

THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PERFORMANCE ON EARNINGS MANAGEMENT: THE MODERATING ROLE OF CORPORATE GOVERNANCE

Ayu Chairina Laksmi¹⁾, Danang Satriadharma Priyanda²⁾
Accounting Department, Universitas Islam Indonesia, Indonesia^{1,2}
E-mail: ayucl@uii.ac.id

Abstract: This study examines the effect of Environmental, Social, and Governance (ESG) performance on earnings management, with gender diversity on the board of commissioners and managerial ownership serving as moderating variables. The study focuses on companies listed on the Indonesia Stock Exchange (IDX) during 2021-2025 period. A quantitative research approach was employed using secondary data obtained from the London Stock Exchange Group (LSEG) database and companies annual reports. The sample consisted of 51 companies, resulting in 255 firm-year observations selected through purposive sampling. The hypotheses were tested using panel data regression and Moderated Regression Analysis (MRA). The findings indicate that ESG performance does not have a significant effect on earnings management. Furthermore, gender diversity on the board of commissioners does not significantly moderate the relationship between ESG performance and earnings management. In contrast, managerial ownership significantly moderates the relationship between ESG performance and earnings management. These findings suggest that the effectiveness of ESG in constraining earnings management depends on the presence of effective corporate governance mechanisms capable of aligning managers' interests with those of shareholders.

Keywords: *ESG, earnings management, gender diversity, managerial ownership, corporate governance*

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1. Introduction

The quality and credibility of companies' financial and non-financial reports play an important role in supporting corporate sustainability, as the information they contain forms the basis for stakeholders' economic decisions (Ghaleb et al., 2021). In practice, however, financial information quality is often affected by earnings management, in which managers use judgment in the financial reporting process to influence reported earnings and thereby alter stakeholders' perceptions of company performance (Palacios-Manzano et al., 2021), undermining the integrity and reliability of accounting information (Primacintya & Kusuma, 2025). This has encouraged stakeholders to look beyond financial information toward non-financial aspects reflecting corporate responsibility and sustainability (Gavana et al., 2022), such as Environmental, Social, and Governance (ESG) performance, which has become a key

global business and capital-market issue amid growing demands from regulators, investors, and international institutions for sustainability disclosure (Tsang et al., 2023). In Indonesia, ESG implementation has been reinforced by POJK Number 51/POJK.03/2017 on sustainable finance, which requires financial institutions, issuers, and public companies to prepare sustainability reports (Otoritas Jasa Keuangan, 2017), and by the IDX's 2025 ESG Reporting system via SPE-IDXnet; by December 2024, about 94% of listed companies (882 firms) had published a 2023 sustainability report (Bursa Efek Indonesia, 2025), reflecting ESG's growing importance in investment and performance assessment.

Despite this push, ESG implementation still faces challenges of consistency, depth, and quality, which can encourage disclosure that is symbolic in nature and aimed merely at formal compliance known as greenwashing (Cheng & Yan, 2025; Huang et al., 2024). Such practices have the potential to obscure a company's true performance and may even be used as a legitimization tool to build a positive image while concealing opportunistic reporting such as earnings management (Almubarak et al., 2023). Consistent with this, empirical findings on ESG's role in constraining earnings management remain inconsistent: several studies find a significant negative effect, in which higher ESG performance is associated with lower earnings management (Primacintya & Kusuma, 2025; Sun et al., 2024); others find no significant effect (Wu, 2024); and still others find a positive effect, indicating that better ESG scores may instead be associated with higher discretionary accruals due to managers' opportunistic behavior (Almubarak et al., 2023; Tanujaya & Dharmawan, 2025).

