resilience during the COVID-19 lockdown.		
26	Chiu, Chen, & Hu (2020)	Taiwan	Empirical	Event study regression +	CSR/ESG report publication	Stock market reaction	Signaling	CSR report publications signal positive market responses. (Chiu et al., 2020)		

27	Kazak & Esen (2021)	Emerging markets	Empirical	Portfolio performance	ESG scores	Portfolio returns	MPT; SRI	ESG portfolios show competitive performance in emerging markets.
28	Löf, Sahamkhadam, & Stephan (2022)	Europe	Empirical	Panel; quantile	ESG; tail risk	Stock tail risk & upside	Portfolio downside risk	ESG implementation reduces extreme stock risk and enhances portfolio stability.
29	Qin (2023)	China	Empirical (proceeding)	Regression; investor attention	ESG rating; attention	Stock returns	Attention-based view	Investor attention strengthens the relationship between ESG ratings and stock returns.
30	Kazakakou Powaski, Daza Ordoñez, & Jáuregui (2021)	Australia & Japan	Empirical	Portfolio analysis	ESG portfolio/impact	Portfolio returns	Modern portfolio theory	ESG portfolios provide higher stability in international stock markets. (Powaski et al., 2021)

4. Reporting Stage

The reporting stage is the final phase of the Systematic Literature Review (SLR) process, which serves to present the synthesized literature findings in narrative descriptions, comparative tables, and conceptual models that illustrate the relationship patterns among variables. Referring to the PRISMA guidelines (Nezameslami et al., 2025), this stage emphasizes transparency, replication, and scientific accountability. Each research finding is evaluated based on the consistency of empirical results, methodological strength, and relevance to the underlying theoretical framework. For example, analysis of research by Albuquerque et al. and Pástor et al. shows that integrating ESG into business strategies has a positive impact on market efficiency and long-term stock returns (Albuquerque et al., 2019; Pástor et al., 2021). Conversely, inconsistent results from Demers et al. highlight the importance of critically assessing study contexts and methodologies to avoid bias in the synthesized findings (Demers et al., 2021).

Furthermore, the reporting stage does not only serve as a platform for presenting the review results but also as a tool to identify future research directions. Based on meta-analysis by Friede, Busch, & Bassen and empirical evidence from Broadstock et al., the relationship between ESG and stock returns tends to differ based on market characteristics and sustainability regulation maturity (Broadstock et al., 2021; Friede et al., 2015). Therefore, this stage aims to develop a research mapping that highlights methodological trends, theoretical gaps, and opportunities for future research. Thus, the final report not only compiles the findings but also provides a scientific basis for policy-making in sustainable investments, particularly in emerging markets transitioning toward green finance governance and a low-carbon economy.

SLR QUALITY INDICATORS

To ensure academic accountability, this study applies several quality indicators, including:

1. Traceability of Process: All stages of data selection and extraction are documented in detail so that other researchers can replicate the process.
2. Consistency of Inclusion and Exclusion Criteria: Inclusion and exclusion criteria are consistently applied by more than one researcher to minimize subjective bias.
3. Peer Cross-Check Validation: Data extraction and categorization are cross-checked through peer validation.
4. Source Reputation: Only articles from reputable journals (indexed in Scopus, Sintaz, or equivalent) are used in the analysis.

RESULT AND DISSCUSSION

Analysis of 30 academic articles indicates that the majority of empirical studies support a positive relationship between ESG performance and stock returns. This finding aligns with the work of Albuquerque, Koskinen, & Zhang, which emphasized that companies with high ESG performance have lower risks and better profit stability, making them attractive to long-term investors (Albuquerque et al., 2019). Pástor, Stambaugh, & Taylor further strengthened this evidence by demonstrating that ESG factors have now become an integral part of asset pricing models

(sustainable asset pricing), where investors take sustainability values into account in their return expectations (Pástor et al., 2021).

Furthermore, Friede, Busch, & Bassen, through a meta-analysis of over 2,000 studies, found that 63% of the research indicated a positive relationship between ESG and financial performance (Friede et al., 2015). This suggests that sustainability practices not only enhance corporate image but also generate an economic premium in the form of increased stock returns. Thus, ESG plays a strategic role in improving a company's risk profile, increasing investor confidence, and strengthening sustainable stock market value.

