



Environmental disclosure moderates corporate performance and market perceptions

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Article Info	ABSTRACT
Article history: Received March 28, 2026 Revised May 10, 2026 Accepted Jul 26, 2026	This study advances a signal-reweighting perspective by examining whether environmental disclosure changes how investors interpret corporate performance signals in an emerging capital market. The research gap arises because prior studies commonly treat environmental disclosure as a direct determinant of firm value, while paying limited attention to its role as an information context that modifies the valuation relevance of market capitalization, earnings per share, and leverage. Using an unbalanced panel of 263 firm-year observations from Indonesian listed companies during 2020-2024, this study applies fixed-effects panel regression and Moderated Regression Analysis. The main model explains 72.81% of the variation in average annual stock prices, with market capitalization and earnings per share showing positive significant effects, while leverage is insignificant. The moderation results clarify an inconsistent pattern: environmental disclosure strengthens the market capitalization-stock price relationship, weakens the EPS-stock price relationship, and does not alter the leverage-stock price relationship. These findings extend signaling theory by showing that environmental disclosure does not merely add an ESG signal, but selectively reweights financial signals in market valuation.
Keywords: Earnings per share; Environmental disclosure; Emerging markets; Market perception; Stock price.	

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1. INTRODUCTION

Market perception describes how investors assess a company's quality and risks at any given time (Aruwaji & Swanepoel, 2025; Said & Elbannan, 2023). This perception is shaped by the processing of publicly available information, interpretations, and expectations about the business's future resilience. Market perception determines the attractiveness of stocks and impacts a company's cost of capital (H. Gao et al., 2019). Stock prices are often used as a proxy for market perception in financial studies. Stock prices reflect the continuous aggregation of investor assessments (Putri & Tanno, 2024; Vinodkumar & Alarifi, 2022). When investors perceive a company's prospects as improving and risks as decreasing, demand for the stock increases, and the stock price tends to rise. Conversely, when investors perceive uncertainty or rising risks, they adjust valuations, and stock prices may fall (Nasraoui et al., 2024; Sun & Li, 2025; Yu et al., 2024). Thus, stock prices can be understood as indicators that capture changes in market perception more directly than other indicators.

Market perception has become increasingly prominent as the business and investment environment grows more complex. Investors must focus on short-term profitability while considering non-financial risks that may affect a company's long-term value. These conditions give rise to a relevant phenomenon. The companies with strong financial performance do not always receive the same market response (Dsouza et al., 2024; Lee & Lee, 2025; Moolkham, 2024), while others maintain high valuations despite economic pressures. This variation in response indicates that a single performance indicator does not determine market perception but is also influenced by the informational context that shapes how investors interpret corporate signals. Environmental disclosure is especially relevant because it can clarify environmental risk exposure, governance discipline, and long-term sustainability orientation.

At the same time, the expansion of ESG reporting has produced new interpretive problems for investors. Environmental information can reduce uncertainty, but it can also generate ESG skepticism when disclosure is perceived as symbolic, selective, or disconnected from substantive environmental performance. Greenwashing concerns weaken disclosure credibility, while excessive and poorly comparable ESG information can create information overload that makes it difficult for investors to distinguish material signals from rhetorical claims (Yu et al., 2024; Zhou et al., 2023). Thus, the key issue is not only whether firms disclose environmental information, but whether such disclosure changes how investors interpret conventional performance indicators.

Previous literature has examined various factors influencing stock prices, including corporate performance indicators and various forms of disclosure. However, research findings often show inconsistent results, particularly when financial variables are juxtaposed with increasingly material non-financial information. In this study, corporate performance is measured through three indicators that are common and easily observable to investors. First, market capitalization (Koroleva & Tikhomirova, 2021), an indicator of market value and company scale. Second, earnings per share (Yuan et al., 2025), an indicator of profitability per share. Third, the debt-to-equity ratio (Kang & Baek, 2024; Park & Jung, 2023), an indicator of leverage. Although all three are frequently used, the literature still leaves an important research gap that needs to be examined more systematically within the Indonesian context.

In capital market practice, investors do not perfectly observe a company's quality. Investors rely on observable, comparable performance indicators to update their expectations for future cash flows and risk (Landi et al., 2022). Therefore, variations in corporate performance indicators are expected to result in differences in market assessments, which are reflected in stock prices. Market capitalization is viewed as a signal that captures the market's aggregate assessment of a company's value (Vakhovych et al., 2024). The higher the market capitalization, the stronger the market perception that the company has significant economic capacity, a broad investor base, and market endorsement, as reflected in its valuation (Vakhovych et al., 2024). Market capitalization is also often associated with a more competitive cost of capital and the ability to maintain value stability during volatile periods. Thus, market capitalization is expected to enhance market perception because investors tend to assign a premium to companies that the market has validated through high valuations. Based on the arguments described, the research hypothesis is: H1a. Market capitalization positively affects market perception.