This inconsistency points to the importance of Good Corporate Governance (GCG) as an internal oversight mechanism that can constrain managerial opportunism (Bojan, 2025) and moderate the ESG–earnings management relationship by ensuring that sustainability disclosure reflects genuine commitment rather than mere image-building (Wu, 2024). This study uses two GCG proxies: gender diversity and managerial ownership. Gender diversity on the board of commissioners is expected to strengthen oversight through more diverse perspectives and greater ethical sensitivity (Primacintya & Kusuma, 2025), an issue of growing relevance in Indonesia given the two-tier board system under POJK Number 33/POJK.04/2014, which separates the oversight function (board of commissioners) from the management function (board of directors), as well as the government's commitment to Sustainable Development Goal (SDG) 5 on gender equality; women currently hold around 14.9% of board seats at Indonesian public companies (IBCWE, 2023). Managerial ownership, meanwhile, is expected to align managers' interests with shareholders' and reduce incentives for earnings management, as a higher ownership stake increases managers' personal exposure to the company's long-term performance and reputation (Sun et al., 2024). However, findings on the moderating role of GCG also remain mixed: some studies confirm its strengthening effect (Bojan, 2025), while others find no such effect for managerial ownership (Liu et al., 2023), and some even indicate that certain governance mechanisms may instead disguise management's opportunistic behavior, where improvements in ESG performance are not always followed by improvements in reporting quality (Adeneye et al., 2024).

Given these inconsistencies, further testing is needed that accounts for corporate governance mechanisms in the ESG–earnings management relationship. This study therefore aims to analyze the effect of ESG performance on earnings management in companies listed on the Indonesia Stock Exchange during the 2021–2025 period, with gender diversity and managerial ownership as moderating variables. This study is expected to enrich the literature on the ESG–earnings management relationship, which continues to show inconsistent results,

and to offer practical implications for companies, investors, and regulators in evaluating the effectiveness of ESG implementation and corporate governance in Indonesia.

2. Literature Review

Theoretical Framework

This study uses agency theory and stakeholder theory as its theoretical foundation. Agency theory explains the contractual relationship between company owners (principals) and management (agents), in which an agency relationship arises when the principal delegates decision-making authority to the agent to run the company in the principal's interest (Jensen & Meckling, 1976). In practice, this relationship often faces conflicts of interest due to information asymmetry, in which management has broader access to information about the company's condition and performance than the owners do (Wu, 2024), thereby opening opportunities for managers to act opportunistically, including through earnings management (Githaiga, 2024). From this perspective, ESG performance can be viewed as a mechanism with the potential to reduce information asymmetry and increase transparency (Vatis et al., 2025), although managers may also use ESG to enhance their reputation while concealing opportunistic behavior (Almubarak et al., 2023; Wu, 2024). Therefore, internal oversight mechanisms such as GCG are needed to constrain such behavior (Elrazaz & Aljifri, 2026).

Stakeholder theory is based on the view that a company is not only responsible to its shareholders, but also to all parties with an interest in its activities, such as employees, customers, suppliers, the government, and the community (Freeman & McVea, 2001). Sustainability disclosure, including ESG performance, serves as a means for companies to communicate their economic, social, and environmental performance to stakeholders, as well as to build trust and reduce conflicts of interest (Wu, 2024). In this context, earnings management is seen as contrary to stakeholder principles, as it causes reported information to fail to reflect the company's true economic condition. Nevertheless, this theory also acknowledges that ESG does not always reflect a substantive commitment and may be used symbolically to gain legitimacy without being accompanied by genuine improvements in managerial behavior (Almubarak et al., 2023; Githaiga, 2024).

Earnings management is the practice of using managerial judgment in financial reporting to influence reported earnings by exploiting the flexibility of accounting standards (Bansal, 2024; Wu, 2024). This practice can reduce the quality of financial reporting, because the earnings presented do not fully reflect the company's actual economic condition, thereby reducing the relevance and reliability of information for decision-making. Dechow & Skinner (2000) assert that the opportunistic use of accounting discretion can reduce the quality and credibility of accounting information (Az-Zahara & Lismawati, 2025).

