

**CORPORATE FINANCIAL PERFORMANCE,
ENVIRONMENTAL, SOCIAL, AND
GOVERNANCE (ESG PERFORMANCE),
INTELLECTUAL CAPITAL, AND STOCK
RETURN IN ASEAN-5 COUNTRIES**

WENDRA HARTONO

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RETURN IN ASEAN-5 COUNTRIES**

by

WENDRA HARTONO

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LIST OF ABBREVIATIONS

ASEAN-5	Association of South East Asian Nations for five countries
CE	Capital Employed
CEP	Corporate Environment Performance
CFP	Corporate Financial Performance
CGP	Corporate Governance Performance
COVID-19	Corona Virus Disease 2019
CSR	Corporate Social Responsibility
ES	Environment and Social
ESG	Environment, Social, and Governance
GCG	Good Corporate Governance
GFC	Global Financial Crisis
HC	Human Capital
IC	Intellectual Capital
PBV	Price to Book Value
RBV	Resource-Based View
SR	Stock Return
SC	Stock Capital

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**PRESTASI KEWANGAN KORPORAT, PRESTASI PERSEKITARAN,
SOSIAL, DAN TADBIR URUS, MODAL INTELEK DAN PULANGAN
SAHAM DI NEGARA-NEGARA ASEAN-5**

ABSTRAK

Pandemik COVID-19 telah mengurangkan pengembalian saham indeks pasaran saham ASEAN-5 secara signifikan. Faktor-faktor seperti prestasi Tadbir Urus Sosial Alam Sekitar (ESG) dan modal intelektual (IC) telah dipelajari di negara-negara maju tetapi jarang digunakan sebagai indikator untuk membeli saham. Kajian ini menggunakan teori isyarat, teori legitimasi, dan teori RBV sebagai teori menyokong untuk menyiasat kesan prestasi bukan kewangan dan kewangan pada pengembalian saham di negara-negara ASEAN-5. Kajian ini dikategorikan sebagai pendekatan penyelidikan kuantitatif, menggunakan analisis data panel. Tujuan kajian ini ialah untuk menyiasat kesan prestasi bukan kewangan (performa ESG dan komponen IC) dan prestasi kewangan pada pengembalian saham dari 2017 hingga 2021. Kajian ini menggunakan pengamatan data keseluruhan ialah 984 syarikat yang dikumpulkan daripada kaedah sampel yang bertujuan dan mempunyai tiga model yang merangkumi data dari 2017 hingga 2021. Model 1 menggunakan sampel data dari tahun 2017 hingga 2021 (keadaan keseluruhan sebelum dan semasa pandemik COVID-19). Model 2 menggunakan sampel data daripada tahun 2017 hingga 2019 (sebelum pandemik COVID-19). Model 3 menggunakan sampel data dari tahun 2020 hingga 2021 (semasa pandemik COVID-19). Hasil menunjukkan bahawa prestasi ESG tidak menjejaskan pengembalian stok, manakala CFP dan IC memberi kesan yang signifikan kepada pengembalian stok, dan ujian ketahanan menyokong temuan utama kajian ini. Kajian ini mengetengahkan implikasi teori dan praktikal. Aspek teori membayangkan peranan asas teori isyarat. Secara praktikal, penyepaduan

prestasi ESG dan pelaksanaan IC merentas pelbagai pihak berkepentingan menghasilkan hasil yang optimum kepada pulangan saham di negara ASEAN-5.

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ABSTRACT

The COVID-19 pandemic has significantly reduced the ASEAN-5 stock market index's stock return. Factors such as Environmental Social Governance (ESG) performance and Intellectual Capital (IC) have been studied in developed countries but are rarely used as indicators for purchasing stocks in developing countries. The purpose of this study is to investigate the effect of non-financial (ESG performance and IC components) and financial performance on stock return from 2017 to 2021 in ASEAN-5 countries. This study uses signalling theory as an underpinning theory, legitimacy theory, and RBV theories as supporting theories to investigate the effect of non-financial and financial performance on stock return in ASEAN-5 countries. This study is categorized as a quantitative research approach, using unbalanced panel data analysis obtained from the annual financial reports and accounts of selected enterprises from ASEAN-5 nations, both before and during the COVID-19 pandemic. The total data observation is 984 companies gathered from purposive sampling method and has two models covering data from 2017 to 2021. Model 1 uses data sample from the year 2017 to 2021 (overall condition). Model 2 uses data sample from the year 2017 to 2019 (before COVID-19 pandemic). Model 3 uses data sample from the year 2020 to 2021 (during COVID-19 pandemic). In this study, there are five diagnostic or assumption tests. There are Multicollinearity, Heteroskedasticity, Autocorrelation, Normality, hypotheses (multiple linear regression, F-test, p-value, R and R²), and mediation tests. The Generalized Method

of Moments (GMM) method in STATA software is used. Results show that ESG performance does not influence stock return, while CFP and IC significantly influence stock return, and the robustness test supports the primary findings of this study. The study highlights theoretical and practical implications. Theoretical aspects imply This research explores the interplay of signalling, legitimacy, and RBV theories, examining ESG and intellectual capital's impact on stock returns in ASEAN-5 countries. While ESG shows limited financial relevance, intellectual capital reliably safeguards returns during crises like COVID-19. Contrarily, ESG initiatives challenge legitimacy theory and have negligible short-term effects on financial performance. Practically, This research highlights the positive correlation between Intellectual Capital (IC) and stock returns in ASEAN-5 countries, while ESG performance shows no such effect. Companies should prioritize IC investments—human, structural, and capital employed—for long-term value. Policymakers must enhance ESG education, disclosures, and regulations to align with sustainability goals and future competitiveness.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter presents the background of the study, particularly focusing on the role of financial and non-financial performance, such as Environment Social Governance (ESG) performance and intellectual capital (IC), in relation to stock return (SR) in the Association of Southeast Asian Nations (ASEAN-5) countries—Indonesia, Malaysia, Singapore, Thailand, and the Philippines—before and during the Coronavirus Disease 2019 (COVID-19) pandemic. Additionally, this chapter addresses the problem statements, research objectives, questions, the significance of the study, scope of the study, and definitions of key terms.

