Ilomata International Journal of Tax & Accounting

P-ISSN: 2714-9838; E-ISSN: 2714-9846
Volume 5, Issue 1, January 2024
Page No.77-96

The Effect of Accrual Earnings Management and Real Earnings Management on Environmental, Social, and Governance (ESG) Reporting Performance

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Received : October 27, 2023

Accepted : December 30, 2023

Published : January 31, 2024

Citation: Fadhilah, A, N., Suranta, E. (2024). The Effect of Accrual Earnings Management and Real Earnings Management on Environmental, Social, and Governance (ESG) Reporting Performance. Ilomata International Journal of Tax and Accounting, 5(1), 77-96.
https://doi.org/10.52728/ijtc.v5i1.1001

ABSTRACT: This research aims to offer empirical insights into variations in earnings management within companies categorized in the Environmental, Social, and Governance (ESG) score ranking, and seeks to establish a correlation between earnings management practices and Environmental, Social, and Governance (ESG) performance. The study scrutinizes accrual earnings management alongside real earnings management. The Environmental, Social, and Governance (ESG) score ranking comprises four categories: low, medium, high, and severe. Accrual earnings management is gauged through the modified Jones model, while real earnings management is assessed using three proxies ABNCFO, ABNPROD, and ABNDISC. The research focuses on manufacturing companies possessing Environmental, Social, and Governance (ESG) scores and adopts a purposive sampling approach. The outcomes reveal distinctions between ABNCFO and ABNPROD real earnings management in the severe and low ESG rating groups, whereas no differences exist in accrual earnings management and ABNPROD real earnings management. Additionally, the study establishes that ABNCFO and ABNDISC real earnings management significantly influence Environmental, Social, and Governance (ESG) performance positively. Conversely, accrual earnings management shows no adverse impact on Environmental, Social, and Governance (ESG) performance, and ABNPROD real earnings management exhibits a positive albeit insignificant effect on Environmental, Social, and Governance (ESG) performance. The practical implication of this research is that when the company has a high ESG score which reflects the uncertainty of the company's future operations, the company tends to carry out real earnings management in the form of abnormal cash flow operations (ABNCFO) and abnormal discretionary expenses (ABNDISC).

Keywords: Accrual Earnings Management, Real Earnings Management, Enviromental Social Governance

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INTRODUCTION

Environmental, Social, and Governance (ESG) is an interesting topic to research, as ESG has become popular at the national and international levels in recent years. ESG is an interesting topic because in the early days ESG was the center of attention of many empirical and research studies, so research topics that discuss ESG are often related to many perspectives within the company. Initially, only large companies adopted ESG because, on the one hand, ESG implementation is an expensive cost for a company to incur. On the other hand, the attention given by investors is still quite low, because ESG is a long-term investment.

Environmental, Social, and Governance itself is a standard and strategy commonly applied in evaluating company performance and predicting future financial performance by investors (Li et al., 2021). ESG also has an ESG risk assessment, which is grouped into five categories in the ESG score assessment. The lowest ESG risk assessment category is called Negligible, meaning that Negligible is a category where the ESG risk owned by the company is considered negligible, because the impact on the environment and society is low, allowing the risk to be ignored by the company. The highest category is called Severe. In the severe classification, it denotes that the company's Environmental, Social, and Governance (ESG) risks are notably critical. Consequently, these severe risks hold substantial implications for both the environment and society. Within this category, business risks elevate to a critical level, prompting management to potentially resort to earnings management as a strategy to mitigate these risks.

Environmental, Social, and Governance remains a compelling subject, particularly in emerging nations like Indonesia. ESG is an interesting topic to discuss in Indonesia because, the understanding of ESG is not yet optimal in Indonesia so that research on ESG is also still limited, and in Indonesia there are still few studies that discuss ESG with company performance and ESG with competitive advantage. Some previous studies that discuss how much influence ESG has on financial performance still do not provide consistent evidence. For example, the study (Lubis & Rokhim, 2021a; Nollet et al., 2016; Pertiwi & Hersugondo, 2023; Ruan & Liu, 2021) The findings indicate that the performance related to Environmental, Social, and Governance (ESG) had an adverse and inconsequential impact on the company's overall performance. Subsequently, research conducted by (Febry Antonius, 2023; Ghazali & Zulmaita, 2020; Junius et al., 2020; Martha & Khomsiyah, 2023; Tao, 2023) revealed that Environmental, Social, and Governance (ESG) had a concurrent positive and noteworthy impact on company performance. Conversely, the study by (Husada & Handayani, 2021; Nabilah Nurdiati, Dewi Susilowati, 2020) indicated that ESG did not exert any influence on financial performance.