The Effect of ESG Performance on Earnings Management

Earnings management is the practice of using managerial judgment in the financial reporting process to influence reported earnings figures (Bansal, 2024), which is made possible because accounting standards give management room to exercise professional judgment in the recognition, measurement, and presentation of transactions (Wu, 2024). Based on agency theory, high ESG performance is expected to increase transparency and accountability, placing the company under stricter scrutiny from the public, regulators, and investors, which in turn limits management's room to manipulate earnings. In line with stakeholder theory, companies with a strong ESG commitment are expected to pay greater

attention to the interests of various stakeholders, giving them less incentive to engage in earnings management in order to maintain trust and legitimacy.

Nevertheless, empirical findings on this relationship remain inconsistent. Some studies find that ESG performance has no significant effect on earnings management (Wu, 2024), while other studies find a positive relationship indicating the symbolic use of ESG as an image-building tool to conceal management's opportunistic practices (Almubarak et al., 2023; Tanujaya & Dharmawan, 2025). This inconsistency shows that the role of ESG in constraining earnings management still depends on the context and the accompanying oversight mechanisms. Based on the above, the first hypothesis is formulated as follows.

H1: ESG performance has a negative effect on earnings management.

Gender Diversity on the Board of Commissioners as a Moderator of the Effect of ESG Performance on Earnings Management

Environmental, Social, and Governance (ESG) performance reflects a company's commitment to conducting business activities responsibly, transparently, and with an orientation toward sustainability. Based on Freeman & McVea (2001) stakeholder theory, a company is not only oriented toward the interests of shareholders, but is also obliged to meet the interests of all stakeholders, including employees, customers, the community, and regulators. Companies with good ESG performance tend to strive to maintain their reputation and legitimacy in the eyes of stakeholders, giving them less incentive to engage in opportunistic actions, including earnings management. From a stakeholder perspective, the openness and accountability inherent in ESG implementation encourage improvements in financial reporting quality, as management is required to align its non-financial performance with financial performance that is reported ethically (Primacintya & Kusuma, 2025).

The role of gender diversity on the board of commissioners is believed to strengthen the effectiveness of ESG performance in constraining earnings management practices. Based on agency theory (Jensen & Meckling, 1976), the separation of ownership and control in a company has the potential to create conflicts of interest between managers (agents) and owners/stakeholders (principals), making an effective oversight mechanism necessary to minimize agency costs. The presence of female commissioners brings a more diverse range of perspectives, increases sensitivity to ethical issues, and encourages stricter oversight of managerial policies (Bojan, 2025). In the context of Indonesia's two-tier board system, the board of commissioners functions as a supervisor of the board of directors, so that gender diversity on this board has the potential to improve the quality of monitoring over ESG implementation and the consistency of financial reporting. Gender diversity on the board of commissioners therefore not only contributes to better corporate governance, but also strengthens the negative effect of ESG performance on earnings management (Primacintya & Kusuma, 2025).

H2: Gender diversity strengthens the negative effect of ESG performance on earnings management.

Managerial Ownership as a Moderator of the Effect of ESG Performance on Earnings Management

In studying the relationship between ESG performance and earnings management practices, internal governance factors are considered capable of influencing the strength of this relationship. One governance aspect given particular attention is managerial ownership, namely the proportion of company shares held directly by executives and other members of management involved in the company's strategic decision-making. Based on Jensen &

Meckling (1976) agency theory, the separation of ownership and control in a company creates the potential for conflicts of interest between managers (agents) and company owners (principals), which may encourage managers to act opportunistically for short-term personal gain. Theoretically, when management holds a significant ownership stake in the company, they become more committed to long-term value creation and less inclined toward opportunistic behavior such as earnings manipulation, because their reputational risk and personal gains are also affected by company performance.

A study conducted by Sun et al. (2024) found that managerial ownership strengthens the negative relationship between ESG performance and earnings management practices. This means that in companies where management holds a larger proportion of shares, the restrictive effect of ESG on managers' tendency to engage in earnings management tends to be stronger than in companies with low managerial ownership (Liu et al., 2023). This finding is consistent with the logic of agency theory, namely that the combination of a strong commitment to ESG practices and management's financial involvement through share ownership creates a more effective internal oversight mechanism for constraining undesirable managerial behavior.