1.2 Background of the study

The capital market in the world plays a crucial role in facilitating the economic growth of nations worldwide. It serves as a platform for the interaction between stakeholders and investors. The ultimate expectation for investors is to get higher SR in the market, meanwhile, for principal's perspective, they are looking for additional funds that can be used for spending on operational activities or expanding their core business unit (Tandelilin, 2010). SR is used to be one of the measurement tools of positive reaction from investors towards the global economic outlook in the future. When stakeholders do more investing money on stocks, the willingness to gain expected rate of return is high (Anwaar, 2016). Investors frequently prefer investing in stocks, because they have a higher probability of generating returns compared to other investment's instruments, such as term-deposit bank, bonds, and mutual funds particularly for long term investments.

Stock return is a vital metric in the capital market, affecting investor choices, corporate valuation, and market stability in the ASEAN-5 nations. Precise forecasts assist investors in mitigating risks, discovering undervalued equities, and optimising profits. Nonetheless, obstacles such as market volatility, external economic shocks, and varied levels of financial transparency among these nations impede precise forecasting. Emerging markets such as Indonesia and the Philippines encounter liquidity challenges and regulatory discrepancies, hence confounding stock return forecasts. The capital markets in the ASEAN-5 nations have encountered considerable difficulties concerning stock return predictability, especially prior to and during the COVID-19 pandemic. Stock returns signify the profits investors might anticipate from their assets, encompassing capital appreciation and dividends (Masand, 2022). Forecasting these returns is essential for investors to make informed decisions, mitigate risks, and enhance their portfolios (Kheradyar et al., 2011).

Moreover, investors can choose the stock market between developing and developed countries when investing in stocks. Risk level, growth potential, portfolio diversification, regulatory environment, and access to information are key factors of selecting the stock market (Uzum et al., 2021; Bal, 2021). In the developed countries have a more stable and transparent regulatory environment, meanwhile in the developing countries are considered more risky due to higher volatility, lower liquidity, and potential political or economic instability compared to developed countries (Yemelyanova, 2021; Yartey, 2008; Naceur et al., 2007).

However, the capital market in the developing countries offer higher growth potential, liquidity, and attractive monetary policies in for investors (Finger & Murphy, 2019). An instance of a developing region is South East Asia, namely the Association of Southeast Asian Nations (ASEAN). Investing in ASEAN stock

market is an attractive choice because of various considerations. For the first reason is because in ASEAN stock market offer investors to get higher potential yield on SR and diversification benefits compared to developed countries stock market (Ngoc, 2022; Lakhan, 2018). Furthermore, the second reason is because the rapid economic growth in the area has increased the appeal of ASEAN's stock markets to investors (Arisandhi & Robiyanto, 2022). The growing liberalization of capital markets has resulted in substantial market integration, rendering the region highly responsive to global market fluctuations and drawing in substantial international investments (Muchtar et al., 2021).

The ASEAN Comprehensive Investment Agreement (ACIA) aims to create an unrestricted and liberated capital investment system to promote economic growth and social well-being in the region (Delfiyanti, 2019). The capital market integration of ASEAN-5 countries offers opportunity for policymakers, portfolio managers, domestic and foreign investors, and risk analysts to diversify their investment portfolios by integrating assets from each ASEAN-5 country (Jacob et al., 2021). The ASEAN Exchange has eliminated obstacles for investors in six ASEAN member nations, such as Malaysia, allowing them to trade freely and easily in stock markets, which enhances diversity and investment prospects (Goh et al., 2014).

The yield of SR in ASEAN-5 countries are determined by the buying and selling transactions that occur in the stock market. Prior to COVID-19, the ASEAN-5 stock markets shown differing levels of efficiency, with certain studies suggesting that these markets were not entirely efficient, hence permitting potential forecasting of stock returns based on historical data and financial measures (Kok & Geetha, 2023).