Unlike market capitalization, which reflects aggregate market assessment, EPS provides more direct information regarding a company's ability to generate profits available to shareholders (Glova & Panko, 2025). Economically, EPS enhances the ability to explain a company's performance relative to valuation, as earnings per share often serve as the basis for investors to estimate returns and assess relative price-to-earnings ratios. EPS is viewed as a signal that strengthens investor confidence in a company's capacity to create value; an increase in EPS is expected to trigger a revision of expectations, leading to a higher market valuation (Arhinful & Radmehr, 2023). Based on the arguments described, the research hypothesis is: H1b. EPS has a positive effect on market perception.

Meanwhile, leverage is more closely associated with the risk dimension than the value creation dimension (Moolkham, 2024). In the valuation mechanism, an increase in leverage can amplify risk

perception because the greater the debt financing, the higher the company's sensitivity to cash flow pressures and the likelihood of distress when business conditions deteriorate (Odhiambo et al., 2025). This situation prompts investors to demand greater risk compensation, which ultimately may depress valuation and lower market perception. Therefore, leverage is expected to affect market perception negatively. Based on the arguments described, the research hypothesis is: H1c. Leverage harms market perception.

Conceptually, environmental disclosure enriches investors' information set regarding a company's environmental risk exposure, governance quality, and sustainability orientation. From a signaling theory perspective, financial indicators such as market capitalization, EPS, and leverage provide observable signals about firm value, profitability, and risk; however, these signals are not interpreted in isolation. As non-financial information becomes increasingly material, environmental disclosure can function as a contextual signal that modifies how investors interpret corporate performance indicators by reducing information asymmetry, clarifying environmental risk exposure, and shaping expectations about long-term resilience (Arif et al., 2024; Landi et al., 2022; Piccioni et al., 2024). Therefore, environmental disclosure may either increase or decrease stock price sensitivity to corporate performance indicators depending on how investors perceive the credibility and relevance of the disclosed information.

First, environmental disclosure is expected to strengthen the relationship between market capitalization and market perception. Market capitalization reflects firm scale, visibility, and market endorsement, but large firms are also more exposed to stakeholder scrutiny, regulatory pressure, and reputational risk. For companies with high market capitalization, environmental disclosure can amplify the effect of market value on market perception by providing additional assurance that large firms are capable of managing environmental risks and maintaining legitimacy (Klibi et al., 2024). A large market capitalization already signals high market appeal and visibility (Munir & Pratama, 2025). However, investors still consider whether such a large firm can effectively manage environmental risks and sustain its valuation over time. When environmental disclosure is robust, investors receive complementary signals regarding transparency, governance maturity, and risk management capabilities, thereby increasing confidence in the quality of large firms. Based on these arguments, the research hypothesis is: H2a. Environmental disclosure strengthens the relationship between market capitalization and market perception.

Second, environmental disclosure is expected to strengthen the relationship between EPS and market perception. EPS signals profitability and the firm's capacity to generate returns for shareholders, but investors often evaluate whether such profits are sustainable and not generated at the expense of long-term environmental risks. High environmental disclosure can enhance the credibility of profits by demonstrating greater transparency into environmental aspects and a stronger commitment to governance quality (Flammer et al., 2021). With clearer environmental information, investors may assess that the company has a stronger risk management foundation, leading them to perceive the profits reflected in EPS as higher quality, more credible, and more resilient to regulatory risks or stakeholder pressures (Vázquez-Brust et al., 2022; Zhou et al., 2023). In this sense, environmental disclosure transforms EPS from a short-term profitability signal into a more credible signal of sustainable earnings quality. Based on these arguments, the research hypothesis is: H2b. Environmental disclosure strengthens the relationship between EPS and market perception.