Various prior studies examining the performance of companies regarding Environmental, Social, and Governance (ESG) on the Indonesia Stock Exchange (IDX) have failed to present consistent evidence, mainly due to the inefficiencies observed in Indonesia's capital market. So, the reason for wanting to re-examine ESG performance is not only because there are different results, but because the capital market in Indonesia is not efficient so that the ability of capital market players to process information and the amount of information is also still very limited. In addition, a previous study (Lubis & Rokhim, 2021b) It also elaborated on the competitive advantage that

could strengthen the correlation between ESG disclosure and company performance. Thus, companies that disclose higher levels of ESG aim to attain a more significant competitive edge compared to those revealing fewer ESG aspects.

Although all companies have considered ESG as one of the key indicators in explaining the progress of the company, so that by disclosing ESG it is an effort to reduce information asymmetry and solve agency problems. Investors utilize ESG disclosure and financial statements as key indicators for evaluating company performance. However, while financial performance stands as one measure, ESG disclosure is also considered pivotal. The attention a company allocates to ESG practices serves as an essential metric for investors assessing its performance alongside financial aspects. Nonetheless, there's a conflict concerning financial performance, where the interests of company management often lead to misleading financial statements. These statements might not accurately portray the company's actual condition due to manipulation, predominantly through earnings management.

Earnings management serves the purpose of enhancing the appearance of financial statements. Essentially, it aligns the company's financials with management's preferences, aiming to present an improved economic position. The research by (Almubarak et al., 2023) indicates a substantial and positive link between earnings management practices and ESG. This suggests that disclosing environmental, social, and governance data heightens the likelihood of successful earnings management. Fundamentally, managers use ESG disclosures to manage stakeholders' perceptions and conceal their underlying intentions.

ESG disclosures create a better level of transparency in the financial statements, which supports the match between the expectations desired by investors and those desired by the company. For example, a business organization with weak corporate governance will normally attempt all actions that harm shareholders, which results in earnings management being the center of attention or the main spotlight. This is reinforced by the condition that the company has a fairly weak Corporate Governance, so that management tends to be able to take all actions that will harm shareholders, by focusing more attention on efforts to carry out earnings management. There are two methods for conducting earnings management: accrual-based earnings management and tangible/real earnings management.

The aim of this investigation is to explore potential variances in accrual-based earnings management and tangible earnings management practices among companies listed in the ESG score rankings. Additionally, it seeks to analyze the impact of both accrual-based and tangible earnings management on the Environmental, Social, and Governance (ESG) performance. This study mirrors a prior research endeavor by (Khuong et al., 2023), wherein the findings indicated a positive correlation between real earnings management and Corporate Social Responsibility (CSR), while accrual earnings management exhibited a negative association with CSR. However, this study diverges from the previous research by focusing on companies specifically assessed through Environmental, Social, and Governance (ESG) scoring. The rationale for using companies with

ESG scores lies in their higher level of financial transparency, which aids in aligning investor expectations with those of the company.

Agency Theory

Agency relationships are formed through contractual agreements in which one or more individuals (principals) request the services of another individual (agent) to perform a specific task on their behalf. The agent is granted decision-making authority for the task. In situations where both parties aim to maximize their individual profits, the agent may act in ways that don't align with the principal's interests (Jensen & Meckling, 1976). Agency problems stem from the divide between the principal and agent, creating a discrepancy in information. This information gap allows managers to possess more insights into the company's internal conditions and future prospects compared to the owners (Septiadi et al., 2017). Agency theory highlights differing interests between owners and management, leading management to engage in real and accrual earnings management to achieve predetermined financial targets (Syahrani, 2021). However, these strategies could negatively affect a company's ESG performance.

ESG establishes investment practice guidelines for companies that harmonize and execute their policies in line with environmental, social, and governance principles (Gustin Ningwati, Ratna Septiyanti, 2022). In the context of ESG performance, agency theory explains the link between earnings management and ESG. Companies should prioritize social, environmental, and governance responsibilities to bolster credibility regarding their actions and concerns. This fosters increased trust and societal backing, ultimately benefiting the company's long-term sustainability. Research findings underline a distinct and substantial correlation between social performance and financial outcomes. Specifically, improved social performance can improve financial performance, while improved financial performance can motivate companies to improve their social performance. Appropriately assessing and improving these interconnected aspects is critical to overall success.