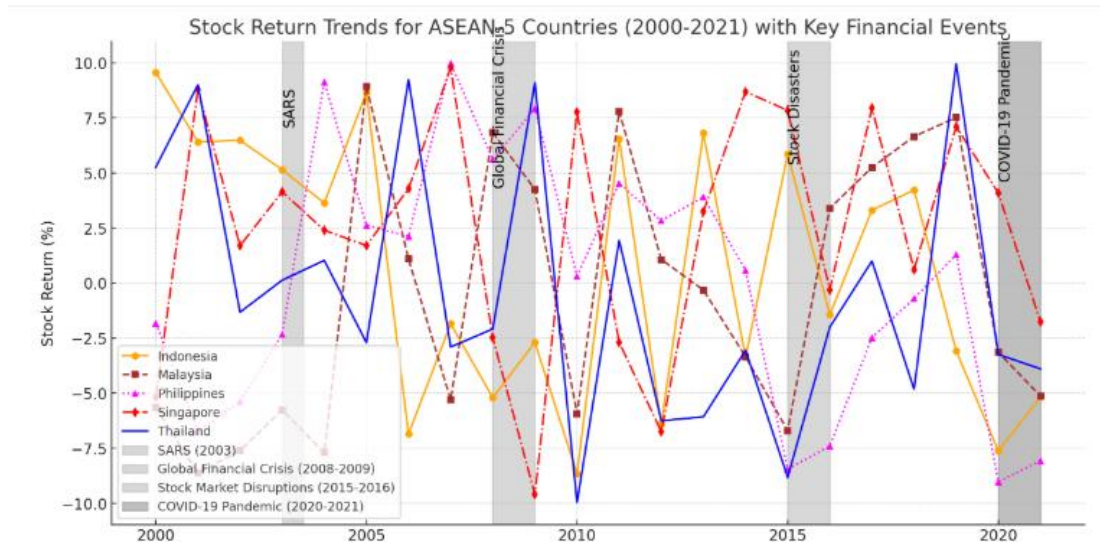


Figure 1.1 Stock Return Trends for ASEAN 5 Countries
Source: Internal data

Stock return trends for the ASEAN-5 nations—Indonesia, Malaysia, the Philippines, Singapore, and Thailand—from 2000 to 2021 are depicted in the updated graphical representation. Major economic and financial events are highlighted in the graph, such as the COVID-19 pandemic in 2020–2021, the SARS outbreak in 2003, the Global Financial Crisis in 2008–2009, and stock market disruptions in 2015–2016. These occurrences caused noticeable swings in market performance and had a major effect on stock returns.

The inclusion of these crisis periods helps distinguish between market volatility brought on by external disruptions and that induced by macroeconomic conditions, giving a clearer picture of the external shocks that affected stock market behaviour. Singapore and Thailand are heavily dependent on trade and tourism, the 2003 SARS pandemic had a short-term negative impact on their stock markets. However, the outbreak was managed and business as usual resumed, markets swiftly recovered. However, as evidenced by the steep collapse in all ASEAN-5 markets between 2008 and 2009, the Global Financial Crisis caused a more severe and protracted decline in stock returns. This financial crisis started in the US and spread

to other countries, causing severe economic contractions, a lack of liquidity, and a decline in investor confidence. The region's stock markets had a difficult time rebounding until the following years, when the state of the world economy stabilized.

A number of causes, such as the slowdown in China's economic growth, changes in commodity prices, and political unrest in several ASEAN nations, contributed to stock market disruptions during the 2015–2016 period. Stock returns were more volatile during this time, which was indicative of changes in economic fundamentals and investor hesitancy. Significant swings were seen in Malaysia and the Philippines, suggesting weaknesses in their external dependencies and financial systems. This time frame is especially significant because it shows how ASEAN's emerging economies react to shifts in global policy and economic situations. Inconsistent performance throughout the ASEAN-5 stock markets was also a result of trade concerns and shifting oil prices. While Indonesia's stock returns varied according to domestic economic policy and commodity price movements, Singapore and Thailand demonstrated resilience in certain years because of their diversified economies and more robust financial regulatory frameworks. To reduce external shocks and preserve investor confidence, these market disruptions emphasize the necessity of more robust financial safeguards and smart market rules.

The COVID-19 pandemic in 2020–2021 is the most recent and notable economic shock depicted in the graph. It caused sharp drops in stock returns in all five ASEAN nations. Lockdowns across the country, supply chain interruptions, lower consumer spending, and increased investment apprehension all contributed to the extensive economic damage. The volatility of the financial markets during this time emphasizes how crucial monetary policy, government actions, and stimulus plans are to market stabilization. Government assistance and adjustments made by

the economic sectors, such as a greater emphasis on digital economy and robust commodities exports, Indonesia and Thailand demonstrated resilience. As a result of their economic reliance on foreign commerce and service sectors, especially tourism, Malaysia, the Philippines, and Singapore all went through protracted downturns. Further examination of market recovery patterns and investor behaviour in response to financial disruptions is made possible by the graphical representation, which offers a thorough understanding of how these crises influenced stock market performance over the previous 20 years.

Various non-economic factors, such as disease outbreaks, human rights issues, and political events, might have an impact on trading activities in the stock market. Liu et al. (2020) contend that various instances of infectious illness crises and epidemics can adversely affect investor sentiment. If this event occurs, it can have a negative effect on stock prices. An example of an infectious sickness is a virus that affects human health and can lead to global economic disruption. There are many viruses that hit the global financial market, such as MERS, Ebola, Zika, and COVID-19.

Table 1.1 SR Impact of Virus Outbreaks in ASEAN-5

Virus Case	Year	Indonesia (JCI)	Malaysia (KLCI)	Philippines (PSEI)	Singapore (FTSE)	Thailand (SETI)
MERS	2012	+10.44	+6.47	+23.49	+0.03	+17.87
Ebola virus	2014	+6.87	+5.36	+4.77	+0.48	-0.10
Zika Virus	2016	+2.50	-3.78	-1.89	-12.18	-1.84
COVID-19	2020	-5.29	+1.18	-7.785	-11.89	-9.17

Source: World Bank Database (2020)

Table 1.1 shows four distinct types of viruses that impact the stock market composite index within the ASEAN-5 countries. In the year 2012, when the MERS virus surfaced, there was no adverse effect observed on the stock market indices in

ASEAN-5 nations. All SR indices depicted positive figures, with the highest recorded in the Philippines (PSEI) at +23.49, followed by Thailand (SETI) at +17.87, Indonesia (JCI) at +10.44, Malaysia (KLCI) at +6.47, and Singapore (FTSE) at +0.03.