Third, environmental disclosure is expected to weaken the negative relationship between leverage and market perception. High leverage generally increases perceived financial risk because it indicates greater debt obligations, cash flow pressure, and potential distress. However, investors do not assess leverage only as a financial ratio; they also consider whether the firm has sufficient governance capacity and risk management discipline to handle long-term uncertainties. Environmental disclosure can signal risk mitigation, regulatory preparedness, and governance discipline (Brogi & Lagasio, 2025). Companies with good environmental disclosure tend to be perceived as better prepared to face regulatory risks, environmental costs, and stakeholder pressure, thereby reducing non-financial uncertainty (Moussa & Elmarzouky, 2024). Consequently, environmental

disclosure can mitigate the market penalty that typically arises from high leverage by reducing concerns over hidden environmental liabilities and future compliance costs. Based on these arguments, the research hypothesis is: H2c. Environmental disclosure weakens the relationship between leverage and market perception.

Environmental disclosure is not treated as a mediator because the study does not assume that corporate performance first determines environmental disclosure and that environmental disclosure subsequently transmits this effect to stock prices. A mediating model would require a causal mechanism in which financial performance leads to disclosure behavior, which then explains market perception. Such a logic is not the central theoretical argument of this study. Instead, the argument is that investors observe financial performance and environmental disclosure simultaneously and use environmental information to qualify the meaning of financial signals.

Environmental disclosure is also not treated merely as an independent variable, as previous ESG studies have widely examined the direct effect of environmental or sustainability disclosure on firm value and market outcomes. The novelty of this study lies beyond testing whether environmental disclosure directly affects stock prices. It examines whether environmental disclosure changes the strength and direction of the relationship between corporate performance and market perception. Similarly, environmental disclosure is not treated as a control variable because it is not included solely to control for confounding effects. Rather, it has a substantive theoretical function. It explains when and under what informational conditions corporate performance indicators become more or less influential in market valuation.

Based on these arguments, the novelty of this study lies not only in positioning environmental disclosure as a moderating variable, but also in conceptualizing it as a signal-reweighting mechanism. This novelty is significant because most studies still treat environmental disclosure as a direct predictor. In contrast, this study specifically examines whether environmental disclosure alters the strength of financial performance indicators' influence on market perception. This novelty is also relevant to the Indonesian context because environmental disclosure practices are not yet widespread and the availability of ESG data remains limited, meaning that market signaling and response mechanisms may differ from those in more mature markets. The objective of this study is to examine the effect of corporate performance on market perception. Additionally, this study examines whether environmental disclosure moderates the relationship between corporate performance and market perception. This study is expected to make an academic contribution by strengthening the arguments of signaling theory in the context of ESG, while also providing practical insights for management in designing performance and disclosure strategies.

2. RESEARCH METHOD

This study employs a quantitative research design to empirically examine the proposed model. A quantitative approach is selected because the study aims to test hypotheses, estimate causal relationships among variables, and generalize findings to a broader population of firms in Indonesia. Market perception is proxied by average annual stock price because it captures the market's valuation of a firm across the fiscal year while reducing the influence of daily volatility, short-window shocks, and year-end price anomalies. This proxy also matches the annual reporting frequency of accounting and ESG data, creating temporal consistency between financial performance, disclosure, and market valuation. The study population comprises all listed companies across all sectors in Indonesia. The study selects the sample through purposive sampling by including only firms with ESG scores published in LSEG Refinitiv Eikon. The study applies an unbalanced panel approach because ESG disclosure remains limited and inconsistent across Indonesian firms. The study draws all secondary data from Refinitiv Eikon, a product of the London Stock Exchange Group (LSEG). The population in this study was 4,377, with 4,114 companies not disclosing ESG. Therefore, the observational sample size was 263.

The implication of using only 263 observations from 4,377 initial firm-year observations is that the findings should be interpreted as evidence from ESG-disclosing firms rather than as a full

representation of all Indonesian listed companies. This limitation is analytically meaningful because ESG coverage itself reflects the uneven institutionalization of sustainability disclosure in Indonesia. Therefore, the sample is not treated as a weakness only, but also as evidence that market valuation of environmental disclosure still occurs in a data-constrained disclosure environment. Table 1 shows the operational definitions of the variables used in this study.

Table 1. Operational definition of variables

Variable Types	Variable	Measurement
Dependent variable	Average share price (SP)	Average stock price in 1 year
Independent variables	Market Capital (MC)	Ln total market value of a company's outstanding shares MC = current share price x number of outstanding shares
	Earnings Per Share (EPS)	EPS = net income - preferred dividends / weighted average shares outstanding
Moderating variables	Leverage (Lev)	DER = total liabilities / total equity
Control variables	Environmental disclosure (ED)	Environmental score in ESG
	Profitability (LP)	Log net income
	Board size (BS)	Number of board sizes
	Firm Age (FA)	Firm age

The control variables are included to reduce omitted-variable bias in the relationship between corporate performance and stock price. Profitability is controlled because firms with stronger earnings capacity may attract a higher valuation independently of EPS. Board size is included because governance structure can influence investor confidence and disclosure credibility. Firm age is included because older firms may have greater organizational legitimacy, market familiarity, and reporting experience.