Differences in Accrual Earnings Management by Companies on Environmental, Social, and Governance (ESG) Score Ratings

ESG utilizes an ESG risk assessment score, which categorizes risk assessments. These groups include the severe-to-high group, severe-to-medium group, and severe-to-low group. Within this research, DAC (Discretionary Accruals) serves as a measure for accrual earnings management. In the severe-to-high DAC group, companies face severe ESG risks, impacting both the environment and society. These risks pose significant threats to business, leading management to employ accrual earnings management to mitigate these risks. This aligns with agency theory, which highlights the divergent interests between owners and management, permitting the use of accrual earnings management (Araújo Mendes et al., 2012; Sunarto, 2009; Susanto, 2017).

In companies that have an ESG score that is included in the severe group, it contains heavy risks, thus reflecting the uncertainty over the company's business operations, so that managers will take advantage of this uncertainty for their personal interests, one of which is by doing earnings management, so that the company looks in good condition. Earnings management will be higher

when companies have information asymmetry problems, where company owners cannot access information about the company's actual performance, thus companies that have a higher ESG score, the earnings management carried out by the company tends to be higher (Adams, 1994; Donaldson & Davis, 1991).

Companies that are included in the high ESG group mean that they have high risk, high risk can also be caused by the high level of debt owned by the company, so that managers can take advantage of this to expand their discretionary power and carry out earnings management to produce positive net income in accounting (Chouaibi & Zouari, 2022). When managers control more company information, this encourages management to gain their own benefits (previlage), so that it can lead to information asymmetry. The existence of this information gap can motivate and create opportunities for managers to carry out earnings management, as well as optimize utility and benefit management. This is done solely to make the company's condition look good, because the condition of the company is used as a reference or basis for investors to make an assessment (Karin et al., 2016).

This study will explore the accrual earnings management practices among companies in relation to their Environmental, Social, and Governance (ESG) score rankings. As such, the hypothesis for this investigation can be stated as follows:
Hypothesis 1 (H1): There are differences in accrual earnings management carried out by companies on the Environmental, Social, and Governance (ESG) score rankings.

Differences in Real Earnings Management Performed by Companies on Environmental, Social, and Governance (ESG) Score Ratings

Real earnings management, like accrual earnings management, is assessed based on the ESG risk scores across various groups. Within this evaluation, it confronts agency problems that can potentially ignite conflicts of interest between shareholders and management. This management prioritization of personal interests over shareholders' interests often leads to the implementation of real earnings management practices (Ningsih & Wiyadi, 2012; VAKILIFARD & MORTAZAVI, 2016; Yanti, 2020). Real earnings management encompasses three proxies: abnormal cash flow operations (ABNCFO), abnormal production costs (ABNPROD), and abnormal discretionary expenses (ABNDISC), segmented into distinct groups—severe and high, severe and medium, and severe and low.

Concerning ABNCFO, severe-rated companies tend to engage in real earnings management through cash flow transactions linked to heightened sales (Herlina Wijayanti, 2014; Trisnawati & Suhestiningsih, 2012). Conversely, those in the low category refrain from reporting increased profits linked to reduced sales-related cash flow transactions. In ABNPROD, firms categorized as severe tend to execute real earnings management by ramping up production to reduce production costs and inflate profit figures (Hapsoro & Bahantwelu, 2020; Trabelsi & Chalwati, 2023). In contrast, those rated low struggle to boost profits through mass production. For ABNDISC, companies in the severe group tend to manipulate expenses like advertising, cost of revenue,

administrative costs, and research expenses to inflate profit figures (Simamora, 2021). On the contrary, low-rated companies do not escalate profits by increasing these expenses.

This study aims to explore the practice of real earnings management across companies aligned with their ESG score ratings. Hence, the formulated hypothesis for this study is:
Hypothesis 2 (H2): There are differences in real earnings management carried out by companies on the Environmental, Social, and Governance (ESG) score rankings.

Accrual Earnings Management and Environmental, Social, and Governance (ESG) Performance

Accrual earnings management involves manipulating earnings through the company's accrual activities, like selective accounting methods, particularly via discretionary accruals (Suhesti, 2015). Consequently, using accrual earnings management may lead to future problems, impacting long-term earnings negatively. Despite this, companies often enhance their financial statements annually without contemplating the long-term repercussions. They tend to continuously employ tactics like "cooking the books" via accrual earnings management to present a more favorable performance picture. The objective of accrual earnings management is to mislead users of financial statement information. Additionally, it contributes to information asymmetry due to agency issues arising from the separation between principal and agent. This asymmetry enables managers to possess more insights into the company's internal conditions and future prospects compared to owners (Septiadi et al., 2017). This agency theory offers insight into the relationship between earnings management and ESG.