H3: Managerial ownership strengthens the negative effect of ESG performance on earnings management.

3. Results and Discussion

Method and Data Collection

The population of this study consists of all companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2025 period, totaling 957 companies. The sample was determined using the purposive sampling method with the following criteria: (1) Listed consecutively on the IDX throughout the study period, (2) Have an ESG score in the LSEG database, (3) Publish complete annual reports and/or sustainability reports, (4) Present complete financial data for measuring the earnings management, gender diversity, and managerial ownership variables.

Based on these criteria, 51 sample companies were obtained, with a total of 255 observations (51 companies × 5 years). The data used are secondary data sourced from the LSEG database as well as companies' annual reports and sustainability reports, collected through documentation techniques.

Definition and Measurement of Variables

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Earnings Management

The dependent variable in this study is earnings management, proxied by accrual-based earnings management (discretionary accruals) using the Modified Jones Model (Dechow & Skinner, 2000). The measurement steps are as follows:

1. Calculating Total Accrual (TA)

$$TA_{it} = NI_{it} - CFO_{it}$$

2. Estimating normal accrual parameters (regression)

$$TA_{it} / A_{i,t-1} = \alpha_1 (1 / A_{i,t-1}) + \alpha_2 (\Delta REV_{it} / A_{i,t-1}) + \alpha_3 (PPE_{it} / A_{i,t-1}) + \varepsilon$$

3. Calculating Non-discretionary Accrual (NDA)

$$NDA_{it} = \alpha_1(I / A_{i,t-1}) + \alpha_2((\Delta REV_{it} - \Delta REC_{it}) / A_{i,t-1}) + \alpha_3(PPE_{it} / A_{i,t-1})$$

4. Calculating Discretionary Accrual (DA)

$$DA_{it} = (TA_{it} / A_{i,t-1}) - NDA_{it}$$

Notes:

TA_{it} = Total accrual of company i in year t

NI_{it} = Net income of company i in year t

CFO_{it} = Operating cash flow of company i in year t

A_{i,t-1} = Total assets of company i in year t-1

ΔREV_{it} = Change in revenue of company i in year t

PPE_{it} = Property, Plant, and Equipment

ΔREC_{it} = Change in accounts receivable of company i in year t

DA_{it} = Discretionary Accrual of company i in year t

NDA_{it} = Non-Discretionary Accrual of company i in year t

ESG Performance

The independent variable in this study is ESG performance. ESG (Environmental, Social, and Governance) performance in this study is a non-financial measure reflecting the extent to which a company implements sustainability principles in its environmental, social, and governance aspects. ESG performance data were obtained from the LSEG (Refinitiv) ESG database, which provides corporate sustainability performance scores based on the environmental, social, and governance dimensions. ESG scores are expressed as numerical values ranging from 0 to 100, with higher values indicating better ESG performance. The object of this study is companies listed on the Indonesia Stock Exchange.

Gender Diversity on the Board of Commissioners

Gender diversity on the board of commissioners is measured by comparing the number of female commissioners to the total number of board members in a company. A higher value indicates a greater degree of gender diversity.

$$GD = \text{Number of Female Commissioners} / \text{Total Board of Commissioners}$$

Managerial Ownership

Managerial ownership represents the proportion of company shares held by management, including the board of directors, the board of commissioners, and executive management. Managerial ownership is measured by dividing the number of shares held by management by the total number of shares outstanding. The higher the level of managerial ownership, the greater management's financial involvement in the company.

$$MO = \text{Number of shares held by management} / \text{Number of shares outstanding}$$

This study uses firm size (natural logarithm of total assets), profitability (return on assets/ROA), and leverage (total liabilities divided by total assets) as control variables, used to minimize potential bias in estimating the effect of ESG performance on earnings management.