Conversely, in the year 2014, amidst the Ebola virus outbreaks, the majority of SR indices exhibited positivity, except for Thailand's market stock index (SETI), which registered a negative return of -0.1. However, in 2016 and 2020, the stock market indices in ASEAN-5 countries had shown significant decrease compared to two previous virus cases. In 2016, during the outbreak of the Zika virus, all ASEAN-5 countries, except Indonesia, with a positive return of 2.5%, saw a negative reaction in their stock markets. The SR in the markets of Malaysia, the Philippines, Singapore, and Thailand have exhibited negative performance, with respective returns of -3.78, -1.89, -12.18, and -1.84.

In 2020, the dissemination of the COVID-19 virus led to a notable decline in SR across most markets. Nonetheless, the Malaysian stock market (KLCI) defied this trend, recording a marginal increase of +1.18%, whereas other composite indexes simultaneously experienced declines. Zika virus and Covid-19 have caused a massive drop in the stock market index value in the ASEAN-5 countries. During Zika outbreaks, the average score for SR incidents among ASEAN-5 countries was -3.438, meanwhile during COVID-19 outbreaks, the average score was -6.591. Therefore, COVID-19 has become the most significant factor affecting the decline in SR indices in ASEAN-5 countries, among other viruses. That is the reason why COVID-19 outbreaks study is selected as a time frame for this study.

COVID-19 popped up first time in Wuhan, China at the end of December 2019, and it was declared as a global outbreak by World Health Organization (WHO) since March 2020 (WHO, 2020a). COVID-19 outbreak has become one of the largest issues which can lead to economic crises due to public health issue in around the world for the last decade (Ahani & Nilashi, 2020; Casella, 2020). It has already affected more than 273 million people as new cases infected in the world and kills more than 5.3 million people until December 2021 globally. Therefore, governments in each country from all around the world tries to protect inhabitants from COVID-19. For instance, the restriction of travels, stay at home orders and even lock down for any kinds of activities related to both international and domestic.

As a consequence, this COVID-19 has caused many damages in many fields, such as the supply chain systems, health care systems, labour markets, and the global stock markets around the world (Singh, 2020; Chen et al., 2020). The global economy has received excessive negative impacts from the COVID-19 pandemic, leading to a decline in SR across all stock market indices, including the ASEAN-5 market. The COVID-19 epidemic has led to increased uncertainty in the capital markets of ASEAN-5 countries. (Yoshino et al., 2020; Narayan et al., 2020).

Moreover, the emergence of the pandemic interrupted the capital market trends in ASEAN-5 countries. Research indicates that throughout the pandemic, the stock markets in these nations become progressively inefficient, hindering the forecasting of stock returns (Kok & Geetha, 2023). The volatility and unpredictability caused by COVID-19 resulted in irregular market behaviours, diminishing the efficacy of classic forecasting models (Tran, 2024; Kristanto, 2024).

Furthermore, the pandemic emphasised the effect of external shocks on stock returns, since governmental interventions to COVID-19 markedly affected market performance (Tran, 2024). The execution of lockdowns and economic stimulus initiatives generated a complex interaction between market emotion and tangible economic data, hence impairing return forecasting (Meryn, 2023). Research has shown that although certain investors responded to pandemic-related information, the general market reaction was controlled, indicating an imbalance between market fluctuations and fundamental economic conditions (Meryn, 2023; Bissoondoyal-Bheenick et al., 2021). This highlights the necessity for improved predictive models that can integrate both historical data and real-time information to address the difficulties of stock return forecasting in these unusual times..

The uncertainty condition can increase the investors' fear; hence the stock markets volume became more volatile and showed decreasing on stock price significantly (Sadiq, 2021). Investors and traders believe that the unstable global conditions can influence the business growth of the companies in the future (Tunio et al., 2020) and capital market price tend to decrease for short-term investment (Gilal et al., 2020). As a result, the market crash in the ASEAN-5 capital markets could not be avoided during COVID-19 pandemic. The significance of stock return predictability in the ASEAN-5 nations has been heightened by the issues presented by COVID-19. The pandemic has disrupted typical market efficiency and demanded a reevaluation of forecasting approaches to adapt to the changing economic scenario. Thus, this study highlights COVID-19 as one of the triggering factors that can cause the highest slump in ASEAN-5 SR countries compared to other virus outbreaks.

Before COVID-19 pandemic, there is an increasing necessity to reevaluate the Corporate Financial Performance (CFP) framework and incorporate non-financial

performance (non-FP) elements as essential indicators of Stock Return (SR). Conventional stock return models predominantly depend on financial indicators like earnings, revenue growth, and profitability. Stakeholders are inclined to seek out and evaluate the internal performance of the company (Tandelilin, 2010:102). Company's performance can be assessed using financial and non-financial indicators disclosed to society (Prieto et al., 2020). Corporate financial performance (CFP) is used by many stakeholders to predict future stock price movement in the short and long-term investment. The notion of CFP pertains to the annual financial report, which might be difficult for non-economic readers to understand and interpret. Therefore, the use of financial ratios is necessary to facilitate their understanding about the current health financial condition of the company.