Earlier studies have explored the link between accrual earnings management and CSR, like the work of (Khuong et al., 2023), indicating low CSR disclosure participation linked with higher possibilities of accrual earnings management manipulation. This reveals the negative impact of accrual earnings management on CSR. Further investigations have attempted to examine the connection between accrual earnings management and ESG. Research by (Amertha, 2013; Andriani & Arsjah, 2022; Velte, 2019) suggests that ESG performance negatively influences accrual earnings management. For instance, (Vincentia Anindha Primacintya, 2023) study demonstrates that companies with higher ESG performance engage less in accrual earnings management activities.

This study will delve into accrual earnings management and its impact on ESG performance. Therefore, the formulated hypothesis for this study is:
Hypothesis 3 (H3): Accrual earnings management has a negative impact on Environmental, Social, and Governance (ESG) performance.

Real Earnings Management and Environmental, Social, and Governance (ESG) Performance

Real earnings management refers to the strategic manipulation of earnings through day-to-day company operations within the current accounting period (Yuniatmoko, 2018). It involves three methods: sales manipulation, overproduction, and discretionary cost reduction (Roychowdhury,

2006a). The primary aim of real earnings management is to attain the company's targeted profit by tweaking profits through ongoing operational activities.

The pursuit of real earnings management aligns with a fundamental distinction in agency theory: management performance is evaluated based on profits, prompting principals to anticipate high earnings. However, implementing real earnings management can lead to unforeseen long-term repercussions. Sustained low prices might condition customers to resist higher prices, even with valid justifications. Moreover, incentivizing soft credit sales can rapidly escalate risky debts. Arbitrarily cutting advertising and R&D expenses can compromise the company's market position.

Studies exploring the link between accrual earnings management and ESG, like (Farha et al., 2022), discovered a positive and substantial correlation between environmental disclosure and real earnings management activities, particularly those involving abnormal production costs. Increased corporate environmental disclosure often motivates managers to engage in real earnings management, specifically overproduction, as a means to drive such activities. Overproduction is utilized to reduce generated revenue, leading to abnormal production costs.

This research will delve into real earnings management and its association with ESG performance. Therefore, the formulated hypothesis for this study is:
Hypothesis 4 (H4): Real earnings management positively impacts Environmental, Social, and Governance (ESG) performance.

METHOD

Research Model and Design
The study employs a quantitative methodology to facilitate hypothesis testing, aiming to establish connections among the variables outlined in the research model. This investigation focuses on exploring accrual earnings management, real earnings management, and their relationship with Environmental, Social, and Governance (ESG).

Population and Sample Selection Method
The study's population encompassed all manufacturing firms listed on the Indonesia Stock Exchange (IDX). Sample selection criteria included manufacturing companies meeting specific qualifications: being listed on the IDX before 2019, having ESG scores, utilizing the Rupiah currency, and include managerial ownership the period from 2019 to 2023, with 2018 serving as the reference year. The samples were selected using a purposive sampling method.

Table 1 Criteria for sample selection

Sample selection criteria	Total
Companies engaged in manufacturing that are publicly listed on the Indonesia Stock Exchange (IDX) in the period from 2019 to 2023.	183
Less: Manufacturing companies that are publicly listed on the Indonesia Stock Exchange (IDX) in the period between 2019 and 2023 that do not report ESG scores.	(137)
Less: Manufacturing companies publicly listed on the Indonesia Stock Exchange (IDX) in the period between 2019 and 2023 that do not have managerial ownership.	(35)
Final sample	**11**

Data Collection Method

This research relies on secondary data sourced from the ESGI dataset available on the Indonesia Stock Exchange (IDX) and annual financial statements retrieved from both the IDX website (www.idx.co.id) and the official websites of the respective companies.

Data Processing Method

The study employed the independent samples T-Test technique to examine variations in accrual earnings management and real earnings management among companies based on their ESG score ratings. Additionally, it utilized linear regression analysis to explore how accrual earnings management and real earnings management impact ESG performance. These analyses were performed using IBM SPSS Statistics 21 software.

Operational Definition and Measurement of Variables

Table 2 Describe process of operationalization and measurement of research variables

Variables		Measurement			Source
		ESG Score Criteria			
		Risk Score	**Category**	**Description**	
Dependent Variable	**ESG Score**	**0-10**	Negligible	Considered to have negligible ESG risks	www.idx.co.id
		10-20	Low	Considered to have low ESG risk	
		20-30	Medium	Considered to have medium ESG risk	
		30-40	High	Considered to have high ESG risk	
		>40	Severe	Considered to have severe ESG risks	