Analysis Technique

Data analysis was conducted using panel data regression with the aid of EViews 13 software. The best estimation model was selected through the Chow test (Common Effect Model vs. Fixed Effect Model), the Hausman test (Fixed Effect Model vs. Random Effect Model), and the Lagrange Multiplier test (Common Effect Model vs. Random Effect Model). Prior to hypothesis testing, classical assumption tests were conducted, including a normality test, a heteroscedasticity test (Glejser test), and an autocorrelation test (Durbin–Watson). The direct-effect hypothesis of ESG on earnings management was tested using the following regression equation:

$$DAit = \alpha + \beta 1 ESGit + eit$$

The moderation hypotheses were tested using Moderating Regression Analysis (MRA) with the following equation:

$$DAit = \alpha + \beta 1 ESG + \beta 2 GD + \beta 3 MO + \beta 4 (ESG \times GD) + \beta 5 (ESG \times MO) + eit$$

where DA is discretionary accrual, ESG is ESG performance, GD is gender diversity, and MO is managerial ownership. Testing was carried out through the coefficient of determination (adjusted R²), the simultaneous F-test, and the partial t-test at a 5% significance level.

4. Result and Discussion

4.1. Result

Descriptive Statistics

The ESG performance variable has a mean value of 55.63673, ranging from 12.98967 to 88.52585, reflecting a fairly wide variation in ESG performance levels across companies. The gender diversity variable has a mean of 0.151377 (approximately 15.14%), indicating that the representation of female commissioners in the sample companies is generally still relatively low, with values ranging from 0 to 0.75. The managerial ownership variable has a mean of 0.044657, ranging from 0 to 0.805329, indicating that the majority of sample companies have a low level of management share ownership, although some companies have high managerial ownership.

Table 1 Descriptive Statistics Results

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
EM	0.014743	0.012506	0.358537	-0.20251	0.067756
ESG	55.63673	56.14699	88.52585	12.98967	18.77578
GD	0.151377	0.142857	0.75	0	0.166406
MO	0.044657	0.000337	0.805329	0	0.154653
SIZE	31.81823	31.65235	35.57903	28.58823	1.418125
ROA	0.062575	0.05328	0.454267	-0.126102	0.070331
LEV	0.491785	0.457608	0.994773	0.075036	0.240004

Estimation Model Selection

The Chow test results show a cross-section Chi-square probability value of 0.0000 (< 0.05), indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Hausman test results show a probability value of 0.0000 (< 0.05),

indicating that FEM is also more appropriate than the Random Effect Model (REM). Based on both tests, the estimation model used in this study is the Fixed Effect Model (Widarjono, 2018).

Table 2 Estimation Model Selection Results

Test	Test Statistic	Probability	Conclusion
Chow Test	F = 4.272197	0.0000	Fixed Effect Model
Hausman Test	Chi-Sq = 30.222732	0.0000	Fixed Effect Model
Lagrange Multiplier Test	Breusch-Pagan = 43.91996	0.0000	Random Effect Model

Note: The Chow and Hausman tests consistently point to FEM; therefore, the model used in hypothesis testing is the Fixed Effect Model.

Classical Assumption Tests

The classical assumption test results show that the regression model is free from heteroscedasticity, as demonstrated by the Glejser test, with all variable probability values greater than 0.05. The autocorrelation test using Durbin–Watson shows a statistic of 2.104125, which falls within the 1–3 range, indicating that the regression model is free from autocorrelation. Although the normality test shows that the residuals are not normally distributed (Jarque-Bera probability $0.000000 < 0.05$), this non-normality can be disregarded given that the number of observations in this study (255) exceeds 30; therefore, in accordance with the Central Limit Theorem, the data distribution is assumed to approach normality (Ghozali, 2021).

Table 3 Classical Assumption Test Results

Test	Test Statistic	Probability	Conclusion
Normality Test (Jarque-Bera)	-	0.000000	Disregarded ($n > 30$)
Heteroscedasticity Test (Glejser)	-	> 0.05 (all var.)	No heteroscedasticity
Autocorrelation Test (Durbin-Watson)	DW = 2.104125	-	No autocorrelation

Panel Data Regression Results and Hypothesis Testing

The Fixed Effect Model estimation produces an adjusted R-squared value of 0.418417, indicating that ESG performance, gender diversity, managerial ownership, firm size, profitability, and leverage jointly explain 41.84% of the variation in earnings management, while the remainder is explained by other factors outside the model. The F-test results show an F-statistic of 4.263197 with a probability of $0.000000 (< 0.05)$, meaning that the regression model is feasible to use and that the independent variables simultaneously affect earnings management.