The company's financial ratio is a concise summary of key information used to analyse and evaluate a company's financial report, for examples, net profit margin, company revenue, return on assets, return on equity, and others (Brigham, 2010). Financial ratio report is presented in the comparison table among periods which could be quarterly or annually. The financial ratio report must be accurately interpreted in order to provide the investors with a comprehensive picture of the company's financial health (Suresh, 2013). Investors typically analyse a company's fundamental information, since it provides insights about the company's historical and current financial health, which can be used to forecast company future performance and potentially impact to SR (Searcy, 2012).

However, during the COVID-19 pandemic, non-financial variables such as corporate governance, ESG (Environmental, Social, and Governance) activities, brand reputation, and innovation have become increasingly significant. This condition underscored the influence of non-fundamental factors on stock return

performance. Organisations exhibiting robust ESG policies, digital transformation initiatives, and employee wellness programs displayed enhanced resilience and increased investor trust. In ASEAN-5, companies that emphasised sustainability and stakeholder involvement demonstrated comparatively consistent stock performance amid market fluctuations. Considering these tendencies, incorporating non-CFP variables into stock return prediction models can yield a more comprehensive and precise evaluation of a company's long-term value, facilitating improved investment decisions and risk management.

Non-financial performance disclosure is employed by internal management to strengthen the perceived quality of the firm to investors in the stock market (O'Neill, Sohal, & Teng, 2016). In addition, the non-financial performance is credible which can increase the corporate image, firm value and indirectly affect the corporate financial performance in which, it will lead to the volatility of stock price market (Gan et al., 2020). For instance, by having greater firm value of the company, it may increase the sales of the company financial performance.

Public listed companies are obligated to enhance their transparency and value by offering sustainable financial information, in response to the requests of policymakers and stakeholders (Atan et al., 2018). A 2010 report by the UNEPFI and WBCSD found that while investors and companies often view CSR disclosures as indicators of a company's commitment to sustainable finance, they found them insufficient in ensuring companies' ability to address significant sustainability advancements during the 2007 financial crisis. In addition, the assessment of ESG performance is currently employed as a novel criterion for evaluating sustainability in business decision-making (Nelson 2020).

ESG performance has garnered considerable attention in the ASEAN-5 countries, with legal frameworks significantly influencing business sustainability strategies. Each nation has established distinct policies and norms to improve ESG reporting, foster sustainable financing, and guarantee responsible business conduct. For example, in Singapore, the Singapore Exchange (SGX) requires ESG disclosures from listed firms on a "comply or explain" basis. The Green Plan 2030 and MAS's Sustainable Finance Framework promote the adoption of sustainable practices and the integration of ESG concerns into investment choices by enterprises. Meanwhile, in Malaysia mandates listed companies to disclose their ESG initiatives under the Bursa Malaysia Sustainability Reporting Guide (MCCG, 2012). The Securities Commission Malaysia advocates for sustainable and responsible investing (SRI), underpinned by the Malaysian Code on Corporate Governance (MCCG), which underscores board responsibilities for sustainability.

In addition, Thailand has implemented compulsory ESG reporting in accordance with the standards of the Securities and Exchange Commission (SEC) Thailand. The Thailand Green Taxonomy and Sustainable Finance Initiatives compel enterprises to conform to international ESG standards. The Stock Exchange of Thailand (SET) enhances corporate ESG transparency by offering several capacity-building initiatives. Moreover, the ESG performance in Indonesia, the Financial Services Authority (OJK) has implemented POJK No. 51/2017, mandating financial institutions, issuers, and public corporations to disclose sustainability reports. The Indonesia Stock Exchange (IDX) has introduced the ESG Leaders Index to encourage investments that prioritise environmental, social, and governance (ESG) criteria.

Lastly, the Philippines adheres to the Securities and Exchange Commission (SEC) Memorandum Circular No. 4 (2019), which requires sustainability reporting for publicly listed corporations. The Philippine Sustainable Finance Roadmap promotes the incorporation of ESG into the operations of banks and enterprises. Despite the differing ESG legislation among ASEAN-5 nations, they collectively aim to promote sustainable company practices and enhance investor confidence through transparency and accountability.

During COVID-19 pandemic, the ESG performance has played an important role, both in investment practices and academia in the term of assessing the SR in the stock market. For example, firms with higher ESG performance have better a resilience against market crash compared to firms with lower ESG performance (Willis, 2020). However, there are other research findings have shown otherwise. For example, Demers at al. (2021) found that during COVID-19 pandemic, investments in other non-financial performance (e.g. intellectual capital (IC)) proved to be more effective than ESG performances in protecting stocks during the COVID-19 crisis.

This is due to the implementation of ESG investment that cannot be generalize across the crisis and ESG score is not as flexible as IC. the IC cost budget implementation can be modified, whereas ESG cannot be altered. IC primarily pertains to intellectual characteristics and company innovation, but ESG focuses more on social obligations and environmental sustainability. Consequently, incorporating a few elements of ESG performance might enhance the investment model. Therefore, stockholders disregarded the revelation of ESG information.

IC is considered as all intangible assets that have economic value based on the knowledge-based asset, and not the physical aspect, for example goodwill, patent, and brand (Gerpott, Thomas, & Hoffmann, 2018). Companies have a big potential to

invest on intellectual capital because it can magnify the corporate value, construct better competitive advantage, and increase knowledge based on economic (Sardo, Serrasaquero, & Alves, 2018). COVID-19 pandemic can lead to a global financial crisis. The global financial crisis has already occurred for several times, for instance is in the year of 2007-2008. The majority cause of global financial crisis is due to bad bank lending, poor credit risk policies, and no limitation on growing financial world including those goals that are far from expectation (Petkov, 2011). However, intangible assets (IC) brought a crucial role to determine the success or failure of a corporation during those financial crises. Corporation can stop bearing the loss when it optimizes its intangible assets a few years ahead.