Independent Variable	**Accrual Earnings Management**	$\Rightarrow$ TACit = NIit – CFOit $\Rightarrow \frac{TACit}{TAit-1} = \beta 1\left[\frac{1}{TAit-1}\right] + \beta 2\left[\frac{\Delta Salesit}{TAit-1}\right] + \beta 3\left[\frac{PPEit}{TAit-1}\right]$ $\Rightarrow NDAit = \beta 1\left[\frac{1}{TAit-1}\right] + \beta 2\left[\frac{\Delta Salesit-\Delta Recit}{TAit-1}\right] + \beta 3\left[\frac{PPEit}{TAit-1}\right]$ $\Rightarrow DACit = \frac{TACit}{TAit-1} - NDACit$	The Modified Jones Model (Arbi et al., 2022; Suranta et al., 2010)
	Real Earnings Management	$\frac{CFOt}{At-1} = \alpha 1\left[\frac{1}{At-1}\right] + \alpha 2\left[\frac{Sales}{At-1}\right] + \alpha 3\left[\frac{\Delta Sales}{At-1}\right]$ **ABN_CFO** = CFOt - $\frac{CFOt}{At-1}$ $\frac{PRODt}{At-1} = \alpha 1\left[\frac{1}{At-1}\right] + \alpha 2\left[\frac{Sales}{At-1}\right] + \alpha 3\left[\frac{\Delta Sales}{At-1}\right] + \alpha 4\left[\frac{\Delta Sales-1}{At-1}\right]$ **ABN_PROD** = PRODt - $\frac{PRODt}{At-1}$ $\frac{DISEXPt}{At-1} = \alpha 1\left[\frac{1}{At-1}\right] + \alpha 2\left[\frac{Sales}{At-1}\right]$ **ABN_DISEXP** = DISESPt - $\frac{DISEXPt}{At-1}$	(Roychowdhury, 2006b)
Control Variable	**Leverage**	$LEV = \frac{Total\ Liability_{it}}{Total\ Assets_{it}}$	(Sabrina et al., 2020)
	Return on Asset (ROA)	$ROA = \frac{Net\ Income}{Total\ Assets} \times 100\%$	(Marietza et al., 2020)
	Size	$Size = Ln\ (Total\ Assets_{it})$	(Lestari et al., 2020)
	Age	$Age = Year\ of\ Research - Year\ of\ Company\ Establishment$	(Ida & Magdelena, 2020)
	Managerial Ownership	$Managerial = \frac{Total\ shares\ held\ by\ management}{Total\ outstanding\ shares\ of\ the\ company} \times 100\%$	(Nansi Ria Nandita, Saiful, 2017)

RESULT AND DISCUSSION

In line with the predefined purposive sampling criteria, 44 sets of observation data were collected. These observations encompassed information from 11 manufacturing firms listed on the Indonesia Stock Exchange (IDX), meeting the criteria of possessing Environmental, Social Governance (ESG) scores within the 2019 to 2023 observation period.

Descriptive Statistics

The descriptive analysis outcomes of the dependent, independent, and control variables in this research are detailed in the table below:

Table 3 Descriptive Statistics of All Research Variables

	Minimum	Maximum	Mean	Standar Deviation
ESG	17.56	52.80	38.2570	9.75103
DAC	-0.12580855	0.12318859	-0.0048745136	0.05217937890
ABNCFO	-0.20295800	0.16733276	-0.0037733523	0.07278387043
ABNPROD	-0.82145640	9.05615179	0.8543393969	1.77566475952
ABNDISC	-0.68199864	0.24447389	0.0165086850	0.17772935945
AGE	8	90	43.95	19.786
LEV	0.00000000	1.00403284	0.3223902956	0.25298871613
ROA	0.00416021	0.35801754	0.0964212773	0.09382038716
SIZE	29.46277748	33.65518758	31.6426956123	1.10054902146
MANAJERIAL	0.00000362	0.25241976	0.0466256408	0.07820267188

Source: Secondary Data Processed, 2023

In Table 1, the analysis reveals the specifics of the dependent variable, ESG. The lowest recorded ESG score stands at 17.56, classifying companies into the low group, while the highest score is 52.80, indicating placement in the high group. The average ESG score across the sample companies is 38.2570. The standard deviation of the ESG score is 9.75103, portraying relatively minor variations among the sampled companies in terms of their ESG scores.

Regarding the independent variables, this study examines accrual earnings management (DAC) and real earnings management (ABNCFO, ABNPROD, and ABNDISC). The mean for accrual earnings management (DAC) stands at -0.0048745136, suggesting that the sampled companies tend to reduce their earnings figures by following an income minimization pattern. The maximum DAC value, however, showcases a positive figure, indicating that certain sample companies increase earnings figures, pursuing an income maximization approach. As for real earnings management (ABNCFO), the average is -0.0037733523, signifying an inability to boost profits by increasing sales volume. The average value of real earnings management (ABNPROD) at 0.8543393969 demonstrates that companies engage in real earnings management by mass producing goods, thus reducing the cost of goods to augment profit figures. The average real earnings management (ABNDISC) value, at 0.0165086850, indicates that companies in the sample

engage in real earnings management by cutting costs related to advertising, revenue, administration, and research to augment profit figures.