Table 5 presents the regression results without interaction terms (Model 1, for testing H1) and the Moderating Regression Analysis results (Model 2, for testing H2 and H3).

Table 4 Panel Data Regression and Moderating Regression Analysis Results

Variable	Model 1: Coef.	Model 1: Prob.	Model 2 (MRA): Coef.	Model 2 (MRA): Prob.
C	-1.985652	0.0075	-1.879366	0.0109
ESG	0.001032	0.1019	0.001779	0.0121*
GD	-0.030024	0.6004	0.085049	0.5668

Variable	Model 1: Coef.	Model 1: Prob.	Model 2 (MRA): Coef.	Model 2 (MRA): Prob.
MO	-0.535069	0.1398	-0.475961	0.1953
ESG x GD	-	-	-0.002030	0.3850
ESG x MO	-	-	-0.005658	0.0256*
SIZE	0.062242	0.0087*	0.057989	0.0139*
ROA	0.352557	0.0000*	0.364413	0.0000*
LEV	-0.063128	0.3441	-0.070539	0.2885

*Note: * significant at the 5% level. Model 1 is the FEM regression without interaction terms (testing H1); Model 2 is the FEM regression with Moderating Regression Analysis (testing H2 and H3). Adjusted R² Model 1 = 0.4184; F-statistic = 4.263 (Prob. 0.0000).*

Based on Model 1, the ESG performance variable has a coefficient of 0.001032 with a probability of 0.1019 (> 0.05), indicating that ESG performance has no significant effect on earnings management; thus, H1 is rejected. In Model 2 (MRA), the $ESG \times GD$ interaction variable has a coefficient of -0.002030 with a probability of 0.3850 (> 0.05), meaning that gender diversity is not proven to moderate the effect of ESG performance on earnings management; thus, H2 is rejected. Conversely, the $ESG \times MO$ interaction variable has a coefficient of -0.005658 with a probability of 0.0256 (< 0.05), indicating that managerial ownership significantly moderates the effect of ESG performance on earnings management; thus, H3 is accepted. The negative direction of this interaction coefficient indicates that managerial ownership weakens the tendency toward the opportunistic use of ESG for earnings management.

Table 5 Summary of Hypothesis Testing Results

Hypothesis	Statement	Result
H1	ESG performance has a negative effect on earnings management	Rejected
H2	Gender diversity strengthens the negative effect of ESG performance on earnings management	Rejected
H3	Managerial ownership strengthens the negative effect of ESG performance on earnings management	Accepted

4.2. Discussion

The Effect of ESG Performance on Earnings Management

The test results show that ESG performance has no significant effect on earnings management among companies listed on the IDX during the 2021–2025 period; thus, H1 is rejected. This finding is consistent with Wu (2024), who also found that the effect of ESG performance on earnings management was not significant, explaining that companies with good ESG performance can still make earnings adjustments through accounting methods or changes in estimates that remain within the limits permitted by accounting standards. From an agency theory perspective, managers may seek to maintain a good ESG image in front of investors while still engaging in earnings management to meet expected performance targets, so that ESG alone is not sufficient to constrain such practices without an effective oversight mechanism in place. From a stakeholder theory perspective, this finding indicates that

achieving good ESG performance is not necessarily followed by a more substantive change in managerial behavior in financial reporting. This result differs from studies finding that ESG can constrain earnings management through increased transparency and stakeholder oversight (Andriani & Arsjah, 2022; Sun et al., 2024), a difference that may be attributable to differences in sample characteristics, study periods, institutional environments, and the effectiveness of the governance mechanisms applied.