To strengthen model diagnostics, multicollinearity should be assessed using variance inflation factors (VIF), while heteroskedasticity should be evaluated using an appropriate panel-data diagnostic test. If heteroskedasticity is detected, coefficient inference should be based on heteroskedasticity-robust standard errors. The use of firm fixed effects mitigates bias from time-invariant unobserved heterogeneity. However, the study avoids strong causal claims because fixed effects cannot fully eliminate all forms of endogeneity.

This study used Moderated Regression Analysis (MRA) to test whether Environmental disclosure variables moderate the relationships among market capitalization, earnings per share (EPS), leverage (Lev), and stock prices. This technique was implemented by adding interaction terms between each independent variable and the moderator variable in the regression model to determine whether their interaction with the dependent variable was significant. Furthermore, the analysis used Hierarchical Regression to determine the additional contribution of the environmental disclosure moderator variable to the stock price prediction model. The steps were carried out in stages: 1) The first model included only the independent variables, 2) The second model added interaction terms. To examine the robustness of the main findings, this study re-estimates the model using robust standard errors. This robustness test assesses whether statistical inferences remain stable after correcting for potential heteroscedasticity. The test does not alter the theoretical specification of the model; rather, it evaluates whether the direction and significance of the main coefficients and interaction terms remain substantively consistent under a more conservative estimation procedure.

3. RESULTS AND DISCUSSIONS

Based on Table 2, the VIF results indicate no serious multicollinearity. In Model 1, all VIF values are very low. In Model 2, all VIF values remain below 10, which is the common threshold for severe multicollinearity. Some VIF values in Model 2 are relatively higher, especially for EPS and EPS×ED. This pattern is expected in moderation models because interaction terms are naturally correlated with their component variables. In Table 3, the Harvey (Harvey–Godfrey) test reports Prob. Chi-Square (Obs*R-squared) = 0.1038, which is greater than 0.05. This means we fail to reject the null hypothesis of homoskedasticity. The regression model shows no evidence of heteroskedasticity.

Table 2. Variance inflation factors

Variable	Model 1	Model 2
MC	1.498569	4.321232
EPS	1.036888	9.550288
Lev	1.125254	5.683353
ED		6.432791
MC*ED		6.907521
EPS*ED		9.897738
Lev*ED		6.244954
LP	1.205056	1.385236
BS	1.349113	1.466379
FA	1.276055	1.655095

Table 3. Heteroskedasticity test using harvey-godfrey test

F-statistic	1.617042	Prob. F(10,250)	0.1020
Obs*R-squared	15.85631	Prob. Chi-Square(10)	0.1038
Scaled explained SS	17.04789	Prob. Chi-Square(10)	0.0733

Chow tests for both models are significant ($p = 0.00$), indicating firm-specific effects and favoring fixed effects over pooled OLS. Hausman tests are also significant ($p = 0.00$), suggesting correlation between unobserved heterogeneity and regressors; therefore, fixed-effects models are used for subsequent analyses. These results indicate that unobserved firm characteristics matter and are correlated with the regressors; therefore, fixed effects are used to control for time-invariant heterogeneity across firms. Table 4 reports Model 1 results. The model is jointly significant ($F = 34.90$; $p < 0.01$) and explains about 58% of the variation in stock prices ($R^2 = 0.5846$; Adjusted $R^2 = 0.5679$). MC and EPS have positive and significant effects on stock price ($p = 0.0003$ and $p = 0.0000$), supporting H1a and H1b. Leverage is negative but not significant ($p = 0.7102$), so H1c is rejected. The control variables are not significant in this model, and the Durbin-Watson statistic (1.38) indicates no severe autocorrelation concern. The control variables (LP, BS, and FA) are not statistically significant ($p > 0.05$).