Hypothesis Testing

The hypotheses in this study are examined through independent samples T-Test, assessing variations within each ESG score group concerning accrual earnings management (DAC) and real earnings management (ABNCFO, ABNPROD, and ABNDISC). The outcomes of these tests are outlined in Table 2 provided below.

Table 4 Independent Sample t-test of Accrual Earnings Management and Real Earnings Management

			DAC			
	N	Mean	F	Sig.	T	Sig. (2-tailed)
SEVERE	28	-0.001799	1.188	0.282	1.185	0.242
HIGH	18	-0.019494				
SEVERE	28	-0.001799	1.027	0.320	-0.790	0.436
MEDIUM	2	0.024834				
SEVERE	28	-0.001799	0.186	0.669	-0.0586	0.562
LOW	7	0.010437				
			ABNCFO			
	N	Mean	F	Sig.	t	Sig. (2-tailed)
SEVERE	28	0.004733	0.007	0.932	0.144	0.886
HIGH	18	0.001803				
SEVERE	28	0.004733	0.137	0.714	-0.157	0.876
MEDIUM	2	0.012690				
SEVERE	28	0.004733	0.003	0.957	2.671	0.012
LOW	7	-0.073774				
			ABNPROD			
	N	Mean	F	Sig.	t	Sig. (2-tailed)
SEVERE	28	0.906696	0.492	0.487	0.260	0.796
HIGH	18	0.801379				
SEVERE	28	0.906696	0.453	0.506	-1.252	0.221
MEDIUM	2	2.044323				
SEVERE	28	0.906696	13.441	0.001	-1.688	0.101
LOW	7	2.242247				
			ABNDISC			
	N	Mean	F	Sig.	t	Sig. (2-tailed)
SEVERE	28	0.027659	0.913	0.345	-1.275	0.209
HIGH	18	0.080540				
SEVERE	28	0.027659	0.732	0.399	-0.410	0.685
MEDIUM	2	0.076273				
SEVERE	28	0.027659	2.775	0.105	3.467	0.001
LOW	7	-0.234623				

Source: Secondary Data Processed, 2023

First Hypothesis

Differences in Accrual Earnings Management Among Companies Ranked by ESG Score
The presented table above outlines the results of the difference test conducted across various groups based on ESG scores. In the severe and high groups, both groups (severe and high) have an average value of negative discretionary accruals, which means that companies that fall into both groups carry out accrual earnings management by reducing the number of earnings with income minimization/income decreasing patterns. The test between these groups does not demonstrate a significant difference (ϱ value > 5%), thus rejecting the initial hypothesis of distinct accrual earnings management. Consequently, it's concluded that there's no divergence in accrual practices between these ESG groups.

In the comparison between severe and medium groups, the severe group have a negative average discretionary accrual value, which means that the company performs accrual earnings management by lowering the profit figure with an income minimization/income decreasing pattern, while for companies included in the medium group the average is positive, indicating that the companies in the group perform accrual earnings management by increasing the profit figure with an income maximization/income increasing patterns. However, the medium group exhibits positive averages, illustrating income increment practices. Yet, the test doesn't display a notable difference (ϱ value > 5%), leading to the rejection of the hypothesis stating differences in accrual earnings management. Thus, it's inferred that there's no distinct variance in accrual practices between these ESG groups.

Upon assessing the severe and low groups, both categories exhibit negative average value of discretionary accruals, which means that the companies included in the group perform accrual earnings management by lowering earnings figures with income minimization/income decreasing patterns, while for companies included in the low group have a negative average value of discretionary accruals, which means that companies perform accrual earnings management by lowering earnings figures with income minimization/income decreasing patterns. However, the comparison between these groups does not reveal a significant difference (ϱ value > 5%). Consequently, rejecting the hypothesis of divergent accrual earnings management, it's concluded that there's no disparity in accrual practices between these two ESG groups.

Second Hypothesis

Differences in Real Earnings Management Among ESG Score Ranked Companies
The findings from Table ABNCFO demonstrate that companies falling within both severe and high ESG score groups display positive averages in abnormal cash flow operations. This indicates that these companies engage in real earnings management by conducting cash flow transactions linked to escalated sales. However, the comparison between these groups doesn't exhibit a significant difference (ϱ value > 5%). Hence, the hypothesis suggesting a divergence in real earnings management is refuted, concluding no variance in real management practices between these ESG groups.
Regarding the severe and medium groups, both segments present positive average values in abnormal cash flow operations, signifying real earnings management through increased sales transactions. Yet, the comparison between these groups doesn't reveal a significant difference (ϱ

value > 5%). Consequently, the hypothesis of divergent real earnings management is rejected, establishing no difference in real management practices between these ESG groups.