The presence of non-financial performance, such as ESG performance and IC, can affect corporate financial performance (CFP). For example, Gultom and Gunawan (2020) found that in ASEAN-5 countries, the disclosure of intellectual capital and the application of Good Corporate Governance (GCG) in five ASEAN countries can enhance a company's operational performance. These findings suggest that IC plays a crucial role in influencing the financial performance and firms market value in the ASEAN-5 countries. Therefore, companies must allocate money towards ESG performance and IC to improve their CFP. There is a connection between non-financial performance (ESG and IC) and CFP, as mentioned earlier. Additionally, there are correlations between CFP and SR. It is essential to investigate if the CFP may act as a mediator between non-financial performance and SR.

1.3 Problem Statement

The unpredictability of stock returns (SR) has long been a major concern for investors and researchers. The challenge of developing accurate prediction models

was significant even before the COVID-19 pandemic and became even more pressing during the crisis. Historically, corporate financial performance (CFP) indicators, such as profitability, earnings per share, and leverage ratios, have been widely used to predict SR. However, these financial measures alone have often failed to capture stock price fluctuations, as market volatility, investor behavior, and macroeconomic shocks significantly influence stock returns.

Even before the pandemic, financial markets were volatile due to economic cycles, trade policies, and geopolitical risks. Behavioral biases, such as overconfidence and herd mentality, further contributed to stock price unpredictability. Investors' reactions to market trends and global economic events caused abrupt price fluctuations, making traditional CFP-based models increasingly unreliable. The pandemic further exacerbated these challenges, exposing the limitations of existing SR prediction models. Many financially stable companies with strong balance sheets experienced drastic stock price declines due to economic shutdowns, revealing that cash flow projections alone were insufficient for forecasting SR.

Amid these market disruptions, investors increasingly turned to non-financial performance indicators, particularly environmental, social, and governance (ESG) factors, as they sought resilient and sustainable investments. Additionally, intellectual capital (IC), which encompasses knowledge-based assets and innovation capabilities, emerged as a crucial determinant of corporate resilience during the crisis. Previous studies suggest that IC plays a significant role in mitigating financial risks and supporting long-term value creation, yet its relationship with SR remains underexplored.

Given these considerations, this study investigates the role of both financial and non-financial performance indicators such as ESG performance and IC in influencing SR in ASEAN-5 countries. The ASEAN-5 economies (Indonesia, Malaysia, Philippines, Singapore, and Thailand) have experienced substantial stock market fluctuations before and during the pandemic, reflecting the broader global economic trends. However, there is limited research examining how investors in these markets integrate ESG and IC factors into their investment decisions, particularly during periods of economic uncertainty.

By analyzing SR in ASEAN-5 countries from 2017 to 2021, this study aims to determine whether investors effectively utilize internal corporate disclosures, such as CFP, ESG, and IC, when making investment decisions. The findings will contribute to the ongoing discourse on SR predictability by incorporating non-financial performance measures and addressing the evolving investor preferences in the post-pandemic era.

In 2017, the stock return (SR) in the ASEAN-5 nations saw positive growth across all markets. Indonesia registered a +20.46% increase, Malaysia experienced a +9.00% rise, the Philippines recorded the largest growth at +25.12%, Singapore noted a +22.95% increase, and Thailand reported a +15.27% gain. This upward trend signifies robust market confidence and economic stability, presumably propelled by favorable macroeconomic fundamentals, investor optimism, and advantageous trade conditions. The prevailing bullish trend in 2017 indicates that investors were seizing growth possibilities, resulting in substantial gains in stock indices around the area.

In 2018, the SR in all ASEAN-5 nations became negative, representing a significant deviation from the prior year. Indonesia had a dip of -2.75%, Malaysia decreased by -5.00%, the Philippines experienced a substantial drop of -8.29%,

Singapore reported the most significant loss at -12.95%, and Thailand observed a decrease of -11.95%. The poor performance in 2018 signifies heightened market volatility, uncertainty, and possible economic disturbances that influenced investor sentiment. This fall signifies the influence of external pressures on stock markets, resulting in diminished stock returns globally.

The primary cause contributing to the decrease in SR in 2018 was global economic turmoil, including the U.S.-China trade war. The ambiguity regarding trade policies and tariff escalations impacted global supply chains, resulting in economic deceleration in emerging nations, particularly the ASEAN-5. The trade battle induced a rippling effect, resulting in prudent investor behavior, capital outflows, and declining stock indices. Moreover, apprehensions regarding increasing interest rates and global monetary contraction further exerted pressure on stock markets, leading to extensive drops in SR across the ASEAN-5 nations. This underscores the substantial impact of external geopolitical and economic events on regional stock market performance.