Table 4. Research model analysis 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
C	-21620.94	6071.972	-3.560778	0.0004	
MC	1785.393	492.2361	3.627107	0.0003	H1a accepted
EPS	3.168852	0.188029	16.85300	0.0000	H1b accepted
Lev	-13.10081	35.21070	-0.372069	0.7102	H1c rejected
LP	49.73535	33.67344	1.476991	0.1409	
BS	-95.14689	123.7231	-0.769031	0.4426	
FA	-8.813775	11.22662	-0.785078	0.4332	
R-squared					0.584613
F-statistic					34.90342
Durbin-Watson stat					1.383842

Table 5 presents Model 2 results and shows improved explanatory power ($R^2 = 0.7281$; Adjusted $R^2 = 0.7125$). The increase in R-squared from Model 1 to Model 2 indicates that adding interaction terms improves explanatory power, consistent with ED acting as a contingent factor. Economically, the increase in R^2 from 0.5846 to 0.7281 indicates that the inclusion of environmental disclosure and its interaction terms improves the model's explanatory power by approximately 14.35 percentage points. This suggests that environmental disclosure is not merely statistically significant but also economically meaningful, as it helps explain substantial variation in stock prices by amplifying the valuation premium of market capitalization while reducing the market's reliance on EPS as a stand-alone profitability signal. Inferences focus on the sign and significance of the interaction coefficients. The interaction MC×ED is positive and significant ($p = 0.0430$), supporting H2a. EPS×ED is negative and significant ($p = 0.0000$), indicating ED weakens the EPS–price link, so H2b is rejected. Lev×ED is not significant ($p = 0.1959$), so H2c is rejected. The model is jointly significant ($F = 46.68$; $p = 0.0000$) with Durbin-Watson = 1.53.

Compared with global studies, these findings show both convergence and contextual divergence. The positive role of environmental disclosure in strengthening the valuation relevance of market capitalization is consistent with evidence from more developed disclosure environments, where sustainability reporting, assurance, and transparency can enhance investor confidence and market valuation (Klibi et al., 2024; Suto & Takehara, 2020). However, the weakening of the EPS-price relationship differs from studies that associate ESG disclosure with stronger earnings credibility or lower cost of capital (Arif et al., 2024; H. C. Nguyen & Duong, 2025). This difference suggests that, in emerging markets such as Indonesia, environmental disclosure may shift investor attention from short-term profitability toward sustainability risk, disclosure credibility, and the potential cost of environmental transition.

Table 5. Research model analysis 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Decision
C	3171.019	8701.047	0.364441	0.7158	
MC	-192.0757	671.9959	-0.285829	0.7753	
EPS	7.911885	0.456818	17.31954	0.0000	
Lev	235.7349	192.1784	1.226646	0.2211	
ED	-354.5020	204.2780	-1.735390	0.0839	
MC*ED	30.63410	15.05996	2.034142	0.0430	H2a accepted
EPS*ED	-0.073222	0.006551	-11.17752	0.0000	H2b rejected
Lev*ED	-8.375102	6.458340	-1.296789	0.1959	H2c rejected
LP	29.65739	27.59526	1.074728	0.2836	
BS	-36.47118	10.29000	-3.544332	0.0005	
FA	56.19162	104.9123	0.535606	0.5927	
R-squared					0.728131
F-statistic					46.67792
Durbin-Watson stat					1.535397

Robustness Test

A robustness test was conducted by re-estimating the model using robust standard errors. The results in table 6 show that the main findings remain substantively stable. Market capitalization and EPS remain positively associated with stock prices, whereas leverage does not consistently provide a strong valuation signal. In the moderation model, the interaction between market capitalization and environmental disclosure remains positive and statistically significant, whereas the interaction between EPS and environmental disclosure remains negative and statistically significant. The interaction between leverage and environmental disclosure remains insignificant.

Table 6 Robustness test

Model	Variable	Coefficient	Robust SE	Prob.	Decision
Model 1	MC	1911.536	491.9	0.0001	Significant
Model 1	EPS	3.148	1.024	0.0024	Significant
Model 1	Lev	-86.977	45.964	0.0596	Marginal
Model 2	MC*ED	32.588	15.206	0.0331	Significant
Model 2	EPS*ED	-0.073	0.014	0.000	Significant
Model 2	Lev*ED	0.21	1.671	0.9001	Not significant

These findings indicate that the central conclusions are not driven by conventional standard error assumptions. Instead, the robustness test supports the argument that environmental disclosure functions as a signal-modifying mechanism. In particular, environmental disclosure strengthens the valuation relevance of market capitalization while weakening the market's reliance on EPS as a stand-alone profitability signal.

Market perceptions are influenced by market capitalization

The results of this study indicate that market capitalization has a positive effect on stock prices, which describes market perception. This finding strengthens the argument that companies with larger market capitalizations tend to achieve higher stock valuations because investors perceive them

as more stable, more liquid, and more visible to the market (Abbas & Hassouni, 2024). In signaling terms, market capitalization is a readily observable signal of firm scale, market endorsement, and investor confidence. This signal is particularly important in emerging markets because investors often use large-cap status as a screening mechanism when information quality and ESG coverage are uneven.

