

TABLE OF CONTENT

THESIS APPROVAL.....	ii
APPROVAL OF THESIS EXAMINATION COMPLETION.....	iii
UNDERGRADUATE THESIS ORIGINALITY STATEMENT	iv
MOTTO AND DEDICATION.....	v
ABSTRACT	vi
ABSTRAK.....	vii
PREFACE.....	viii
TABLE OF CONTENT.....	x
LIST OF FIGURE.....	xiv
LIST OF TABLE.....	xv
CHAPTER I INTRODUCTION	1
1.1 Background.....	1
1.2 Research Problems.....	18
1.3 Research Objectives and Benefits.....	20
1.3.1 Research Objectives	20
1.3.2 Research Benefits.....	24
1.3.2.1 Theoretical Benefits.....	24
1.3.2.2 Practical Benefits.....	28
1.4 Structure of the Paper.....	32
CHAPTER II LITERATURE REVIEW.....	33
2.1 Theoretical Framework.....	33
2.1.1 The Efficient <i>Market Hypothesis</i> (EMH).....	33
2.1.2 Portfolio Theory	38
2.1.3 <i>Asset Pricing Theory</i>	40
2.1.4 <i>Capital Asset Pricing Model</i>	43
2.1.5 <i>Fama–French Three-Factor Model</i>	45
2.1.5.1 Market Risk Premium.....	47
2.1.5.2 Small Minus Big (SMB).....	48
2.1.5.3 High Minus Low (HML).....	50
2.1.6 Environmental, Social, and Governance (ESG).....	51
2.2 Previous Research.....	62
2.3 Conceptual Framework.....	81
2.4 Hypotheses.....	87

2.4.1 The Effect of Market Risk Factors on Stock Excess Returns	87
2.4.2 The Effect of Firm Size (Small Minus Big/SMB) on Stock Excess Returns	88
2.4.3 The Effect of the Firm Value Factor (High Minus Low/HML) on Stock Excess Returns	91
2.4.4 The Influence of Environmental, Social, and Governance (ESG) Factors on Stock Excess Returns.....	94
2.4.5 The Effect of Market Risk Factors After the Influence of ESG Factors	101
2.4.6 The Effect of Firm Size Factors After the Influence of ESG Factors .	102
2.4.7 The Effect of the Firm Value Factor (High Minus Low/HML), after Being Influenced by ESG Factors, on Stock Excess Returns.....	106
2.4.8 Enhancement of the Fama–French Three-Factor Model through the Inclusion of the ESG Factor.....	109
2.4.9 Improving Portfolio Risk Efficiency through the Fama–French Three-Factor Model with the Inclusion of ESG Factors.....	113
CHAPTER III RESEARCH METHODOLOGY	118
3.1 Research Variables and Operational Definitions.....	118
3.1.1 Formation of the test portfolio	118
3.1.2 Dependent Variable.....	120
3.1.3 Independent Variables: Systematic Risk Factors.....	121
3.2 Population and Sample	125
3.2.1 Population	125
3.2.2 Sample.....	125
3.3 Types and Sources of Data.....	126
3.4 Data Collection Method.....	127
3.5 Analysis Method	128
3.5.1 Descriptive Statistical Analysis.....	129
3.5.2 Classical Assumption Tests	129
3.5.2.1 Normality Test.....	130
3.5.2.2 Multicollinearity Test	130
3.5.2.3 Heteroscedasticity Test.....	131
3.5.2.4 Autocorrelation Test	131
3.5.3 Time Series Regression Model.....	131

3.5.4 Hypothesis Testing.....	132
3.5.4.1 Adjusted R ²	132
3.5.4.2 F-Test.....	132
3.5.4.3 T-test.....	133
3.5.4.4 Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC)	133
3.6 Stages of Research Implementation.....	135
CHAPTER IV RESULTS AND ANALYSIS	138
4.1 Description of the Research Population.....	138
4.2 Data Analysis	139
4.2.1 Descriptive Statistical Analysis.....	139
4.2.1.1 Portfolio Excess Returns.....	140
4.2.1.2 Market risk premium	142
4.2.1.3 Small Minus Big (SMB).....	144
4.2.1.4 High Minus Low (HML).....	146
4.2.1.5 Environmental, Social, and Governance (ESG).....	148
4.2.2 Classical Assumption Tests	150
4.2.2.1 Normality Test.....	151
4.2.2.2 Multicollinearity Test.....	151
4.2.2.3 Heteroscedasticity Test.....	151
4.2.2.4 Autocorrelation Test	153
4.2.2.5 Newey-West standard errors.....	154
4.2.3 Hypothesis Testing.....	156
4.2.3.1 Coefficient of Determination (R ²) Test	156
4.2.3.2 Simultaneous Significance Test (F-Test).....	157
4.2.3.3 Partial Significance Test (t-test)	158
4.2.3.4 Akaike Information Criterion (AIC) and Bayesian Information Criterion (BIC)	160
4.2.3.5 Analysis of Test Results.....	161
4.3 Interpretation of Results	168
4.3.1 The Effect of <i>Market Risk</i> on <i>the Excess Return of the Market Risk</i> ..	168
4.3.2 The Effect of <i>Size</i> on <i>Excess Return</i>	173
4.3.3 The Effect of <i>Firm Value</i> on <i>Excess Return</i>	177

4.3.4 The Effect of <i>ESG</i> on <i>Excess Return</i>	180
4.3.5 The Effect of <i>Market Risk</i> on <i>Excess Returns</i> After the Influence of ESG	189
4.3.6 The Effect of <i>Firm Size</i> on <i>Excess Returns</i> After the Influence of ESG	196
4.3.7 The Effect of <i>Firm Value</i> on <i>Excess Returns</i> After the Influence of ESG	205
4.3.8 Enhancement of the Explanatory Power of the Fama–French Three-Factor Model Through the Inclusion of ESG Factors	214
4.3.9 Improvement in Portfolio Risk Efficiency Through the Fama–French Three-Factor Model with the Addition of ESG Factors	222
CHAPTER V CONCLUSION	230
5.1 Conclusion	230
5.2 Limitations of the Study	235
5.3 Recommendations	237
REFERENCE	240
ATTACHMENT	245