Gender Diversity on the Board of Commissioners as a Moderator of the Effect of ESG Performance on Earnings Management

The MRA test results show that gender diversity is not proven to moderate the effect of ESG performance on earnings management; thus, H2 is rejected. This result does not support the findings of Primacintya & Kusuma (2025), but is consistent with the studies of Alexander & Carolina (2024) and Yopie & Chandrawati (2023), who also found no significant moderating effect of gender diversity on earnings management in Indonesia. This lack of significance can be explained by several arguments. First, in the Indonesian context with its two-tier board system, female commissioners often occupy positions on the supervisory board with limited access to day-to-day operational decisions, in line with the findings of Garin & Sarumpaet (2026) that board gender diversity has no significant effect on the performance of companies listed on the IDX. Second, the average proportion of female commissioners in this study's sample is only 15.14%, which is below the critical mass level generally required for gender diversity to have a substantial effect on board oversight and decision-making (Triwacananingrum & Akhnafulloh, 2026). This condition indicates that the presence of female commissioners in the sample tends to remain representative or symbolic (token representation), and has therefore not been able to strengthen the oversight function needed to translate ESG implementation into better financial reporting quality.

Managerial Ownership as a Moderator of the Effect of ESG Performance on Earnings Management

The MRA test results show that managerial ownership significantly moderates the effect of ESG performance on earnings management, with a negative coefficient direction; thus, H3 is accepted. This result indicates that in companies with a higher level of managerial ownership, the tendency to use ESG performance as a vehicle for opportunistic earnings management is lower. Share ownership by management aligns managers' interests with those of shareholders, thereby reducing the potential for opportunistic behavior, in line with Sun et al. (2024), who found that managerial ownership strengthens the negative relationship between ESG performance and earnings management. From a stakeholder theory perspective, managerial ownership encourages alignment between management's internal interests and external stakeholders' expectations, so that ESG performance in companies with significant managerial ownership more genuinely reflects real commitment rather than merely an image-building strategy (Freeman & McVea, 2001). This result differs from the findings of Liu et al. (2023), who found no moderating effect of managerial ownership on the relationship between ESG and real earnings management in emerging markets, a difference that may be attributable to differences in the earnings management proxy, in that the accrual-based earnings management used in this study is more sensitive to the effect of managerial ownership than real earnings management.

5. Conclusion

This study aims to examine the effect of ESG performance on earnings management, as well as the moderating roles of gender diversity and managerial ownership in this relationship, among companies listed on the Indonesia Stock Exchange during the 2021–2025 period. Based on the results of the Fixed Effect Model panel data regression and the Moderating Regression Analysis, it can be concluded that: (1) ESG performance has no significant effect on earnings management; (2) gender diversity on the board of commissioners is not proven to moderate the effect of ESG performance on earnings management; and (3) managerial ownership significantly moderates the effect of ESG performance on earnings management.

Theoretically, these findings support agency theory, which explains that the effectiveness of ESG in reducing management's opportunistic behavior depends on the presence of an adequate oversight mechanism, and enrich the literature on the relationship between ESG and earnings management, which continues to show inconsistent results. Practically, companies are advised not only to focus on improving their ESG scores, but also to ensure that ESG implementation is integrated with an effective governance system, including through greater management involvement in share ownership. Investors are advised not to rely on ESG scores as the sole basis for assessing company quality, but also to consider governance structure, particularly the level of managerial ownership. Regulators also need to encourage improvements in the quality of ESG implementation and the strengthening of corporate governance mechanisms so that sustainability disclosure is not merely a formality.

This study has several limitations, including the use of a sample limited to 51 companies with an ESG score in the LSEG database, the use of Modified Jones Model-based discretionary accruals as the sole proxy for earnings management, the use of only two GCG mechanisms as moderating variables, and the measurement of ESG based on a single data provider. Future research is recommended to use a longer period and a larger sample, to consider other earnings management proxies such as real earnings management, and to add other corporate governance mechanisms as moderating variables, such as independent commissioners, audit committees, audit quality, or institutional ownership.

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