This relationship can be further explained through signaling theory. Within this framework, market capitalization is understood as a signal that is easily observed and quickly processed by investors to assess company quality, especially when fundamental information is asymmetric. High market capitalization signals a company with strong market appeal, a broad investor base, and promising prospects (Klibi et al., 2024). Investors respond by increasing demand for shares, which then drives up prices (Hardi et al., 2023). Because this signal is public and measurable, changes in market capitalization are quickly reflected in stock prices once the information becomes publicly available.

Furthermore, market capitalization also serves as a proxy for a company's scale, which is often correlated with better governance, operational diversification, and resilience to market shocks. These attributes are considered attractive to institutional investors and long-term capital because they lower perceived risk and increase confidence in sustainable performance. In the context of emerging markets, including Indonesia, where information asymmetry tends to be higher, investors are increasingly relying on concise, credible indicators, such as market capitalization, to screen for issuer quality. This aligns with previous studies showing that company size, which is often proxied by market capitalization, is positively associated with stock performance, as larger companies are better able to maintain access to funding, withstand volatility, and maintain market confidence (Golez & Goyenko, 2021; Suto & Takehara, 2020).

EPS influences market perceptions

The finding that earnings per share (EPS) influences market perception, as reflected in stock prices, can be explained by valuation mechanisms and by how investors process earnings information. EPS represents a company's ability to generate profits per share and serves as a concise indicator of profitability and potential future cash flows for investors (X. Gao et al., 2020). When EPS increases, investors tend to perceive the company as operating more effectively and having better growth prospects, leading to higher return expectations and increased demand for its shares (Choi et al., 2019). This increased demand is then reflected in rising stock prices, as prices are fundamentally formed by the interaction of supply and demand, influenced by performance and risk expectations.

From a signaling theory perspective, EPS also serves as a credible signal of a company's quality. High and consistent earnings performance signals that management is capable of efficiently managing resources, maintaining margins, and maintaining competitiveness. This signal is especially important when there is information asymmetry between management and investors, as market participants cannot always directly observe the company's internal quality. Therefore, strong EPS helps reduce uncertainty, improve risk perceptions, and increase investor confidence in sustainable performance, ultimately increasing stock valuations and prices (Cai et al., 2024; Moolkham, 2024; Ugurlu-Yildirim et al., 2020).

Furthermore, EPS is often the primary reference in fundamental analysis and a direct input into valuation metrics. In practice, investors and analysts compare actual EPS to expectations. If EPS exceeds expectations, the market tends to respond positively by revaluing the stock price. Conversely, EPS that falls short of expectations can trigger a price correction (Chan et al., 2025). This pattern is consistent with the semi-strong market efficiency view, which states that public information is rapidly integrated into prices. This means that changes in EPS not only reflect current conditions but also influence revisions in market expectations regarding a company's future growth and risk.

In emerging market contexts, the influence of EPS on stock prices is often amplified because investors rely on easily interpreted indicators to assess issuer quality amidst limited information and heterogeneity in reporting practices. EPS serves as a "common language" that enables comparisons across companies and sectors, making EPS changes trigger a relatively rapid market response. Overall, this discussion supports the argument that EPS influences market perceptions through its role as a

proxy for profitability, a signal of managerial quality, and a key basis for valuation. Therefore, EPS movements contribute to stock price dynamics.

Leverage does not affect market perception

The finding that leverage (Lev) does not affect market perceptions reflected in stock prices can be explained by several conceptual and market-contextual factors. First, leverage is an aggregate indicator of funding structure and, therefore, does not always capture debt quality (Amihud & Levi, 2022; Le, 2025). Investors may perceive a company's debt as productive if it is used for expansion that increases capacity and cash flow, so a higher leverage level is not automatically perceived negatively (Faruk et al., 2025). Conversely, a low leverage does not necessarily indicate a healthier company, as it could reflect limited access to funding or limited growth opportunities. Consequently, the signal sent by leverage is less decisive in shaping stock price responses.