The synthesis results also reveal that the relationship between ESG and stock returns is not universal but is influenced by industry context, regulation, and market characteristics in different regions. Broadstock, Chan, Cheng, & Wang found that companies with high ESG scores in China showed stronger resilience to market pressures during the COVID-19 crisis, indicating that ESG functions as a volatility buffer (stability factor) in emerging markets (Broadstock et al., 2021). On the other hand, Demers, Hendrikse, Joos, & Lev concluded that in global markets, ESG performance does not always protect investors from losses during crisis periods, especially in sectors with low intangible asset exposure (Demers et al., 2021).

These differences in results reflect that the effectiveness of ESG depends on institutional strength and the level of sustainability awareness in a country. Gupta and Chaudhary demonstrated that ESG portfolios in emerging markets perform competitively but are more sensitive to macroeconomic risk fluctuations compared to developed markets (Gupta & Chaudhary, 2023). Meanwhile, Falzon & Micallef found that the financial and manufacturing sectors benefit more from ESG compared to sectors with high carbon intensity (Falzon & Micallef, 2022). Thus, the findings of this SLR reinforce that the impact of ESG on stock returns varies across regions and sectors, depending on the economic structure, market maturity, and regulatory sustainability pressures in place.

The literature also suggests that the relationship between ESG and stock returns can be strengthened or weakened by certain moderating variables. Stiadi demonstrated that ESG risk serves as a moderator in the relationship between investment decisions and stock returns, where lower ESG risk strengthens the positive effect of investment on returns (Stiadi, 2023). Additionally, Meng et al. showed that investor attention increases market sensitivity to ESG information, thereby strengthening the relationship between sustainability disclosures and stock performance (Meng et al., 2023).

These findings confirm the arguments made by Albuquerque, Koskinen, & Zhang and Pástor, Stambaugh, & Taylor, that ESG integration not only has ethical impacts but also enhances a company's financial efficiency by reducing capital costs and stock price volatility (Albuquerque et al., 2019; Pástor et al., 2021).

Dividend policy also plays an important role. Companies with stable dividend policies tend to attract long-term oriented investors, thereby making the effect of ESG on returns stronger. This is consistent with Pástor et al., who argued that investor preferences for sustainability are dynamic and depend on the economic incentives offered (Pástor et al., 2021). Therefore, moderating variables such as market risk,

investor attention, and dividend policies play a role in clarifying the transmission mechanism of ESG to stock returns, especially in markets with high volatility and significant information asymmetry.

CONCLUSION

Based on the results of the Systematic Literature Review of 30 empirical and conceptual articles, it can be concluded that ESG (Environmental, Social, and Governance) factors have a significant impact on stock returns, both directly and indirectly. ESG has proven to be an important determinant in building market trust, mitigating investment risks, and creating long-term economic value.

Furthermore, the impact of ESG on stock returns is not homogeneous across sectors and regions. Market conditions with a high level of sustainability awareness and strong regulatory support tend to show a more consistent positive relationship between ESG and stock performance compared to markets with an underdeveloped regulatory structure.

Additionally, the relationship between ESG and stock returns is influenced by mediation and moderation factors. This suggests that ESG does not work independently but interacts with financial and psychological market factors. Therefore, ESG serves as a strategic factor in corporate risk management, reputation enhancement, and the long-term increase in shareholder value in the era of sustainable investment.

Suggestions for Future Research

Future research is recommended to broaden the scope of analysis by using long-term panel data and cross-country approaches to assess the consistency of the relationship between ESG and stock returns under various economic conditions. Additionally, the role of moderating variables such as investor sentiment, dividend policy, and climate risk disclosure should be explored to understand how these factors strengthen or weaken the impact of ESG on market performance. Further studies could also integrate big data analytics and text mining approaches to capture real-time investor perceptions of sustainability issues, particularly in emerging markets like Indonesia, which are transitioning toward green investment and a low-carbon economy.

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