Table 1.2 SR before and during COVID-19 Pandemic in ASEAN-5 countries

2017 (Before COVID-19 Pandemic)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand
OPEN	5275.97	1635.53	6840.06	285.74	1542.94
CLOSING	6355.65	1782.70	8558.42	351.33	1778.53
% SR	+20.46	+9.00	+25.12	+22.95	+15.27
2018 (Before COVID-19 Pandemic)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand
OPEN	6355.65	1782.70	8558.42	351.33	1778.53
CLOSING	6181.17	1693.51	7489.2	305.83	1565.94
% SR	-2.75	-5.00	-8.29	-12.95	-11.95
2019 (Before COVID-19 Pandemic)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand
OPEN	6181.17	1693.51	7489.2	305.83	1565.94
CLOSING	6313.13	1588.76	7742.53	339.49	1595.82
% SR	+2.13	-6.18	+3.38	+11.01	+1.91

2020 (During COVID-19 Pandemic)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand
OPEN	6313.13.00	1690	7742.53.00	339.49	1595.82
CLOSING	5979.07	1710	7139.71	299.12	1449.35
% SR	-5.29	+2.28	-7.53	-12.6	-8.52
2021 (During COVID-19 Pandemic)					
	Indonesia	Malaysia	Philippines	Singapore	Thailand
OPEN	5979.07.00	1710	7139.71	299.12	1449.35
CLOSING	6581.48.00	1567.53.00	7122.63	326.69	1657.62
% SR	+10.08	-8.33	-0.24	+9.22	+14.37

Source: www.investing.com

In 2019, ASEAN-5 countries' SR indices showed positive values, with Singapore leading with 11.01%. Malaysia's KLCI index experienced a negative return of -6.18%. The decrease in Malaysia's stock index can be ascribed to diverse variables, encompassing oscillations in macroeconomic indicators such as the current account balance, currency rate, and GDP, as evidenced by prior research (Demir, 2019). Furthermore, empirical studies have demonstrated that fluctuations in oil prices exert asymmetrical impacts on SR in Malaysia, as evidenced by the research conducted by Khan and Teng in 2019. Despite the COVID-19 pandemic, most ASEAN-5 countries' SR indices did not show significant negative effects. Factors influencing stock prices include financial and non-financial information (Machmuddah et al., 2020).

During COVID-19 pandemic, for example in the year 2020, almost all the SR value measured in the ASEAN-5 has shown negative return except for Malaysia SR. The SR value country which has been affected the most was Singapore (-12.6%) followed by Thailand (-8.52%), Philippines (-7.53%), and Indonesia (-5.29%). The SR showed the down trend, due to investors were frightened of unpredictable future financial from firms. The average SR indices in ASEAN-5 countries in 2020 is -6.332%. This score is calculated by totalling the percentage number of all the SR

ASEAN-5 countries during the year 2020 (-5.29 +2.28 -7.53 -12.6 -8.52)% then divided by 5, which reflects 5 countries. It indicates that during the financial crisis, usually the global SR is interrupted because of the widespread of COVID-19 pandemic.

In the year 2021, when the condition of COVID-19 pandemic is not over yet, there are three out of five ASEAN country indices have positive SR percentage. For instance, from the year-to-date data of SR in Thailand, Indonesia, and Singapore, have shown positive SR calculated from year-to-date stock price index by +14.37%, +10.08%, and +9.22% respectively. However, Malaysia and Philippines indices have negative SR by -8.33% and -0.24%. It indicates that the SR from ASEAN-5 countries have a positive percentage growth compared to previous year. It may because the vaccine trial began to be delivered and injected to around the world, the equity market shown positive reaction (Chan et al, 2021). Moreover, Acharya et al. (2020) documented that the successful of vaccination programmed to society can increase the global wealth and SR.

Moreover, during the year 2020 and 2021, the information about COVID-19 has become more highlighted by investors in stock investment decision, such as the number of reported cases, death case, vaccine trial, and others. That information can increase the fear investors; hence most investors tend to engage in panic selling rather than buying due to the uncertain future (Yoshino et al., 2020; Broadstock et al., 2020). The research conducted by Al-Qudah & Houcine (2021) demonstrates the negative effect of the daily rise of COVID-19 confirmed cases on daily SR in heavily impacted countries, particularly those in the ASEAN area.

This is consistent with the results of Raifu (2021), indicating a substantial and adverse impact of daily increases in confirmed COVID-19 cases on stock market

returns in specific nations. The study by Herlina et al. (2023) links COVID-19 cases and vaccine progress to ASEAN SR, highlighting the need of factoring in pandemic trends when studying stock market responses. Therefore, the stock market in ASEAN-5 countries have become more volatile, which led to the decline of SR(Salisu & Akanni, 2020).

In addition, the unpredicted and unstable global economic conditions hinder enterprises from effectively conducting their operations (Tunio et al., 2020). Investors and traders may depend on different sources of information to make well-informed decisions on whether to hold, buy, or sell their shares. This information can be derived from confidential sources, including influencers, motivators, or new information related to the COVID-19 pandemic. Afterwards, the investors integrate this knowledge into their decision-making process concerning stock investing (Gilal et al., 2020).

To evaluate how external shocks affect stock return, it is crucial in financial and economic studies to distinguish between times of crisis and regular market conditions. In this research there are three-time frame for the research, which are Overall Condition (2017–2021), Before COVID-19 (2017–2019), and During COVID-19 (2020–2021). There are following reasons, COVID-19 caused a substantial shift in market conditions. To provide a baseline for comparison, pre-pandemic patterns must be separated. Economic policies and investor behaviour frequently change during times of crisis.