Second, market perception is often more sensitive to indicators directly related to profitability and expected cash flows, such as EPS or a company's market size, than to leverage (Arhinful & Radmehr, 2023; Sun & Li, 2025). In many cases, investors assess debt risk through other, more informative variables, such as cash flow stability, credit ratings, or risk management policies, so the contribution of leverage to price formation is marginal when alternative information is available (De Souza Junior et al., 2024). Third, in the context of emerging markets, capital structures across sectors are highly heterogeneous, so the "optimal leverage" differs between asset-intensive and service-based industries (Faruk et al., 2025). This heterogeneity weakens leverage's ability to serve as a consistent, general indicator of market response.

Furthermore, investors can anticipate that the impact of leverage on firm value is non-linear. A moderate level of leverage is considered reasonable and does not trigger a price penalty, while negative effects only emerge above a certain threshold, when the risk of distress increases. If the majority of the sample falls within the market-considered normal leverage range, the statistical relationship between leverage and stock price becomes insignificant (Arhinful & Radmehr, 2023). Thus, the lack of an effect on leverage indicates that the market does not use leverage alone as a basis for valuation, but rather assesses debt alongside profitability, growth prospects, and the company's ability to manage risk.

The interaction of market capitalization and environmental disclosure on market perception

Environmental disclosure can strengthen the influence of market capitalization on stock prices, reflecting market perception. This occurs because environmental disclosure adds a "layer of meaning" to a company's already large size in the eyes of investors. Market capitalization generally reflects scale, visibility, and a broad investor base, but market perception is still influenced by how credibly a company manages non-financial risks, particularly environmental risks (Arhinful & Radmehr, 2023). When large-cap companies also demonstrate high levels of environmental disclosure, investors interpret this combination as an indicator that the company is not only economically large but also possesses more mature governance, compliance, and risk management capabilities. This condition increases investor confidence, drives stock demand, and ultimately drives up share prices.

Within the signaling theory framework, environmental disclosure serves as an additional signal that reinforces the "quality" signal from market capitalization (Itan et al., 2025; H. C. Nguyen & Duong, 2025). More extensive and structured environmental disclosures signal that management is willing to disclose material information, is committed to sustainable practices, and is open to public scrutiny (Arif et al., 2024). This signal is relevant because the market faces information asymmetry in assessing environmental risks and their long-term impact on performance. As environmental disclosure increases, uncertainty about environmental risk exposure decreases, leading to a lower risk premium demanded by investors. This reduced risk perception strengthens the effect of market capitalization on stock prices, as investors are more confident that large companies can maintain their value and stability over the long term.

Furthermore, environmental disclosure can increase the reputational premium typically attached to large companies (Piccioni et al., 2024; Zhou et al., 2023). Large-cap companies tend to be in the spotlight of analysts, the media, and institutional investors, making positive environmental disclosures more easily capitalized on by the market and leading to higher valuations. In other words, environmental disclosure strengthens market trust mechanisms and broadens the demand base, thus strengthening the positive relationship between market capitalization and stock prices.

The interaction of EPS and environmental disclosure on market perception

The negative interaction between EPS and environmental disclosure is an unexpected but theoretically meaningful finding. Rather than strengthening the EPS-price relationship, environmental disclosure weakens it by shifting investor evaluation from short-term profitability toward the sustainability, risk exposure, and credibility of those profits. EPS remains a signal of financial performance, but high environmental disclosure broadens the valuation frame from profitability alone to profitability under environmental responsibility and transition risk (Mesioye & Bakare, 2024; Zhou et al., 2023). Consequently, the marginal contribution of EPS to stock price formation becomes smaller when investors receive richer environmental information.

Environmental disclosure can weaken the relationship between EPS and stock price/market perception when the market begins to prioritize environmental information as a primary consideration in assessing a company's earnings quality and long-term prospects. EPS is a signal of short to medium-term financial performance (Zhou et al., 2023), but environmental disclosure broadens investors' evaluation framework from profitability only to profitability with risk and responsibility (Mesioye & Bakare, 2024). When environmental disclosure is high, investors tend to view stock prices as reflecting not only earnings per share but also a company's capacity to manage environmental risks, comply with regulations, and pursue sustainability strategies. Consequently, EPS's contribution to shaping market perception becomes relatively smaller.

From a signaling theory perspective, environmental disclosure can serve as an alternative signal that shifts investor focus away from EPS (Gidage et al., 2025). High EPS can be perceived as less informative if investors are concerned that earnings will be unsustainable due to environmental risks, potential compliance costs, litigation, or future regulatory pressure. When companies disclose more environmental information, the market receives richer signals about their risk exposure and mitigation strategies (Piccioni et al., 2024; Zhou et al., 2025). This signal can weaken the EPS signal, so that changes in EPS no longer generate the same strong price response as in companies with low environmental disclosure.