In the comparison between severe and low groups, the severe group exhibits a positive average value in abnormal cash flow operations, indicating real earnings management via increased sales transactions. Conversely, the low group showcases a negative average, suggesting real earnings management through decreased sales. This comparison presents a notable difference (ϱ value < 5%). Therefore, accepting the hypothesis of varied real earnings management, it's concluded that there are indeed differences in real management practices between these two ESG groups.

Moving to Table ABNPROD, the findings indicate that companies within both severe and high groups display positive average values in abnormal production costs, implying real earnings management through cost reduction in production. However, the comparison between these groups doesn't reveal a significant difference (ϱ value > 5%). Thus, rejecting the hypothesis of distinct real earnings management, it's concluded that there's no variance in real management practices between these ESG groups. Similarly, the comparison between severe and medium groups showcases positive average values in abnormal production costs for both segments. However, this comparison doesn't exhibit a significant difference (ϱ value > 5%). Hence, rejecting the hypothesis of distinct real earnings management, it's concluded that there's no difference in real management practices between these ESG groups.

Upon comparing severe and low groups, the severe group exhibits a positive average value in abnormal production costs, indicating real earnings management through cost reduction. Conversely, the low group displays a negative average, suggesting real earnings management through increased costs. This comparison demonstrates a significant difference (ϱ value > 5%). Therefore, accepting the hypothesis of varied real earnings management, it's concluded that there are differences in real management practices between these two ESG groups.

Table ABNDISC portrays companies in both severe and high groups with positive average values in abnormal discretionary expenses, indicating real earnings management via cost reduction. However, the comparison between these groups doesn't reveal a significant difference (ϱ value > 5%). Consequently, rejecting the hypothesis of distinct real earnings management, it's concluded that there's no variance in real management practices between these ESG groups. Likewise, the comparison between severe and medium groups illustrates positive average values in abnormal discretionary expenses for both segments, yet doesn't exhibit a significant difference (ϱ value > 5%). Therefore, rejecting the hypothesis of distinct real earnings management, it's concluded that there's no difference in real management practices between these ESG groups. Conversely, comparing severe and low groups, the severe group showcases a positive average value in abnormal discretionary expenses, indicating real earnings management through cost reduction. In contrast, the low group displays a negative average, suggesting real earnings management through cost increment. This comparison demonstrates a significant difference (ϱ value < 5%). Hence, accepting the hypothesis of varied real earnings management, it's concluded that there are differences in real management practices between these two ESG groups.

Accrual Earnings Management, Real Earnings Management, and Enviromental Social Governance (ESG)

Table 3 is designed to demonstrate the impact of accrual earnings management on ESG performance and the influence of real earnings management on ESG performance. The test outcomes are displayed in the following Table 3.

Tabel 6 Ordinary Least Square (OLS) Results

Variabel	**Koefisien** **t** **Sig**	**Koefisien** **t** **Sig**	**Koefisien** **t** **Sig**	**Koefisien** **t** **Sig**
Konstanta	2.994 4.439 **0.000**	2.928 4.435 **0.000**	2.587 4.495 **0.000**	3.768 5.424 **0.000**
DAC	1.061 2.723 **0.010**			
ABNCFO		0.612 2.438 **0.021**		
ABNPROD			0.008 0.895 0.378	
ABNDISC				0.259 2.270 **0.031**
AGE	-0.008 -6.358 **0.000**	-0.009 -6.749 **0.000**	-0.010 -8.692 **0.000**	-0.007 -4.820 **0.000**
LEV	-0.371 -4.400 **0.000**	-0.371 -4.525 **0.000**	-0.376 -5.278 **0.000**	-0.427 -5.053 **0.000**
ROA	-0.592 -2.144 **0.040**	-0.454 -1.590 0.122	-0.312 -1.271 0.214	-0.739 -2.713 **0.011**
SIZE	0.037 1.740 0.091	0.040 1.900 0.067	0.050 2.757 **0.010**	0.012 0.536 0.0596
MANAJERIAL	0.599 2.512 **0.017**	0.399 1.745 0.091	0.529 2.376 **0.025**	0.377 1.622 0.115
R Square	0.863	0.883	0.912	0.880
Adjusted R Square	0.837	0.860	0.893	0.856
F	33.486	37.716	48.095	36.775
Sig.	**0.000**^{b}	**0.000**^{b}	**0.000**^{b}	**0.000**^{b}