Table 1.3 The Average of SR in different three models

STOCK RETURN	Indonesia	Malaysia	Philippines	Singapore	Thailand
Model 1, 2017-2021	+4.926	-1.646	+2.488	+3.526	+2.216
(Overall Condition)					
Model 2, 2017-2019	+6.613	-0.727	+6.737	+7.003	+1.743
(Before COVID-19)					
Model 3, 2020-2021	+2.395	-3.025	-3.885	-1.69	+2.925
(During COVID-19)					

Source: www.investing.com

The study examines the long-term stock returns in ASEAN-5 markets from 2017-2021, revealing resilience in Indonesia and Singapore despite economic turbulence. Malaysia and the Philippines showed weaker returns, possibly due to pre-existing market weaknesses. Thailand showed moderate performance, indicating mixed economic impact. This period provides an aggregate view of stock market performance, allowing researchers to assess the pandemic's impact and distinguish between long-term market trends and short-term economic shocks.

The 2017-2019 period is a crucial pre-crisis benchmark for understanding stock market performance before the COVID-19 pandemic. It provides insights into the normal functioning of financial markets without the pandemic's distortions. During this period, all countries had stronger stock returns, with Singapore and the Philippines showing the highest returns. However, Malaysia showed slightly negative returns, suggesting pre-existing market weaknesses. This period helps distinguish between pre-existing economic issues and pandemic-induced declines, ensuring market disruptions can be attributed to COVID-19.

The 2020-2021 period is crucial for analysing the impact of the COVID-19 crisis on stock markets. The pandemic caused significant economic disruptions,

supply chain failures, lockdowns, and investor panic, leading to sharp declines in global stock markets. Malaysia, the Philippines, and Singapore experienced significant declines in stock returns, while Indonesia's returns dropped but remained positive. Thailand's stock returns increased, possibly due to effective government policies or sectoral shifts. Separating this period allows researchers to examine investor reactions, economic policies, and market adjustments.

Investors rely on corporate financial performance (CFP), ESG performance, and intellectual capital (IC) disclosures for informed investment decisions. However, they often overlook these disclosures, especially during financial instability. Publicly listed companies in ASEAN-5 face challenges in reconciling financial and non-financial performance to maximize stock returns. Conflicting reporting standards and lack of financial effect impede decision-making. Companies also face challenges in demonstrating the financial advantages of ESG and IC investments, leading to shareholder distrust. This study aims to assess whether CFP, ESG performance, and IC still provide valuable insights for shareholders in forecasting stock returns in ASEAN-5 countries before and during the COVID-19 pandemic.

Before and during the COVID-19 pandemic, investors frequently disregarded intellectual capital, primarily concentrating on financial measurements and tangible assets under economic instability. A primary reason for this overlook is the conventional investor inclination towards concrete financial metrics rather than intangible assets like intellectual capital. Research suggests that in times of crisis, investors typically emphasize short-term financial stability, frequently overlooking the long-term advantages linked to intellectual capital, including knowledge, skills, and innovative capabilities (Li & Han-chuan, 2023; Fatmasari et al., 2023).

The pandemic's effect on economic activities increased risk perception, leading investors to favor sectors and companies exhibiting immediate resilience and profitability, frequently neglecting those with substantial intellectual capital but inferior short-term financial performance (Mardianti et al., 2022; Pontoh & Budiarto, 2023). The alteration in emphasis is seen in the reactions of capital markets, as investors prioritized conventional financial metrics over the prospective worth of intellectual capital (Kristanto & Sumanti, 2024; Kamaludin et al., 2021).

While some investors base their decisions on financial reports, others consider additional non-financial factors such as ESG performance, which has been suggested to reduce financial risk during market-wide crises (Paraschi, 2022). Research indicates that ESG-focused companies exhibited resilience during the COVID-19 pandemic, potentially mitigating negative stock price movements (Chen et al., 2022). However, conflicting studies argue that ESG performance alone does not necessarily protect SR, and IC may play a more crucial role in stock resilience during financial downturns (Demers et al., 2021).

IC, as part of non-financial performance, contributes to corporate value creation and competitive advantage. Past studies have emphasized IC's role in improving CFP rather than directly influencing SR (Powell, 2003; Kweh et al., 2019). However, recent findings suggest that IC can act as a complementary factor to ESG performance in determining SR, especially in times of crisis. Despite this, research on the direct relationship between ESG performance, IC, and SR remains scarce in the ASEAN market.

Another key concern is the timing and relevance of financial reports during economic downturns. CFP is typically based on past performance and may not reflect current market conditions, as seen during the 2020 financial crisis when stock prices

plummeted before annual reports were even published. This raises concerns about whether investors truly rely on CFP when making investment decisions, particularly during periods of uncertainty. Misinterpretations between stock price and firm value can lead to panic selling, further exacerbating market volatility (Disli et al., 2020).

Given the dynamic nature of financial markets, understanding how financial and non-financial performance indicators influence SR is crucial. Stock prices fluctuate based on company disclosures, and non-financial information such as ESG and IC can complement financial reports to enhance stock value (Elkington, 1998). This study addresses the gap by investigating the combined impact of ESG performance, IC, and CFP on SR in ASEAN-5 countries, providing insights into how investors respond to these disclosures, particularly in times of economic uncertainty.

1.4 Research Objectives

The primary objective of this study is to investigate the extent to which financial and non-financial performance contribute to stock returns in ASEAN-5 countries before and during the COVID-19 pandemic. To achieve this, the study aims to:

1. Examine the relationship between non-financial performance (ESG performance and intellectual capital) and stock returns in ASEAN-5 countries.
2. Analyze the relationship between corporate financial performance and stock returns.
3. Assess the relationship between non-financial performance (ESG performance and intellectual capital) and corporate financial performance.