Furthermore, environmental disclosure is often associated with environmental investment commitments, which can depress margins or divert resources from current profits in the short term. Investors may therefore interpret EPS increases as incomplete signals when they are not accompanied by clear evidence that environmental obligations, compliance costs, and transition strategies are well managed (Buallay et al., 2024; Zhou et al., 2025). This critical insight indicates that environmental disclosure does not automatically reward profitability; instead, it changes the standard by which profitability is evaluated.

The interaction of leverage and environmental disclosure on market perception

Environmental disclosure did not moderate the relationship between the leverage and market perception. This result indicates that environmental disclosure is not strong enough to change how investors interpret debt-equity structure in stock price formation. Leverage primarily reflects a company's funding structure (T. L. H. Nguyen et al., 2020), while environmental disclosure provides non-financial information on environmental practices and risks (Tawfiq et al., 2024). Because the two fall into different domains, increased environmental disclosure does not automatically change how investors assess leverage in stock price formation.

Investors generally assess debt risk through more direct indicators, such as interest payment capacity, cash flow stability, asset quality, debt tenure, or credit rating. In this context, leverage is often

viewed as a relatively crude measure, so stock price sensitivity to leverage tends to be small from the outset. When the market already has other financial information deemed more relevant for assessing leverage risk, additional environmental information, such as environmental disclosure, is insufficient to alter the relationship between leverage and stock prices.

Furthermore, environmental risk is not necessarily perceived as directly related to funding risk (Nasraoui et al., 2024; Sun & Li, 2025; Yu et al., 2024), especially if investors view environmental costs as a long-term factor that does not immediately impact the ability to meet debt obligations (Idayanti & Nurlia, 2025; Odhiambo et al., 2025). The sectoral diversity of Indonesian listed firms may also make the leverage signal too heterogeneous to be consistently strengthened or weakened by environmental disclosure. Thus, the non-significant interaction supports the interpretation that environmental disclosure reweights some signals, especially market capitalization and EPS, but does not necessarily reweight all financial indicators.

4. CONCLUSION

This study examines the influence of corporate performance on market perception, measured by average annual stock prices, and assesses the moderating role of environmental disclosure. The novelty of this study lies in its signal-reweighting perspective: environmental disclosure is not treated merely as a direct ESG determinant of market value, but as an information context that changes how investors interpret financial performance signals. The results show that market capitalization and EPS have positive and significant effects on stock prices, confirming that investors respond strongly to market scale and earnings information. Leverage has no significant effect, indicating that debt-equity structure is not interpreted as a standalone valuation signal in the Indonesian market context. The moderation results show that environmental disclosure strengthens the relationship between market capitalization and stock prices, weakens the relationship between EPS and stock prices, and does not moderate the leverage-stock price relationship. These findings indicate that environmental disclosure does not operate uniformly as a positive ESG signal. Instead, it functions selectively: it validates the valuation premium of large firms, reduces the market's reliance on short-term earnings signals, and remains insufficient to alter how investors assess leverage. This conclusion clarifies the apparently inconsistent moderation direction by showing that environmental disclosure can amplify some financial signals while weakening others. Theoretically, this study contributes to signaling theory by showing that environmental disclosure does not merely operate as an additional non-financial signal, but also functions as a signal-modifying mechanism that changes how investors interpret financial performance indicators. The findings indicate that environmental disclosure can reweight market attention by strengthening the valuation relevance of market capitalization while weakening the direct role of EPS, suggesting that investors increasingly evaluate corporate value through a combined financial and environmental information context. From a policy perspective, these findings provide implications for the Financial Services Authority (OJK), the Indonesia Stock Exchange, and ESG reporting standard-setters. Regulators should encourage more standardized, comparable, and verifiable environmental disclosure practices so that ESG information can reduce information asymmetry rather than create information overload or greenwashing concerns. For the Indonesia Stock Exchange, stronger guidance on ESG disclosure quality may help investors interpret environmental information more consistently and integrate it more effectively into market valuation. The limitations of this study include restricted ESG data coverage, the unbalanced panel, potential sample-selection bias toward firms already covered by LSEG ESG data, and potential endogeneity between disclosure decisions and market valuation. Future research should conduct cross-country comparisons across ASEAN or other emerging markets, distinguish ESG disclosure quality from disclosure quantity, examine assurance and greenwashing risks, and apply dynamic panel models, event studies, or quasi-causal designs to better address temporal ordering and causal inference.

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