Source: Secondary Data Processed, 2023

Third Hypothesis

The Effect of Accrual Earnings Management on Environmental, Social, and Governance (ESG) Performance

Examining the third hypothesis aims to establish a negative impact of accrual earnings management on ESG performance. The test outcomes reveal a positive regression coefficient of accrual earnings management at 1.061, significant at the 0.01 level. This significant and positive coefficient suggests that increased accrual earnings management by a company correlates with higher ESG performance. Consequently, the study's findings contradict the initial hypothesis, leading to the rejection of the third hypothesis. Thus, it can be concluded that accrual earnings management does not have a negative impact on ESG performance.

Fourth Hypothesis

The Effect of Real Earnings Management on Environmental, Social, and Governance (ESG) Performance

The fourth hypothesis assessment aims to demonstrate the influence of real earnings management using various proxies on ESG performance. For ABNCFO (abnormal cash flow operation), the examination unveils a positive and significant regression coefficient of 0.612, with statistical significance at the 0.02 level. This significant coefficient indicates that heightened real earnings management correlates with increased ESG performance. Consequently, this study validates the proposed hypothesis, affirming the positive impact of real earnings management on ESG performance. Thus, the fourth hypothesis is confirmed, suggesting a positive association between real earnings management using ABNCFO and ESG performance.

Regarding ABNPROD (abnormal production costs), the findings reveal a positive regression coefficient of 0.008, which lacks statistical significance at the level of 0.378. This insignificant coefficient implies that real earnings management using ABNPROD does not significantly affect ESG performance. Hence, the study's results do not support the proposed hypothesis concerning ABNPROD. Consequently, the fourth hypothesis is rejected, signifying an absence of a substantial relationship between real earnings management through ABNPROD and ESG performance.

As for ABNDISC (abnormal discretionary expenses), the analysis displays a positive and significant regression coefficient of 0.259 at the 0.03 level. This significant coefficient indicates that increased real earnings management via ABNDISC corresponds to heightened ESG performance. Thus, this study corroborates the proposed hypothesis, suggesting a positive connection between real earnings management using ABNDISC and ESG performance. Consequently, the fourth hypothesis is upheld, asserting that real earnings management has a positive effect on ESG performance.

CONCLUSION

This research aims to scrutinize variations in earnings management, gauged through both accrual and real earnings management practices adopted by companies ranked based on their ESG scores. Moreover, it seeks to examine whether accrual earnings management adversely affects ESG

performance and if real earnings management positively influences ESG performance. The findings from the conducted tests yield significant insights: (1) Accrual earnings management, represented by the DAC proxy, shows no variance among companies across different ESG score rankings. (2) There's a contrast in real earnings management, using ABNCFO and ABNDISC proxies, between severe and low ESG groups among companies, but no difference was observed using the ABNPROD proxy between severe and low ESG groups. (3) Surprisingly, accrual earnings management, as indicated by DAC, exhibits a positive impact on ESG performance. (4) Real earnings management, specifically via ABNCFO and ABNDISC proxies, significantly enhances ESG performance. However, employing the ABNPROD proxy demonstrates a positive yet insignificant effect on ESG performance.

The theoretical implications of this study provide additional empirical evidence related to agency theory, emphasizing the divergence of interests between owners and management. It underlines that management resorts to both real and accrual earnings management to achieve predetermined financial targets. Moreover, agency theory elucidates the interplay between earnings management and ESG, emphasizing that companies should prioritize their social, environmental, and governance responsibilities to establish credibility and demonstrate concern for societal interests. Such initiatives foster trust and support from society, ultimately bolstering the company's long-term viability.

The practical implication of this research is that when the company has a high ESG score which reflects the uncertainty of the company's future operations, the company tends to carry out real earnings management in the form of abnormal cash flow operations (ABNCFO) and abnormal discretionary expenses (ABNDISC). Companies tend to carry out real earnings management on abnormal cash flow operations (ABNCFO) related to the uncertainty about the company's cash flow that will be received in the future, while real earnings management in the form of abnormal discretionary expenses (ABNDISC) is carried out as an effort by the company to increase profit figures when the company has high uncertainty, by reducing advertising costs, cost of revenue, general and administrative expenses and research costs. This study is also expected to provide evidence of differences in accrual earnings management and real earnings management in the ESG score criteria group by companies on the ESG score ranking. Where it can be a consideration for companies that have not reported ESG scores, to immediately report ESG scores, because companies that report ESG scores have a better level of transparency in their financial statements, which can support to bring together the expectations desired by investors and those desired by the company.

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